

DEVON CROSS SCHMIEGE

2811

1 Q Well, I guess I'm referring to the uncertainty that
2 you talk about surrounding **cost** reserve and
3 throughput estimates, things that you're relying on
4 or that you're suggesting support the five-year
5 filing requirement proposal?

6 A Okay. **So** the risk **is** the uncertainty?

7 Q Yes.

8 A Okay. Okay. What was your question, then?

9 Q Whether the unit of production depreciation
10 methodology recommended **by** Staff would help reduce
11 the uncertainty?

12 A As compared **to** what?

13 Q Let's say **a straight life** depreciation methodology?

14 A Okay. The **unit of** production methodology **is**
15 **dependent upon an** estimate **of** production, which **is**
16 **one of the** estimates that **is** hard to estimate, we
17 don't **have an** absolute feel for that at this point in
18 time. **So** you **know**, that part **of** the calculation,
19 **even though** you're using unit of production, you
20 **still have an** estimate **in** there that we would **be**
21 **concerned with and** that we would want to be able to
22 review within that five-year period. With respect to
23 straight line depreciation, I don't **know** that use of
24 straight line depreciation **is** going to reduce the
25 uncertainty that I'm speaking of here.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2812

1 Q Do you believe that the unit of production
2 depreciation would reduce the uncertainty as compared
3 to straight line, or you just have no opinion either
4 way?

5 A It would reduce the uncertainty with respect to
6 trying to ensure that the cost of the pipe is being
7 recovered over the production that's flowing through
8 it. So it will have a better matching of revenues
9 and casts, and that way would help ensure -- well, it
10 would reduce uncertainty in that respect.

11 MR. SCHMIEGE: Okay. I have no
12 further questions, Your Honor.

13 JUDGE MACE: Mr. Erickson?

14 CROSS-EXAMINATION

15 BY MR. ERICKSON:

16 Q Good morning, Ms. Devon.

17 A Good morning.

18 Q On the subject of unit of production depreciation,
19 that recommendation was supported by Staff witness
20 Mr. Berquist, and you've accepted his recommendation
21 for purposes of developing your cost of service; am I
22 correct?

23 A Yes, that's correct.

24 Q Now, with regard to a comparison between unit of
25 production depreciation and straight line

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

1 depreciation, would you agree that to the extent
2 projected volumes are used to calculate rates which
3 will generate revenues, the straight line method of
4 depreciation yields a specific cost which would be
5 divided by those projected volumes for the test
6 period, whatever it may be, as opposed to having the
7 unit of production method, which does not rely on a
a fixed depreciation expense figure, but adjusts
9 depreciation expense based upon actual throughput?

10 A Yes.

11 Q So in that sense, the unit of production methodology
12 reduces the risk that the depreciation expense
13 assumed in calculating rates would not match -- I'm
14 sorry -- the depreciation expense recovered via rates
15 would not match the depreciation expense accounted
16 for by that straight line method? Let me try to
17 clarify it.

18 A okay.

19 Q Under the unit of production methodology, actual
20 expense will be based on throughput times a
21 depreciation rate?

22 A Yes.

23 Q Per unit?

24 A Yes.

25 Q Under straight line method, depreciation would be

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

DEVON CROSS ERICKSON

2814

1 based upon an assumed remaining life divided into the
2 capital investment?

3 A Yes, that's correct.

4 Q Rates that are developed on the straight line method,
5 therefore, will either, in all likelihood, recover
6 more than the book depreciation or less than the book
7 depreciation under the straight line method; am I
8 right?

9 A Could you ask that --

10 Q Okay. Let us assume that a component of the total
11 rate, let's use Mr. Aldrich's 7.3 cents.

12 A Right.

13 Q And let us assume that the 7.3 cents was based upon
14 depreciation under the straight line method. And so
15 mathematically, in the period of time that he's
16 using, we could attribute a certain portion of his
17 7.3 cents to depreciation?

18 A Yes.

19 Q If the volumes that actually are moved are greater
20 than that, at least from that analysis perspective,
21 you would recover more depreciation expense than was
22 being booked under the straight line method?

23 A Yes.

24 Q On the other hand, if the throughput on an actual
25 basis with that straight line component of

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2815

1 depreciation in it were less than the test year
2 period, or the test period, if it's more than one
3 year, the straight line depreciation expense booked
4 would exceed the theoretically recovered depreciation
5 expense?

6 A If the throughput -- if the volumes were less than
7 the volumes that were assumed in setting the rate,
8 yes.

9 Q okay. Under unit of production, you won't have that
10 type of a mismatch between depreciation expense
11 recovered and booked depreciation expense, that's one
12 of the advantages of unit production, as I understand
13 it; am I correct?

14 A Yes ,

15 Q Okay, That means that it eliminates the risk, if
16 we're isolating on depreciation expense, of an
17 underrecovery, and eliminates the opportunity for an
18 overrecovery of depreciation expense when we're just
19 focusing on that component; do you agree?

20 A Yes, I would agree.

21 Q okay. Let me move to your Part II of your testimony
22 in some other aspects.

23 A okay.

24 JUDGE MACE: Actually, before you
25 go into your next line of cross-examination, I think

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2816

we'll adjourn for lunch and resume at 1:30.

(A lunch recess was
taken at 11:55 a.m.)

1
2
3
4
5
6
7
a
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

DEVON CROSS ERICKSON

2817

1 (Hearing reconvened at 1:32 p.m.)

2 **JUDGE MACE:** Let's go back on the
3 record. Mr. Erickson?

4 **MR. ERICKSON:** Thank you, Your
5 Honor.

6 **Q (BY MR. ERICKSON, CONTINUING)** Good afternoon, Ms.
7 Devon.

8 **A** Good afternoon.

9 **Q** Turn to your Exhibit **S-204**.

10 **A** Okay.

11 **Q** As I understand line **16** on that exhibit, that is
12 simply the product rounded of lines **10** and **15**?

13 **A** Yes.

14 **Q** Then line **16** is carried forward to line **2**, but line **2**
15 cumulates the numbers on line **16** from column to
16 column; am I correct?

17 **A** Yes, that's correct.

18 **Q** Line **16** represents the expense, and line **2** represents
19 the reserve for depreciation expense as an offset to
20 the gross plant in service?

21 **A** Yes.

22 **Q** Line **10**, the unit of production rate, you obtained
23 from Mr. Berquist?

24 **A** Yes.

25 **Q** The capital expenditure, line **1**, you obtained from

DOLMAN & ASSOCIATES, XNC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

DEVON CROSS ERICKSON

2818

1 Mr. Mazuchowski?

2 A Yes.

3 Q Now, the tax depreciation rate is a rate that you
4 developed on line 4?

5 A That's the rate that was used by Michigan
6 Consolidated Gas Company and is the rate allowed on
7 that type of plant for IRS purposes.

8 Q And is line 5 the product of line 3 and 4?

9 A Yes.

10 Q As I understand your testimony on page 1 of Part 11,
11 the answer on lines 11 through 19, what you're saying
12 there is that the reason you have line 7 on Exhibit
13 S-204 is to deal with the fact that you are not
14 including deferred income tax in the calculation of
15 the capital structure and capital costs?

16 A Yes, that's correct.

17 Q Mathematically, that works out about the same as if
18 you did not make an adjustment to rate base by line
19 7, and instead, reflected the deferred income tax as
20 an adjustment to capital structure and cost of
21 capital; am I right?

22 A Yes, you're right.

23 Q Do you agree that if instead of using lines 2 and 7,
24 the way you have on Exhibit S-204, that if you had
25 simply substituted line 5 tax depreciation for line 2

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2819

1 accumulated book depreciation, that you would
2 increase the cost of service slightly?

3 A Yes, for the first five years that I've shown on this
4 schedule, that would be true, except for year 1, the
5 tax depreciation is less than the book depreciation.

