

May 24, 2006

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

Re: *Dominion Midwest Energy and Dominion Reserves vs MichCon Gathering Co and Michigan Consolidated Gas Co, MPSC Case No. U-14754 (paperless)*

Dear Secretary Kunkle:

Enclosed for filing is MichCon Gathering Company's and Michigan Consolidated Gas Company's Rebuttal Testimony of Arthur Raymond Lyle II.

Very truly yours,

HONIGMAN MILLER SCHWARTZ AND COHN LLP

Richard Aaron  Digitally signed by Richard Aaron
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Date: 2006.05.24 10:22:22 -04'00'

Richard J. Aaron

Enclosure

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the complaint of DOMINION MIDWEST)
ENERGY, INC. and DOMINION RESERVES, INC.)
against MICHCON GATHERING COMPANY)
and MICHIGAN CONSOLIDATED GAS COMPANY.)
_____)

Case No. U-14754

REBUTTAL TESTIMONY
OF
ARTHUR RAYMOND LYLE II

MICHCON GATHERING COMPANY AND
MICHIGAN CONSOLIDATED GAS COMPANY
REBUTTAL TESTIMONY OF ARTHUR RAY LYLE II

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

2 **A.** I will respond to the Michigan Public Service Commission (MPSC) Staff
3 witness Mr. Mazuchowski's testimony regarding MGAT and the AEP.
4 Specifically, I will address his statements regarding the responsibility for
5 maintaining 2% or less CO₂ content at all of the delivery points from the
6 AEP, the negative effect adoption of his position would have on MGAT's
7 balancing equation when one producer changes specifications without
8 agreement from MGAT, and I will address his assessment of dedications to
9 treating and transportation.

10

11 **Q. Do you agree with Mr. Mazuchowski's statements on Page 5, lines 3-4,**
12 **regarding CO₂ limits?**

13 **A.** No. The Commission's condition contained in the U-10547 order was that
14 MGAT must maintain a level of 2% or less CO₂ at the delivery points, also
15 called downstream take-away points, but the Commission never stated as
16 Mr. Mazuchowski asserts that the gas transported on the AEP needed to be
17 2% or less CO₂ content.

18

19 **Q. Do you agree that Mr. Mazuchowski's statements on Page 5, lines 20-**
20 **22, and on Page 6, lines 1-4 relating to the initial ASAT agreements in**
21 **relation to the CO₂ content of the gas, are accurate and complete?**

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1 **A.** No. Mr. Mazuchowski does not address the fact that the initial executed
2 ASAT agreements, which were introduced into the record by MGAT in the
3 initial AEP case, Case No. U-10547, did not contemplate a third party
4 treating for CO₂ because there was no third party treating capability at that
5 time. This is demonstrated by the fact that the gas quality standards in these
6 original ASAT agreements, negotiated and signed before certification and
7 construction of the AEP, contractually specified that CO₂ levels were not to
8 exceed 2%, ***not only at the delivery point but also at the receipt point*** .
9

10 **Q.** **What is the significance of contractually specifying a CO₂ level at the**
11 **receipt point in the original ASAT agreements?**

12 **A.** This means that the gas production that entered the AEP had to have a CO₂
13 content of 2% or less at the receipt point, i.e. the point at which a producer's
14 gas is measured upstream of the AEP pipeline, throughout the term of the
15 ASAT agreement. A CO₂ content of 2% or less could be accomplished
16 either because the shipper did not expect their production to exceed 2%
17 CO₂ or the shipper planned to install treating facilities upstream of the
18 receipt point.
19

20 **Q.** **Has MGAT changed the CO₂ content for Antrim gas as Mr.**
21 **Mazuchowski testifies on Page 6, lines 7-9?**

22 **A.** No. MGAT has not changed the CO₂ content of the Antrim gas transported
23 on the AEP, as the CO₂ content is based on variables related to the actual

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1 production itself. The requirement that MGAT must maintain a CO₂ content
2 of 2% or less for all gas delivered from the AEP is still the same. MGAT's
3 CO₂ requirement pertains to the entire gas stream, which is the cumulative
4 total of gas from all producers. In order to meet its CO₂ content requirement
5 for the entire gas stream requires careful balancing based on the volume
6 and the CO₂ content of each producer's gas and the location of the receipt
7 point where that gas enters the AEP. If one producer changes its CO₂
8 content it can upset the entire equation causing the treatment requirements
9 for all other producers' gas to change. In this case, all gas previously
10 delivered to CMS under the Capacity Agreement was treated to 0.75% CO₂.
11 MGAT still offers this same service at the same terms. To avoid upsetting
12 the CO₂ balancing equation for all AEP shippers MGAT needs contractual
13 assurance from shippers opting for ASAT service, i.e transportation only
14 service with no CO₂ treating, that they will obtain the same level of treating
15 from CMS or another 3rd party treater that was previously provided by MGAT.
16 If CMS or another 3rd party treater is unwilling or unable to offer the service at
17 the same price, the shippers have the option to contract with MGAT. Dominion
18 in this case ignored the Dedication of gas to MGAT for treating and
19 transportation, and instead obtained a separate treating contract with CMS.
20 Not only did the contract change the CO₂ outlet content to 2% from 0.75% but
21 also appears to provide Dominion with a preferential level of service not
22 offered to MGAT or other producers. Dominion has since rectified the higher
23 outlet CO₂ content through a pretreatment arrangement for the duration of