6 3 Would it be appropriate to simply substitute the tax
7 depreciation for the methodology which adjusts rate
8 base by deferred income tax and eliminates -- well,
9 let me start over.

10 If we were to eliminate the
11 accumulated book depreciation and substitute that for
12 tax depreciation, and then eliminate your deferred
13 federal income tax adjustment, would it be
14 appropriate -- would that appropriately reflect the
15 impact on cost of service of depreciation?

16 a I may have misunderstood your last question.

17 Q okay. Let me try to clarify.

18 A Okay, did you -- not the question you just asked, but
19 the one before that.

20 3 Okay.

21 A What did you ask me to substitute into line 2?

22 Q I asked you whether or not simply eliminating line 2,
23 5 and 7 as they stand, and substitute for that in the
24 physical location the amounts that you have on line
25 5, whether that would increase cost of service? I

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CORBY GROUP 1-800-255-6040

1 think that's what I asked.

2 A As far as the return on rate base? I'm assuming that
3 what you're asking then, we would be using tax
4 depreciation for calculation of cost of service.

5 Q Right.

6 A In the -- instead of book depreciation.

7 Q Yes, and the question was --

8 A Okay. And in that regard --

9 Q -- would that increase cost of service?

10 A It would for these -- yeah, I guess my answer would
11 then still be the same that the cost of service would
12 increase because we have higher depreciation for tax
13 purposes in years 2 through 5, and the only exception
14 to that is in year 1.

15 Q Okay.

16 A okay.

17 Q Then my follow-up question was, would it be
18 appropriate to substitute tax depreciation for book
19 depreciation in your opinion?

20 A That could put the Company at risk of losing their
21 normalization for federal income tax purposes; the
22 accelerated depreciation for federal income tax
23 purposes, because we have to, for purposes of
24 setting rates, recognize -- we can't recognize the
25 accelerated tax depreciation.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 Q So substituting tax depreciation for book
2 depreciation in rate making would increase rates
3 because we might wind up having to lose the tax
4 credit as well because of the change that you've
5 previously described?

6 A Right.

7 Q Okay. Now, looking at Exhibit S-204, I'm not sure,
8 but what -- which one of those lines represents what
9 we might call the total cost of service?

10 A That would be on page 2 of 2, line 8.

11 Q That's what I'm not looking at. Okay. I forgot
12 about page 2. Okay. Now, the return component of
13 the cost of service on page 2 of S-204 is simply the
14 return rate times the average rate base?

15 A Yes.

16 Q Would you agree that both the return dollars
17 calculated on line 2, page 2, of Exhibit S-204, as
18 well as the book depreciation expense on line 7 of
19 that page, are driven by the total capital
20 expenditures provided to you by Mr. Mazuchowski?

21 A Yes.

22 Q Would the cost of service for the facilities go up or
23 down if Michigan Consolidated Gas Company also had
24 capital leases to be expensed via depreciation
25 associated with the operation that Staff is

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

DEVON CROSS ERICKSON

2822

1 proposing?

2 A I don't believe it would have any impact.

3 Q Okay. Capital leases are, for accounting purposes,
4 handled in essentially the same way as owned assets;
5 am I right?

6 A A capital lease would be reflected in the balance
7 sheet as an asset and a liability, they would offset
8 each other.

9 Q And for purposes of handling *those* capital leases or
10 recovering the cost of the capital lease, wouldn't
11 those capital leases be depreciated in the same
12 fashion as a capital asset that was owned?

13 A The annual lease payment would be reflected in the
14 *Company's* operating expenses as a monthly charge
15 based on the lease itself, so it's treated sort of
16 like an operating lease, even though it's a capital
17 lease, for expense purposes, it would be in there as
18 an operating lease. So there wouldn't be
19 depreciation, it would just show lease payment.

20 Q Okay, I see. So what would happen with the capital
21 lease, if there was a capital lease not reflected in
22 the investment identified by Mr. Mazuchowski, but
23 that was necessarily related to the operation of the
24 Antrim Expansion Project depicted in Exhibit S-204,
25 there would be an additional line of expense for

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-8040

DEVON CROSS ERICKSON

2823

1 lease expense?

2 Yes. But I would clarify, if it was to substitute
3 for some asset that I'm showing in the average rate
4 base, that number would have to decrease.

5 So depending on whether the lease was a substitute
6 for an owned asset or whether it was in addition to
7 the owned assets reflected in S-204, you could have
8 varying results depending on the combinations?

9 Yes.

10 As to the nature of the capital expenditures
11 identified on line 1 of page 1 of S-204, the details
12 of the nature of those assets is sponsored by Mr.
13 Mazuchowski, not you?

14 That's correct.

15 Would you agree that the capital expenditures
16 identified on line 1 of Exhibit S-204 represent fixed
17 costs?

18 Yes.

19 Do the -- turning over to page 2 of Exhibit S-204, do
20 the items on lines 3 through 6 represent variable
21 expenses or fixed costs?

22 Three through seven, did you say?

23 Three through six.

24 Three through six. The items on lines 3, A, B and
25 C, would be a variable cost, as would line 4. The

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CORBY GROUP 1-800-255-6040

1 capital acquisition adjustment is just associated
2 with the cost of the plant itself.

3 Q So it's related to a fixed cost?

4 A Yes, I wouldn't call it a variable cost. Same with
5 the property taxes. The level, we have an estimate
6 in here of what the property taxes would be, but it
7 would be applied to the capital cost.

8 Q On page 2 of Part I of your prefiled testimony, you
9 indicate that in July of thin year you became
10 supervisor of Gas Division's new Rates and Revenues
11 Requirements section. As I understood the nature of
12 the Gas Division's organization, then, you are the
13 supervisor of Mr. Aldrich as well as of the Auditing
14 section at the present time; am I right?

15 A Yes.

16 Q And I take it that you and Mr. Aldrich coordinated
17 your efforts relative to the development of cost of
18 service and his development of rates?

19 A Yes.

20 Q Did you recommend, since a significant portion of the
21 cost of service on page 2 of Exhibit S-204, that the
22 fixed nature of those costs of service be captured in
23 a separate rate design different from the recovery of
24 the variable costs?

25 A Did you say did we recommend that?

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

DEVON CROSS ERICKSON

2825

1 Q Did you recommend that to him, consideration of
2 recovery of the fixed costs via different mechanism
3 than the recovery of the variable costs?

4 A No, I did not.

5 Q So as I understand it, basically his rate mechanism
6 recovers both the fixed and the variable costs via
7 variable revenue charge?

8 A Yes.

9 Q I shouldn't say variable revenue charge, but a charge
10 based upon variable volumes?

11 A well, right.

12 Q Okay. And if the rate of return that you used on
13 page 2 of Exhibit S-204, line 2, were modified by the
14 Commission's decision in this case upward or
15 downward, the amount of expense would correspondingly
16 go up or down?

17 A That's right.

18 Q And the 13.95 was recommended to you by Mr.
19 Ballinger?

2a A That's right.

21 Q Do you agree that the costs of service identified in
22 your Exhibit S-204 do not reflect the value of
23 embedded easement costs which might have already been
24 incurred by MichCon in the construction of and
25 development of the wet header system easements?

DEVON CROSS ERICKSON

2826

1 A Yes, I would agree with that.

2 Q Would you agree that there are easement costs that
3 are already reflected in MichCon's rate base which
4 would reduce the total costs of rate base that you
5 would have identified but for those preexisting
6 easements?

7 A I could not really answer that for sure, I don't know
8 all the specific costs that are involved in the wet
9 header.

10 Q Would Mr. Mazuchowski be the person to ask?

11 A On the wet header, he might know that question. That
12 might have been a better question to ask Mr. Aldrich,
13 he did the cost of service calculation in the last
14 rate case, and he would be able to -- he would have
15 been able to identify what all is in there. I don't
16 know the specific details at this point.

17 Q All right.

18 A I would -- it's likely that there would be costs
19 included in that, but I don't know.

20 Q On page 2 of Exhibit S-204, the wet header charge is
21 simply the Commission-authorized rate for the wet
22 header times the anticipated volumes flowing on the
23 wet header under Mr. Mazuchowski's proposal?

24 A That's correct.

25 Q And those same volumes would have been used to

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2827

1 develop the Kalkaska processing charge total dollars
2 and the KIF total charge?

3 A Yes.

4 Q What was the annual volume you used to develop those
5 charges, are they identified on the first page?

6 A The problem is, on line -- well, not the --

7 Q Okay.

8 A It would be --

9 Q The daily volumes are identified in which line?

10 A Right, you have to multiply those by 365.

11 Q That would be line 13 on page 1?

12 A Yes.

13 Q Do you agree that the costs of service that you've
14 identified on Exhibit S-204 do not reflect any amount
15 -- well, let me ask a preliminary question.

16 Do you have a copy of Mr.
17 Mazuchowski's Exhibit DJM-6?

18 A Yes.

19 Q On this schematic, Mr. Mazuchowski identifies flow of
20 gas from South Chester plant to various points. Do
21 your costs of service include the cost of flowing --
22 transporting gas from South Chester to which of those
23 points?

24 A My cost of service is delineated on Mr. Mazuchowski's
25 Exhibit DJM-5. I think probably that question would

DEVON CROSS ERICKSON

2828

1 be best answered by him.

2 Q Okay. So it's just a question of your cost of
3 service in S-204 doesn't reflect anything other than
4 in his DJM-5, and what that covers in relation to
5 DJM-6 I should ask him?

6 A Exactly.

7 Q Okay. Under the Staff's proposal, in the portion of
8 your discussion on page 6, line 1 through line 20, as
9 I understand it, the Staff proposed Antrim Expansion
10 Project would be treated as part of MichCon's rate
11 base, but would be accounted for separately in the
12 reporting of the balance sheet and the income
13 statement?

14 A No, that's not correct.

15 Q Okay.

16 A Staff is proposing that the Antrim gas project be
17 separately accounted for and not included in the
18 Company's rate base for rate making purposes, in a
19 general rate case.

20 Q Okay. But so I can understand that, you're saying
2 that for rate making purposes in a general rate case
2 it wouldn't be included in the calculation of those
2 rates, but is there a distinction between accounting
2 for purposes of the annual statement including the
2 balance sheet income statement, and the calculation

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2829

1 of rates?

2 A The Company -- what we're proposing is for the
3 Company to keep the records separate. They'd have a
4 whole set of books that would be for the Antrim
5 project, and that would have all of its assets and
6 its liabilities and its own income statement. On a
7 consolidated basis, it would be included in total
8 numbers, but that would be for reporting purposes
9 only.

10 Q okay.

11 A It would show up in the corporate financial
12 statements together.

13 Q Okay. So the Uniform System of Accounts would be
14 followed for both purposes, but for rate making you
15 would want them segregated?

16 A Yes.

17 Q When we looked at the Company's annual report to the
18 MPSC, how would that be handled under the Staff's
19 proposal?

20 A You would see the corporate balance sheet, which it
21 would include both divisions. In your income
22 statement, you would see it broken out between
23 utility and interstate -- interstate, I'm sorry, and
24 the Antrim division.

25 Q Okay. Now, in the breakout, would the breakout of

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2830

1 the Antrim division be below the net operating income
2 line, or would it be just parallel on a separate
3 sheet?

4 A If it's handled the way that it was handled for
5 interstate storage division, it would be parallel.
6 But there would be a separate set of records and a
7 separate financial statement so that you could
8 isolate both, utility operations and the Antrim
9 operations.

10 P Would the Antrim operations, then, have a component
11 above the net operating income line and a component
12 below the net operating income line?

13 A It may, if there's interest expense -- I'm not
14 absolutely sure how that would work, I haven't really
15 thought about that, but it may, you know, depending
16 on what's involved in the income statement.

17 Q Essentially the books of account for the Antrim
18 division would parallel the books of account for the
19 general operations of MichCon and whether it was --
20 item were above or below the line of net operating
21 income would depend on the nature of the actual
22 transactions that the Antrim division had; am I
23 right?

24 A Yes, I would agree with that, but you know, I'd still
25 stress that they would be -- that would just be for

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-285-6040

DEVON CROSS ERICKSON

2831

1 reporting purposes, their regular operating report
2 would segregate everything between utility operations
3 and the Antrim.

4 Q Okay. Now, a moment ago I think you and I discussed
5 and agreed that to the extent there are embedded
6 costs of leases which could be used for the Antrim
7 Expansion Project division's operations, those costs
8 are not reflected in S-204. Let me follow that
9 understanding up with a question. In the next
10 MichCon rate case, would you expect to allocate those
11 embedded costs between MichCon's regular operations
12 and their Antrim division operations?

13 A Allocate the --

14 Q Embedded costs that aren't picked up in Exhibit
15 S-204, but would be actually assets supporting the
16 operations of the Antrim division?

17 A I guess I'm not sure what that would be.

18 Q Well, let us assume there are easements, and the
19 Antrim pipeline is running across the same easement
20 as the wet header is. In that situation, under the
21 Staff's proposal, would you expect that in the next
22 rate case there would be an allocation of those
23 embedded costs between the regular operations and the
24 Antrim operations?

25 A I have not considered that.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 Q Okay.

2 A I don't know if there are or what that cost would be
3 at this point, **so** I guess -- but we'd have to **look** at
4 that in the rate case. If **it** was appropriate to make
5 an allocation, we would do that.

6 Q You talked about the interstate storage division's
7 separate accounting before, were there allocation of
8 the value of assets between MichCon's regular
9 operations and the interstates storage division?

10 A **No**, all the assets were kept separate.

11 Q At this time, you don't have a recommendation, then,
12 as to handling **any** assets that are jointly used by
13 the separate operations that the Staff is
14 recommending?

15 A **No**.

16 Q Would **it** be appropriate to consider any jointly used
17 assets **in** the **next** rate case, if there are **any**?

18 A **If** there are any. I'm not aware of any at this point
19 **in** time.

20 Q The future filing requirements portion of your
21 testimony, beginning on page **6** and running over to
22 page 7, **is** it your contemplation that this review
23 **would** take place in the context of a separate Antrim
24 division review modeled along the lines of the
25 Staff's analysis in the testimony and exhibits of Mr.

DEVON CROSS ERICKSON

2833

1 Ballinger, Mr. Berquist, yourself and Mr. Aldrich?

2 A Yes.

3 Q Does your recommendation relative to future filing
4 requirements include any recommendation regarding
5 whether a five year, a one year or some other period
6 of time should be utilized in that review?

7 A No.

8 Q So it would be up to the Commission in that review to
9 determine what was the appropriate test period for
10 reviewing rates?

11 A Yes, I'm sure in the filing itself we'd see
12 historical information and then what the Company
13 would make a recommendation with respect to future
14 rates, and we would review that recommendation.

15 Q So you would expect historical test year information
16 as well as some kind of a projected future rate
37 period?

18 A I would expect that, yes.

19 Q Under the Staff's proposal, would there be separate
20 and probably different rates of return on common
21 equity, both on an achieved as well as on an
22 authorized basis for the two operations?

23 MR. O'CONNELL: I'm sorry, could --
24 I just missed that question, Mr. Erickson.

25 MR. ERICKSON: Let me repeat it.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS ERICKSON

2834

1 Q (BY MR. ERICKSON, CONTINUING) Ms. Devon, under the
2 Staff's proposal to have a separate division, would
3 MichCon, in effect, have separate and probably
4 different authorized and actual rates of return on
5 common equity for MichCon's general operations and
6 its Antrim expansion operations?

7 A Yes.

8 Q How would you handle, under the Staff's proposal for
9 separation, the recovery of costs by MichCon from its
10 end use customers of transportation on the Antrim
11 Expansion Project for gas purchased by MichCon, which
12 flow through the Antrim Expansion Project?