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1 this case, but before this occurred MGAT had to pay for extra treating at the
2 CMS plant to maintain the CO₂ content balancing equation that allows gas to
3 continue to meet the 2% or less CO₂ content at the delivery points.

4

5 **Q. On Page 6, lines 13-21, Mr. Mazuchowski uses the term “carbon**
6 **dioxide free gas”, does CO₂ “free” production exist?**

7 **A.** No. While production from the Niagaran and Prairie Du Chien (“PDC”)
8 formations has lower CO₂ content on average than production from the
9 Antrim formation, the majority of the production sampled has measurable
10 CO₂ content that ranges from 0.01 to over 4% for Niagaran and 0.08 to
11 0.4% for PDC. MGAT does not receive any carbon dioxide free gas that it
12 can use to lower CO₂ content through blending downstream of the CMS
13 plant.

14

15 **Q. Is Mr. Mazuchowski’s point that MGAT elected to blend Niagaran and**
16 **PDC formation gas with Antrim gas instead of treating all Antrim gas**
17 **accurate?**

18 **A.** No. The blending which takes place on the AEP is a cost effective means of
19 assuring Antrim gas from multiple receipt points is available for transport
20 and ultimate delivery at downstream takeaway points at 2% or less CO₂.
21 Without blending of Antrim gas, significant additional facilities in the form of
22 pipelines and CO₂ treating plants would be required to enable the various
23 producers with no direct access to CO₂ treating facilities to be able to

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1 transport their gas. The Niagaran and PDC production transported on the
2 AEP has nothing to do with blending on the AEP. The Niagaran and PDC
3 production received by MGAT for AEP transport actually passes through the
4 CMS treating facility as part of the blended gas stream delivered for treating
5 services. It is my understanding that the Commission in Case No. U-10547
6 specifically rejected as too costly a proposal made by several intervening
7 parties that the AEP construct CO₂ treatment facilities at numerous
8 additional locations on the AEP.

9

10 **Q. What about the assertion on Page 6, lines 13-21 that the Niagaran and**
11 **PDC production was the gas used for blending instead of treating the**
12 **gas for CO₂ removal?**

13 **A.** While some Niagaran gas was unable to be economically separated for
14 transportation on the Wet Header pipeline after the construction of the AEP,
15 the majority of the gas transported on the AEP is and has been Antrim
16 production. The main vehicle that allowed blending of gas on the AEP was
17 the MGAT Capacity Agreement with CMS, as referenced on Page 7, lines 3-4.

18

19 **Q. At page 8, line 6, Mr. Mazuchowski testifies that MGAT is being unfair,**
20 **unreasonable and discriminatory, do you agree?**

21 **A.** No. First, MGAT is not mandating a “new” 0.75% CO₂ level for Antrim gas
22 transportation contracts. As I have explained previously, MGAT is merely
23 insisting that Dominion treat the same gas under a 3rd party treating

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1 agreement the same way the gas was treated under the MGAT treating
2 contract. Second, MGAT is not being unfair, discriminatory or
3 unreasonable. MGAT is operating the AEP fairly to assure all gas is
4 delivered on behalf of all of the shippers that hold contracts for
5 transportation service on the AEP, not just Dominion. What Dominion has
6 done directly affects the ability of MGAT to deliver all of the shipper's gas to
7 the delivery points within the required standards of 2% or less, and
8 potentially would increase the costs incurred and required to be recovered
9 from all of the shippers, or in a worst case scenario where individual
10 producers ignore their pro-rata treating responsibilities, shut-in all gas
11 production that flows on the AEP.

12

13 **Q. Do all Antrim gas Shippers pay the same treating charge for CO₂**
14 **removal as indicated on Page 8, lines 6-13?**

15 **A.** No. While the contracts that MGAT has have the same treating charge of
16 \$0.11/Mcf for service provided at the CMS plant from 14% to 0.75%, it
17 appears that CMS is requiring Shippers to pay the same rate but for a lower
18 amount of CO₂ removal service. Specifically, the treating CMS is providing
19 to Dominion is from 14% to 2% at the same rate charged by MGAT for
20 treating this same gas to 0.75%. Thus, Dominion is paying an overall higher
21 charge for treating to the same level that MGAT was obtaining for
22 Dominion's dedicated gas.