13 A I haven't thought of that. Actually, I'm not sure I
14 understand your question.

15 Q Well, let me try -- let us assume that your cost of
16 service and Mr. Aldrich's rates are adopted by the
17 Commission in this case. Then let us assume after
18 that, MichCon purchases some of the volumes moving on
19 that project. Do you have a proposal for how that
20 cost would be recovered by MichCon from its end
21 users?

22 A From its sales customers?
23
24
25

ON

2835

1 Q Yes.

2 A It would be -- whatever MichCon paid for the gas
3 would be included in MichCon's GCR cost of gas, and
4 they would recover that cost from charges to the
5 sales customers.

6 Q Would the 7.73 cents, for example, be an adder to the
7 cost of gas, under the Staff's proposal?

8 A My understanding is that MichCon would only be buying
9 gas at the tail end of the system, so that they would
10 just be buying gas in a total for a total price.

11 And then we would be looking at
12 that price to see if it was reasonable and prudent
13 based on that price. I'm not sure that we'd be
14 looking beyond that to see what was included in the
15 price that they were paying.

16 Q So there would be no separate recovery for the 7.73
17 cents if we assume that was the rate..

18 A Not if MichCon is buying the gas.

19 Q Okay.

20 MR. ERICKSON: Your Honor, that
21 concludes my cross-examination. Thank you.

22 JUDGE MACE: Mr. Alsop?

23 MR. ALSUP: I have no questions,

24 Your Honor.

25 JUDGE MACE: Mr. Burgess?

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS SAGE

2836
6

1 MR. BURGESS: Great Lakes has no
2 questions, Your Honor.

3 JUDGE MACE: Mr. Woman? He's
4 not here. Mr. Gallagher?

5 MR. GALLAGHER: Pass.

6 JUDGE MACE: Mr. Berkemeier?

7 MR. BERKEMEIER: No questions,
8 Your Honor.

9 JUDGE MACE: Mr. Fields?

10 MR. FIELDS: No questions. And
13 no exhibits, Your Honor.

12 JUDGE MACE: Mr. Ault?

13 MR. AULT: No questions.

14 JUDGE MACE: Mr. Sage?

15 MR. SAGE: Yes, Your Honor.

16 JUDGE MACE: All right. I knew
17 one of you would come through.

18 MR. SAGE: Just a few, though,
19 Your Honor.

20 CROSS-EXAMINATION

21 BY MR. SAGE:

22 Q Ms. Devon, on Part 11, Page 1 of your prefiled
23 testimony, on Lines 11 through 13, you make the
24 statement that basically you calculated the average
25 annual rate base as determined using the capital

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

1 costs associated with Staff's recommended pipeline
2 project .

3 The question I have is did you do
4 the same thing as it relates to MichCon's presently
5 proposed -- presently, the one that's on file, that
6 was on file before you filed your testimony -- did
7 you use the same kind of analysis with MichCon's
8 proposal?

9 A I reviewed MichCon's proposal. I'm not sure I
10 understand your question.

11 Q Okay. What I'm trying to -- what I understand is
12 that your testimony is to present a cost of service;
13 am I correct?

14 A Yes, that's correct.

15 P And my question is if you look at simply MichCon's
16 existing proposal -- not the rebuttal, but the
17 existing proposal -- did you attempt to analyze and
18 determine whether it was -- whether its rate was
19 based on cost of service?

20 A Oh, yes.

21 Q And is it your conclusion it was?

22 A It was based on the cost of service as presented by
23 the company.

24 Q Right, okay. Using their numbers, though.

25 A Using their numbers, yes.

DOLMAN & ASSOCIATES, INC.
P.O. 30X 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

2838

1 2 Okay. Now on that same page you mentioned, at Lines
2 16 and 17 -- let me just read it so it makes sense in
3 the context of what I'm going to ask you.

4 "The rate base calculations are
5 presented in the same format used by Applicant with
6 deferred federal income taxes shown as a reduction to
7 rate base in lieu of the more traditional method of
a including them in the capital structure."

9 My question is, if you would have
10 used the traditional method, what changes would be
11 made as far as your rate structure?

12 A As far as the rate itself, probably no change would
13 be made. It would just be a different way of
14 presenting the cost of service.

15 You'd have to back out the
16 deferred income taxes that were showing in the rate
17 base calculation and include them in the capital
18 cost.

19 Q Okay. But --

20 A But the effect is not significant, There's no
21 difference between the two, so the rate should be the
22 same.

23 Q Okay, that's the question I had.

24 A Right.

25 Q Virtually, the rate would be the same.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS SAGE

2839

1 A Right.

2 Q Now on that same page as it relates to the after tax
3 overall rate of return of 10.25 percent, are you the
4 individual that arrived at that figure?

5 A No, that was Mr. Ballinger.

6 Q All right, I'm sorry. Likewise, then, as to the
7 13.95 percent, was that Mr. Ballinger too?

8 A He didn't testify with respect to that number. That
9 is the pretax rate of return based on his number of
10 10.25.

11 Q I've got you, thank you. Now as it relates to Page 2
12 of your prefiled testimony, on Line 5 you have a
13 processing charge of 7 cents per Mcf. Do you see
14 that?

15 A Yes.

16 Q Are you aware that the testimony of SWEPI was that
17 the processing charge today is -- for the plant is
18 35 cents?

19 A I'm not aware of that testimony. The 7 cents
20 represents both the processing charges and the fuel.

21 Q Okay. When you say "fuel," what percentage of the 7
22 cents is fuel?

23 A I don't know what percentage.

24 Q Can you do it based on a cent -- cent per Mcf as to
25 the 7 cents, how much would be fuel versus --

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS SAGE

2840

1 A Yeah. I think I -- I don't know if I have that
2 information here. I obtained that information from
3 Mr. Mazuchowski, and he would be able to give you any
4 details on it.

5 But I believe it might be 3.5
6 cents as the processing charge, and then the rest of
7 it is fuel.

8 Q Okay, let's do this: Let's go to your Exhibit S-204,
9 Page 2 of 2.

10 A I did find what I was looking for. It was -- the
11 plant fee was 3.5 cents.

12 Q okay. so --

13 A The rest of it is fuel,

14 Q I'm sorry?

15 A The rest would be the fuel.

16 Q The processing is 35 cents.

17 A Right.

18 Q Okay. Now, would you go to Page 2 of 2 of your
19 exhibit where --

20 A Yes.

21 Q -- it says Kalkaska processing charge? Do you see
22 that?

23 A Yes.

24 Q My understanding, arriving at the -- I'm looking at
25 Year 2, because it's more of a flat rate.

DEVON CROSS SAGE

2841

1 A Okay.

2 Q Year 2, to arrive at the 2.7 cents, am I correct that
3 you used 104 million per day, which is based on your
4 volume that you have on Line 13 of Page 1 of 2 of
5 that same exhibit?

6 A Yes.

7 Q And then you multiplied that times 365, then times
8 .07, and you arrived at -- I arrived at 2.65 million,
9 and I guess you could round it off to 2.7.

10 A That's right.

11 Q Okay. Now --

12 A Yeah, that's correct. That's how it was calculated,

13 Q Now since the Kalkaska processing charge is 3. -- or
14 it's .35 cents, wouldn't that change that calculation
15 from 2.3 million to something less?

16 A Well, my charge of 7 cents is what we think the cost
17 of going through that plant would be. So, I mean, if
18 you assume that the 7 cents is wrong and that 3.5
19 cents is correct, then what you're saying is correct,
20 that number would be lower.

21 Q Okay. Maybe --

22 A But that's assuming that the 7 cents is wrong.

23 Q Right.

24 A Okay.

25 Q And I'm not criticizing it at all.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CORBY GROUP 1-800-256-6040

1 A Okay.

2 Q What I'm try-ng to do is determine, when you use --
3 so if I understand your testimony, when you use the
4 Kalkaska processing charge on your Exhibit 204, 2 of
5 2 -- and I'm looking at Line 3(b) -- you're including
6 both fuel and processing charge.

7 A Yes.

8 Q Okay. But if you used simply processing, it would
9 have been a less figure. Am I correct?

10 A Yes, it would have been the 3.5 cents.

11 Q Okay.

12 A And then I would have had to have another line for
13 the fuel.

14 Q All right, thank you.

15 A Yup.

16 Q On Page 4 of your prefled testimony, Line 17,
17 there's a question and answer, and the question
18 references Act 3. And from reading the question and
19 answer thereafter, I had the sense that something
20 would change if it would have been under Act 3
21 versus, I assume, Act 9.

22 Would there be any change in the
23 rate?

24 A No.

25 Q What is the purpose of addressing Act 3 in that

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMD

THE CORBY GROUP 1-800-255-8040

DEVON CROSS SAGE

2843

1 context?

2 A This testimony is related the testimony concerning
3 lost wet header revenue. And it's only in that
4 respect that it's here.

5 Q And if it was under Act 3, it would be in a rate case
6 then. Am I understanding that correctly?

7 A Yeah. It's just indicating that the company may have
8 asked for this rate under Act 3. And then, you know,
9 if they had done that, would the Staff, you know,
10 have supported the inclusion of the lost wet header
11 revenues in the calculation of the dry Antrim rate.

12 Q okay.

13 A And that's why it's here.

14 Q okay.

15 A And I'm responding NO.

16 Q okay.

17 A That Staff wouldn't.

18 Q Now on Page 5 of your prefiled testimony, when you
19 make the statement that MichCon's retail customers --
20 this is Line 14 and 15 -- MichCon's retail customers
21 will not receive any direct benefit due to increased
22 Antrim capacity, is that based on the testimony of
23 Mr. Stanczak?

24 A Yes, that's exactly his testimony.

25 Q Okay. You're not making any independent evaluation,

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-355-8040

NELL

28844

1 you're simply using his testimony?

2 A Yes.

3 Q And then arriving at your own conclusions from there??

4 A Yes, that's correct.

5 MR. SAGE: Unfortunately, I have
6 nothing further.

7 JUDGE MACE: Okay. Mr.
8 O'Connell.

9 MR. O'CONNELL: Thank you.

10 CROSS-EXAMINATION

11 BY MR. O'CONNELL

12 Q Good afternoon, Ms. Devon.

13 A Good afternoon.

14 Q Ms. Devon, let's start on — and all my page
15 references will be to Part 11 of your testimony.
16 A okay.

17 Q Page 2, Lines 7 through 9. There you're talking
18 about the estimated annual operation and maintenance
19 expenses associated with the project. And am I
20 correct that as reflected on Line 4 of Page 1 of
21 S-204 . . .

22 A Page 2?

23 Q Page 2, my mistake. That that amounts to \$100,000 a
24 year?

25 A Yes.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-6040

1 Q Now, would you agree that although you phrase it on
2 your testimony as estimated annual O&M *expenses*, that
3 it is the incremental O&M expense as reflected in Mr.
4 Kurmas' testimony?

5 A Yes.

6 Q Would it be appropriate, in your opinion, to develop
7 a *true* or an independent annual O&M expense amount
8 for the Antrim project as if it were a stand alone
9 project all by itself, rather: than using an
10 incremental O&M which recognized all Antrim volumes
11 in the — not only in the Antrim system but in the
12 wet header?

13 A The O&M expense that's shown here, I believe it's
14 based on Mr. Kurmas' testimony. And as I understand
15 it, it's the — the estimated annual cost of O&M on
16 all of the pipelines of MichCon's system. I don't
17 have it right here with me.

18 Q okay.

19 A But I'm not aware that it's not including all costs
20 that would be associated with that pipeline. I'd
21 have to get that.

22 Q All right. If it were shown as to not include all
23 costs but rather would be incremental to, say, the
24 existing wet header system, my question to you, would
25 it be also appropriate to then look at this as now

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 you've proposed to have it a stand alone division or
2 whatever, entity that ultimately arises and take that
3 O&M specifically?

4 A That may be true, if there's additional costs over
5 and above *what's* shown here. But I'm not aware that
6 there are.

7 Mr. Mazuchowski did -- is the one
8 that provided me with this number. And perhaps, you
9 know, you could ask him some additional questions on
10 it.

11 Q You bet. And Mr. Mazuchowski thanks you.

12 Let's turn, on that same page,
13 Page 2, to Lines 16 through 18 where you talk about
14 the depreciation. The depreciation for *this*, as
15 applied here, you would agree is different than the
16 depreciation rates that were previously established
17 for Michigan Consolidated for similar accounts.

18 A I'm not sure that I would agree with that.

19 Q Did the depreciation rates in Case 9-10044, which was
20 the settled case and approved and implemented as part
21 of Michigan Consolidated's last general rate case in
22 U-10150, establish prescribed rates or unit of
23 production depreciation rates?

24 A With respect to the wet header?

25 Q Yes.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-256-5040

NNELL

2847

1 A I believe the most recent depreciation case, which
2 I'm assuming is 10044.

3 Q Yes.

4 A Switched from unit of production depreciation to a
5 straight line method because the plant, up in the wet
6 header, was almost fully depreciated. So in that
7 respect, it's different.

8 But in prior -- prior to this
9 case, where we're trying to finish out the
10 depreciation on that plant by switching to straight
11 line, prior to that, those accounts were being
12 depreciated on unit of production methodologies. And
13 this is the same methodology that we're recommending
14 here.

15 Q Okay. Also on that same page, beginning on Line 14,
16 you show property taxes which are reflected in your
17 Page 2 of 5-204.

18 A Yes.

19 Q Now, Ms. Devon, are you familiar with the Michigan
20 State Tax Commission's, what they call the original
21 cost multiplier for valuing property for property tax
22 assessment purposes?

23 A I'm going to have to respond no.

24 Q I'd like you to turn to Page 5, the accounting
25 requirements.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DEVON CROSS O'CONNELL

2910

1 A Yes.

2 Q There, beginning on Line 12, you talk about the
3 inclusion of this or your recommendation not to
4 include this as part of MichCon's utility operation.
5 And would you agree that the purpose of this project
6 is generally to transport gas production?

3 A Yes, Antrim gas production.

8 Q Antrim gas. The wet header, does it not, it also
9 transports gas production, although not predominantly
10 Antrim gas? Would you agree?

11 A In the past, it wasn't predominantly Antrim gas. I
12 would think now maybe it is mostly Antrim gas,
13 although I don't have the breakdown.

14 Q Well, I'm not saying it is even today predominantly
15 Antrim gas. But it also transports gas production
16 that is produced in the northern Michigan area.

17 A Yes.

18 Q Now there on Page 5, you recite previously asked
19 questions regarding the absence of any direct benefit
20 to MichCon's retail customers from the Antrim
21 project. Would you agree that the retail customers
22 of Michigan Consolidated similarly receive little
23 benefit from the wet header?

24 A Currently, I believe that would be true.

25 Q Would you also agree that the majority of the wet

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CURBY GROUP 1-800-255-5040

1 header volumes that were used to establish the
2 existing rates for the wet header --

3 MR. ERICKSON: Could I have that
4 question read back, Your Honor?

5 MR. O'CONNELL: Well, I haven't
6 finished the question.

7 MR. ERICKSON: Oh, I'm sorry.

8 JUDGE MACE: I didn't think you
9 had, but --

10 MR. ERICKSON: I just didn't
11 catch --

12 JUDGE MACE: -- you're speaking
13 in a very low tone, and it's hard to hear you
14 sometimes.

15 MR. O'CONNELL: It's not on
16 purpose.

17 JUDGE MACE: No, I know that.

18 MR. O'CONNELL: Thank you. Let
19 me try to restate this question, then.

20 Q (BY MR. O'CONNELL, CONTINUING) Would you agree that
21 the volumes used to establish the wet header rates in
22 MichCon's prior rate case included a majority of
23 Antrim volumes?

24 A I believe that that's true, although I can't give you
25 the exact numbers. I believe that's true.

DEVON CROSS O'CONNELL

2850

1 Q There were some questions earlier from Mr. -- I think
2 it was Erickson -- regarding cost allocations. And
3 although Staff has not reached any particular
4 recommendations on those, how they would be allocated
5 between wet header and dry header in the future,
6 would you agree that it would be at least difficult
7 to allocate expenses associated, for example, with
8 brushing or clearing the path of the easements or
9 right-of-way associated with the wet header right
10 next to the Antrim dry header?

11 A Would it be difficult to allocate them?

12 Q Yes.

13 A No, I believe you could allocate them, if that was
14 appropriate..

15 Q Okay. For example, what would be some measurements
16 that you would use to make this allocation? Feet of
17 pipeline, for example, would that be one?

18 A Sure, that would work. I haven't given it much
19 thought.

20 Q okay.

21 A But, you know, there's always a way to allocate costs
22 if an allocation process is appropriate. And it
23 would depend on what the cost is and what the
24 situation is to try to come up with the allocation
25 factor.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

1 But I don't think it would be
2 difficult to do if you know all the facts. And if
3 it's determined that that's the appropriate thing to
4 do.

5 7 And in that determination of whether or not it's
6 appropriate, if you're just doing one set of services
7 that is virtually in common to both a dry system and
8 a wet system, there need not be even an allocation,
9 it's just a common cost.

10 A You could split the cost, if it was appropriate to
11 split the cost.

12 Q I'd like to discuss with you the future filing
13 requirements that begins on Page 6 of your testimony,
14 Ms. Devon. Now on Page 7, Lines 3 through 6, you
15 recommend that we, MichCon, be ordered to make a rate
16 filing no later than five years after rates are
17 established in this proceeding.

18 Now, did I hear your answer to a
19 previous question on cross-examination correct that
20 this would essentially be a mini rate case that you
21 would expect to be filed?

22 A Yes.

23 Q And then you go on further and say neither MichCon
24 nor any other party would be prohibited from having
25 the same kind of mini rate case if they deemed it

1 necessary. Is that correct?

2 A Prior to --

3 Q Prior to --

4 A -- the five-year filing, yes.

5 Q Has this condition ever been applied to any other
6 pipeline and approved by the Michigan Public Service
7 Commission, to your knowledge?

8 A I don't believe that it's been applied to a
9 pipeline. It's been applied to a storage company.

10 Q Which storage company?

11 A Eaton Rapids.

12 Q Is Staff, by this recommendation, going to make this
13 recommendation in all future Act 9 pipeline cases in
14 which there are transportation rates established for
15 third parties?

16 A That hasn't been determined.

17 Q Why wouldn't they, if they're going to order it for
18 Michigan Consolidated in this case in their
19 application for approval of a project involving
20 transportation rates, why wouldn't Staff then
21 uniformly do the same kind of a five-year re-opener?

22 A That may be something that we would consider. This
23 recommendation is just based on the facts in this
24 case and the uncertainty that's surrounding this
25 whole project.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 So I wouldn't be making a
2 recommendation with respect to any future cases right
3 now, but that would be something that we would
4 consider.

5 Q Also in your testimony, you recommend that this
6 entity be separated distinctly from the MichCon
7 utility segment. I believe you use the term "at
8 risk." If the parties -- or maybe you don't.

9 If the parties, if MichCon and
10 the transporters have agreements, and they're
11 satisfied that the agreements control, why does Staff
12 feel it's important for it to oversee those
13 relationships in which the parties recognizing the
14 risks and benefits to each side have made a contract
15 for?

16 A Well, Staff is concerned that the rate that is
17 established is just and reasonable. And because of
18 the uncertainty with respect to all of the items
19 involved in this, we're not certain that we are going
20 to get a just and reasonable rate over the long term,
21 because we're not sure where all of those estimates
22 are going to end up in actuality.

23 The company's original proposal
24 appeared to provide for a rate for ten years that
25 didn't fully recover the costs of all of the pipe

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

1 that was going on over that same ten-year period with
2 that production that was -- as anticipated over that
3 period. Which would mean at the end of that period
4 then if the -- a new rate would have to be
5 established to recover more -- the remaining costs,
6 which may not be reasonable in light of the fact that
7 the rate prior to that may have been too low.

8 So all we want to do is make sure
9 that the rate is just and reasonable, and provide the
10 company a reasonable opportunity to earn a rate of
11 return that's been authorized. And we feel that in
12 order to do that, we need to take a look at it at the
13 end of the five years.

14 Q Are you, you being, is the Staff also considering
15 then in future cases essentially establishing rates
16 of return for all pipeline companies whether or not
17 they are related with utility companies in terms of
18 the rates of return that they can earn on these
19 projects?

20 A My understanding is that the rate of return is one of
21 the items that is reviewed in the current pipeline
22 projects, and we'd continue to review that in the
23 future also.

24
25
DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 Q Does the -- strike that.

2 In lieu of the five-year period, *you*
3 also indicate that the parties **would** have a right **as** you
4 -- in your opinion, to make appropriate filings with the
5 Commission to investigate the rates.

6 Why **wouldn't** that in your opinion
7 provide the safeguard to both MichCon and others as
8 opposed to **this** five year **mandatory** rate filing?

9 A Well, this rate, this transportation **on this** pipeline **is**
10 **still going to be** -- if MichCon **is** going to do it, is
11 **going to be a semi-monopolistic** service,

12 I mean, there isn't going to be any
13 other alternative, and if **this** pipeline **goes in**, MichCon
14 is providing all of the transportation for all the
15 **Antrim gas**.

16 And I **don't** know what position that
17 puts the other producers **out there** and what -- how
18 **comfortable** they would be to come in filing a complaint
19 against MichCon, **knowing** that that's their only source
20 of transporting their gas.

21 So we still want to **make sure** that
22 the rate **is** just and reasonable, and would review it to
23 ensure that it **is**.

24 The company -- The rate may be too
25 low. And why would a producer come in and say the rate

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 is too low?

2 Q But perhaps, under that situation, you would expect
3 MichCon to come in and say the rate is too low?

4 A They may.

5 Q Now, just in your last answer to that, you used the
6 phrase that I could hear the eyebrows raise in the room
7 dealing with monopoly. What -- do you know what -- the
8 volumes of Antrim gas that are currently being
9 transported today in Michigan?

10 A No.

11 Q Are you aware that there are a number of existing Antrim
12 transportation systems and CO-2 treating systems in
13 operation in the State of Michigan today?

14 A Yes, I think there are.

15 MR. O'CONNELL: I believe that
16 concludes the questions. Thank you.

17 JUDGE MACE: Okay. Redirect.

18 MR. DERENGOSKI: Your Honor, if we
19 could have five minutes, I think we can take care of
20 that.

21 JUDGE MACE: Okay. Actually why
22 don't we take a 15 minute recess. It means that we'll
23 have to have a break when Mr. Mazuchowski takes the
24 stand, but that's okay too. 15 minutes.

25 (A recess was taken at 2:40 p.m.)

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

1 (Hearing resumed at 2:55 p.m.)

2 JUDGE MACE: All right. Let's go
3 back on the record.

4 Mr. Derengoski, is Staff going to
5 have any redirect?

6 MR. DERENGOSKI: No redirect. We
7 just ask admission of S-204.

8 JUDGE MACE: Is there any objection
9 to the proposed admission of S-204. Hearing no
10 objection, I'll admit that exhibit.

11 Thank you, Ms. Devon. You're
12 excused.

13 THE WITNESS: Thank you.

14 (The witness was excused.)

15 MR. DERENGOSKI: Staff would like to
16 call Donald J. Mazuchowski and ask that he be sworn.

17 MR. FIELDS: He's not here.

18 JUDGE MACE: Everybody scared him
19 off by referring so much to him.

20 MR. ERICKSON: Your Honor, could we
21 go off the record and maybe mark the exhibits while
22 we're waiting.

23 JUDGE MACE: Do you have them?

24 MR. DERENGOSKI: The Court Reporter
25 has them, yes. I don't know how you want to handle

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

MAZUCHOWSKI DIRECT DERENGOSKI

2858

1 this. There's a graphic correction on Mr. Mazuchowski.
2 There's a small half inch line he wants to insert, just
3 so you know that's coming, and the Court Reporter has
4 the corrected version.

5 JUDGE MACE: But no one else does.
6 Maybe you should make that one on the record.

7 Let's go off the record.

8 (Exhibit S-205 through S-210 were
9 marked for identification by the
10 Court Reporter.)

11 JUDGE MACE: You have to stand to be
12 sworn.

13 D O N A L D J. M A Z U C H O W S K I
14 after having been first duly sworn to tell the truth,
15 was examined under oath and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. DERENGOSKI:

18 Q Mr. Mazuchowski, would you please state your full name
19 and business address for the record?

20 A My name is Donald J. Mazuchowski. And my business
21 address is 6545 Mercantile Way, Lansing, Michigan.

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

23 A I'm employed by the Michigan Public Service Commission,
24 as a gas pipeline specialist.

25 Q In connection with your responsibilities in this case,

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

MAZUCHOWSKI DIRECT DERENGOSKI

2859

1 have you caused to be filed a document entitled the
2 Prepared Testimony and Exhibits of Donald J. Mazuchowski
3 on Behalf of the Michigan Public Service Commission
4 Staff?

5 A Yes, I have.

6 Q And are you also sponsoring six exhibits which have been
7 denominated by you as DJM-1 through 6 and which the
8 Court Reporter is marking as proposed Exhibits S-205
9 through S-210?

10 A Yes.

11 Q Are there any additions or corrections which you would
12 like to make to your testimony?

13 A Yes, I'd like to make one change to my Exhibit S-210.
14 And that would be an extension of a solid line that's
15 missing between Goose Creek and M-72.

16 So if you just drew a vertical line
17 between Goose Creek and M-72 right underneath the solid
18 line that goes into Goose Creek, that would make that
19 correction -- that would make that exhibit correct.

20 MR. DERENGOSKI: All right. Your
21 Honor, I would note for the record that Mr.
22 Mazuchowski's exhibit he has just referred to, DJM-6
23 which is S-10, has the corrected copy in the record or
24 to be --

25 JUDGE MACE: That's S-210.

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

MAZUCHOWSKI DIRECT DERENGOSKI

2860

1 MR. DERENGOSKI: S-210, I'm sorry.
2 It has been corrected, so the proposed exhibit is
3 correct.

4 JUDGE MACE: Good.

5 Q (BY MR. DERENGOSKI, CONTINUING) With respect to your
6 testimony, are there any other changes or additions
7 you'd like to make to that testimony?

8 A No, there are not.

9 Q And would you like to then refer to the fact where you
10 have denominated your exhibits are DJM-1 through 6 and
11 refer to them in your testimony that the blanks
12 associated with those references should be filled in
13 with S-205 through S-210 respectively as they apply?

14 A Yes, I do.

15 Q Do you then adopt the testimony and these exhibits as
16 your testimony and exhibits for purposes of the case
17 today?

18 A Yes, I do.

19 MR. DERENGOSKI: Your Honor, at this
20 time I'd like to ask the prefilled direct testimony of
21 Donald J. Mazuchowski be bound into the record.

22 I'd request that the proposed
23 Exhibits S-205 through S-210 be admitted into evidence
24 and I'd tender the witness for cross-examination.

25 JUDGE MACE: I'll bind the testimony

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

LASER STOCK FORM FNU

THE CORBY GROUP 1-800-255-6040

MAZUCHOWSKI DIRECT DERENGOSKI

2861

1 into the record.

2 (The prefiled direct bound-in

3 testimony of Donald J.

4 Mazuchowski, consisting of 27 pages, .

5 is bound into the record by the

6 Court Reporter, as follows:)

LASER STOCK FORM FMU

THE CORBY GROUP 1-800-255-5040

DOLMAN & ASSOCIATES, INC.
P.O. BOX 26125 - LANSING, MICHIGAN 48909
(517) 393-1668

2862

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,)
Osceola, and Otsego Counties, Michigan.)
_____)

Case No. U-10547

PREPARED TESTIMONY & EXHIBITS OF
DONALD J. MAZUCHOWSKI
ON BEHALF OF THE
MICHIGAN PUBLIC SERVICE COMMISSION STAFF

Date: August 17, 1994

2863

PREPARED TESTIMONY OF DONALD J. MAZUCHOWSKI
CASE NO. U-10547
PART I - QUALIFICATIONS

- 1 Q. Will you please state your name and business address.
- 2 A. My name is Donald J. Mazuchowski, 6545 Mercantile Way,
- 3 Lansing, Michigan, 48911.
- 4 Q. By whom are you employed and in what capacity.?
- 5 A. I am employed as an Intrastate Pipeline Engineer
- 6 Specialist on the Staff of the Michigan Public Service
- 7 Commission.
- 8 Q. Will you briefly describe your educational background and
- 9 professional experience?
- 10 a. I was graduated from Michigan State University in June of
- 11 1977 with a Bachelor of Science Degree in Biochemistry
- 12 and a Bachelor of Science Degree in Chemical Engineering
- 13 in August of 1980. I was employed by Gearhart Industries
- 14 in New York from September of 1980 until June of 1981.
- 15 I was put in charge of a well logging truck and crew. I
- 16 evaluated the gas reserves and productive possibilities
- 17 of the gas and oil wells in the western New York and
- 18 northwestern Pennsylvania areas. Since January 1982, I
- 19 have been a Petroleum Engineer with the Staff of the
- 20 Michigan Public Service Commission. One of my principle
- 21 duties with the Staff has been to make various
- 22 engineering studies related to the Commission's
- 23 regulation of intrastate gas production, proration and
- 24 transmission. My responsibilities include well log
- 25 analysis, geophysical evaluation, drawing of isopach
- 26 maps, evaluation of well tests and calculation of field

2864

MAZUCHOWSKI - PART I

2

1 reserves. For pipeline applications, I have been
2 responsible for field route reviews, environmental
3 reviews, economic feasibility studies, gas pipeline
4 specifications and the preparation and presentation of
5 Staff cases for public hearing. My duties also involve
6 the issuance of Standard Well Connection Permits and
7 Allowable Withdrawal Orders, participation in intrastate
8 gas purchase contract pricing cases, maintaining gas
9 production records and tabulating gas field proration
10 balances.

11 Q. Can you elaborate on what is involved in your
12 environmental reviews of pipeline projects?

13 A. I analyze the potential environmental effects that a
14 proposed pipeline project will have on the state. This
15 analysis includes an evaluation of the proposed route to
16 minimize the amount of new right-of-way utilized,
17 minimize the amount of environmentally-sensitive areas
18 crossed by the pipeline and recommending the use of
19 construction methods that have the least impact on the
20 environment. The projects are handled on a case-by-case
21 basis, with some requiring a more in-depth analysis than
22 others.

23 Q. Have you presented expert testimony before the Commission
24 in the past on environmental issues and other areas of
25 your responsibilities?

26 A. Yes, on numerous occasions.

2865

MAZUCHOWSKI - PART I

3

1 Q. Have you participated in or attended any educational
2 programs or seminars related to your work experience?

3 A. I have completed engineering courses and seminars in Well
4 Logging Fundamentals and Applications; Reservoir
5 Engineering; Petroleum Geology: Pressure Buildup and
6 Drawdown Analysis; Gas Supply: and, Natural Gas
7 Engineering - Production and Storage, among others. I
8 have also completed the "Annual Regulatory Studies
9 Program" sponsored by the National Association of
10 Regulatory Utility Commissioners at Michigan State
11 University and a Pipeline Safety Seminar sponsored by the
12 U.S. Department of Transportation.

13 Q. Are you a member of any professional societies or
14 organizations?

15 A. Yes. I am a Registered Professional Engineer in the
16 State Of Michigan and Chairman of the Michigan Section of
17 the Society of Petroleum Engineers.

2866

PREPARED TESTIMONY & EXHIBITS OF DONALD J. MAZUCHOWSKI
CASE NO. U-10547
PART II

- 1 Q. What is the purpose of your testimony?
- 2 A. To describe the Staff's investigation into the necessity
3 and practicability of the proposed project, summarize the
4 Staff case and state Staff positions and to make
5 recommendations to the Commission, on behalf of the
6 Staff, as to whether or not this pipeline project will
7 serve the convenience and necessities of the public.
- 8 Q. What are *your* duties and responsibilities concerning gas
9 pipeline applications?
- 10 A. Pursuant to Act 9 PA 1929, as amended, the Staff must
11 inquire into the necessity and practicability of gas
12 transmission pipelines and must determine that
13 construction and operation of these pipelines will serve
14 the public convenience and necessity. In addition, Staff
15 is charged pursuant to Act 165 PA 1969, as amended, to
16 ensure that gas transmission pipelines are designed,
17 constructed, tested and operated in a safe manner. Also,
18 Staff is charged with ensuring that pipelines are routed
19 in an environmentally acceptable manner.
- 20 Q. What involvement have you had in this case?
- 21 A. I have been assigned case coordinator for this case. My
22 role has been to coordinate Staff meetings, monitor the
23 case in its progress through the Commission, and develop
24 the Staff position. I have attended numerous meetings
25 with the producers, applicant, and others to keep
26 informed and to prepare for this case. I reviewed the

2867

MAZUCHOWSRI - PART II

2

1 application, Applicant and Intervenor filings, viewed the
2 route in the field, and attended most of the cross
3 examination of the applicant.

4 Q. how long have you been directly involved in Act 9
5 pipeline certification cases at the commission?

6 A. Over 13 years.

7 Q. Could you briefly summarize the Staff position?

8 A. ~~The~~ Staff believes the Antrim Expansion Project (AEP), as
9 proposed, is overdesigned and unacceptable. A
10 significant portion of the proposal is unnecessary.
11 Furthermore, it appears that the applicant has put its
12 ratepayers at risk for a pipeline proposal that will not
13 benefit them, as discussed by Staff Witness Devon.
14 Finally, the Staff proposes a pipeline project which will
15 transport the ~~estimated~~ reserves economically and has the
16 flexibility for expansion if more Antrim gas is
17 available.

18 Q. How did the Staff develop its pipeline proposal?

19 A. Staff estimated a range of gas reserves available to be
20 transported on a new pipeline. A pipeline was designed
21 to meet this requirement, Staff witness Berquist
22 determined the method of depreciation. Staff witness
23 Ballinger determined the proper rate of return. These
24 numbers were given to our Rate and Revenue Requirements
25 Section. Staff witness Aldrich determined the rate
26 design and Staff witness Devon the cost of service.

2868

MAZUCHOWSKI - PART II

3

1 Q. Why is an additional pipeline needed?

2 A. The producers in the state of Michigan have discovered
3 more Antrim gas than the current pipelines can transport
4 to market. In addition, with deregulation of gas pricing
5 by the federal government and changes at FERC, Antrim
6 producers need to reach additional markets to remain
7 competitive in marketing their gas. Furthermore, in some
8 areas of the state, additional pipelines are necessary to
9 concentrate the Antrim gas in the pipeline to allow for
10 efficient removal of the CO₂ to meet pipeline and
11 contract specifications that if exceeded could cause
12 safety concerns.

13 Q. Would you please describe your review of the MichCon
14 proposal?

15 A. Staff has studied and reviewed the proposal to determine
16 its feasibility. Usually Staff would make a
17 recommendation either approving or disapproving the
18 application. However, in this case, I have proposed an
19 alternative pipeline which significantly reduces the cost
20 and efficiently transports the Antrim gas. The Staff
21 will list the benefits and discuss the problems with
22 MichCon's proposal in this case and the NGC Energy
23 Resources, Limited Partnership (NER) proposal in Docket
24 No. U-10580 in that case. After reviewing any rebuttal
25 testimony in these cases, Staff will support a position
26 on brief that will provide the Commission with a more

2869

MAZUCHOWSKI - PART II

4

1 specific recommendation on who should be granted a
2 certificate of public convenience and necessity for
3 constructing the facilities needed to get the Antrim gas
4 to market.

5 Q. Please list the benefits of the MichCon application.

- 6 A. - MichCon has extensive experience operating and
7 constructing pipelines in Michigan and is very
8 prepared to construct the AEP.
9 - MichCon has a plan to build inside the
10 existing right-of-way corridor on the Kalkaska
11 Tie Line and Kalkaska-Woolfolk loop which
12 significantly reduces the impact to the
13 environment.
14 - MichCon has worked with the other state
15 permitting agencies on previous projects and
16 this project. This has given MichCon
17 confidence that no significant changes in the
18 route would occur due to permitting problems.
19 - MichCon can operate the pipeline for less
20 because of its existing experienced staff and
21 the proximity to existing pipelines,
22 - There would be only one operator of the AEP
23 and Wet Header system which I believe would
24 provide some economies of scale.
25 - MichCon has some producer support.
26 - MichCon's AEP provides additional capacity to

2870

MAZUCHOWSKI - PART II

5

- 1 transport Antrim gas to market.
- 2 - Attempts to provide a comprehensive solution
- 3 to address existing and future Antrim gas
- 4 transportation and CO₂ treatment constraints.
- 5 - Provides access to Michigan's pipeline
- 6 infrastructure.
- 7 - The proposed pipeline facilities extends into
- 8 an area without pipelines.
- 9 - Provides for no demand charge to shippers.
- 10 - MichCon AEP is proposed to be constructed and
- 11 operated in accordance with the Michigan Gas
- 12 Safety code.
- 13 - MichCon's AEP will not cause any substantial
- 14 impact to the environment.

15 Q. Please list the disadvantages of the MichCon application.

- 16 A. - Even as proposed, the 16 inch Niagaran
- 17 pipeline is overdesigned, a 12 inch pipeline
- 18 would be sufficient.
- 19 - The AEP did not maximize the use of existing
- 20 facilities.
- 21 - MichCon's deliverability estimate assumes that
- 22 the production will increase more quickly than
- 23 is reasonable based on current production
- 24 trends.
- 25 - Probable and potential reserve estimates were
- 26 included to determine the needed pipeline

2871

MAZUCHOWSKI - PART II

6

- 1 capacity.
- 2 - MichCon has not taken into account the
- 3 uncertainty of the probable and potential
- 4 reserves.
- 5 - MichCon has overdesigned both the pipeline
- 6 facilities and the processing plants.
- 7 - MichCon has not taken into account all of the
- 8 existing or proposed Antrim transportation
- 9 lines.
- 10 - MichCon has not considered the amount of CO,
- 11 removed by the processing plants that will not
- 12 be transported on downstream pipelines.
- 13 - The Charlton pipeline was designed without
- 14 providing an adequate purpose for the northern
- 15 3 miles (unknown reserves and deliverability)
- 16 as well as crossing environmentally sensitive
- 17 areas.
- 18 - The AEP moves all gas on MichCon's system.
- 19 - The Gustin pipeline duplicates an 8 mile
- 20 segment of the Spartan pipeline.
- 21 - The AEP provides for the same parties to
- 22 expand the CO, processing facilities which to
- 23 date have not been reliable.
- 24 - No interruptible service will be offered until
- 25 firm is contracted. This does not provide for
- 26 nondiscriminatory access to the pipeline.