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1 **Q. Do you agree with the statements on page 8, lines 14-22 of Mr.**
2 **Mazuchowski's testimony that MGAT does not have enough gas to**
3 **blend, and that it is trying to pass the cost on to its customers?**

4 **A.** No. MGAT is allowed a reasonable opportunity to make a return on its
5 investments and is entitled to recover the cost it incurs in providing its
6 transportation and treating services from its customers. MGAT is not
7 required to and will not provide services for free. Contrary to Mr.
8 Mazuchowski's assertions, MGAT did not depend on the non-Antrim
9 production for blending services. The level of non-Antrim production
10 remaining on the AEP was kept to an economically feasible minimum, and
11 in fact flows through the CMS plant as part of the blended stream of
12 production flowing upstream of the CMS plant inlet. As to his assertion that
13 not enough Antrim volumes are currently treated to a 0.75% CO₂ level, this
14 is the issue the Dominion Dedication for treating and transportation was
15 intended to address by assuring the necessary volumes would be treated to
16 the 0.75% level. No additional costs are incurred under an ASATT for this
17 level of treating service, but MGAT is not in control of the treating
18 agreement terms or rates signed by other parties, which may result in
19 additional costs. In Mr. Mazuchowski's reference to MGAT not having
20 enough capacity, as I previously discussed, some of the issues that MGAT
21 has no control over are the amount of gas delivered upstream of Kalkaska
22 and the actual outlet content received from the CMS plant, each of which
23 effects the amount and quality of gas available for delivery downstream on

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1 the AEP. These illustrate why MGAT as operator of the pipeline and like all
2 other common carrier pipeline operators was given the authority by the
3 Commission to be able to strike the balance between all production that will
4 be transported on the AEP to ensure that all producers' gas will continue to
5 flow.

6

7 **Q. Is MGAT trying to get the shippers to "foot the bill" as Mr.**
8 **Mazuchowski states on Page 8, lines 21-22?**

9 **A.** No. MGAT is attempting to keep all gas delivered from the AEP to 2% or
10 less CO₂ and is unwilling to incur additional costs.

11

12 **Q. Is MGAT required to transport gas to 2% or less per Page 9, lines 7-10?**

13 **A.** No. Transporting gas does not inherently change the level of CO₂ it
14 contains. MGAT is required to make **deliveries** with CO₂ content of 2% or
15 less from the AEP, but currently receives and transports gas in excess of
16 2% from a multitude of Receipt Points on the pipeline. If the Commission
17 desires that no gas in excess of 2% be transported on the system, the
18 scenario would require additional treating facilities to be installed at each
19 Receipt Point.

20

21 **Q. Is MGAT requiring that the producers spend extra money as**
22 **referenced on Page 9, lines 12-16?**

23

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1 **A.** No. The shippers still have the available option of executing an ASATT, at
2 the same rate offered previously, to provide the treating with the outlet
3 specification of 0.75% CO₂. MGAT does not control what other parties may
4 charge shippers for an alternative treating service. What MGAT must be
5 able to control to ensure all producers gas continues to flow on the AEP is
6 the balancing of the level of CO₂ treating which the Commission authorized
7 MGAT to do at the time construction of the AEP was approved. If CMS
8 charges a higher rate directly to shippers to provide the same service MGAT
9 previously provided, or a lesser treating service at the same price MGAT
10 charged for greater treating, as occurs with Dominion's contract with CMS,
11 that is a matter between CMS and Dominion and any other producers who
12 may object that they now fall behind Dominion's preferential status, i.e. CMS
13 appears to have promised to curtail treatment of all other producers' gas,
14 including gas subject to MGAT's capacity agreement with CMS, before
15 Dominion's gas would be curtailed.

16

17 **Q.** **Do you agree with Mr. Mazuchowski's statements on Page 9, lines 20-**
18 **22 and Page 10, lines 1-8, concerning who has the responsibility for**
19 **maintaining the 2% or less CO₂ level?**

20 **A.** No. MGAT is one entity and it is absurd to suggest that MGAT could or
21 should be separated into two entities with two sets of responsibilities.
22 MGAT as the pipeline operator of the AEP has the obligation to assure that
23 gas delivered to the delivery point meets the 2% or less CO₂ content

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1 requirement. MGAT does not have the obligation to treat all Antrim gas with
2 over 2% CO₂ content before it is delivered to its receipt points, whether it is
3 on the AEP or another pipeline system in northern Michigan. If MGAT were
4 required to treat all gas to 2% or less at each receipt point, i.e. treated
5 before the gas is transported on the AEP, even just for AEP contracted
6 Antrim production, there could be no third party treating services. CMS
7 would have to immediately terminate all agreements for third party treating
8 services. MGAT would then need to sign CO₂ treating agreements with
9 those parties previously contracted with CMS, and any volumes currently
10 blended would need to reach a treating plant, either through a new lateral to
11 an existing treating plant or by constructing a new treating plant at the
12 receipt point. While ultimately this scenario would be operationally feasible,
13 all of this is counter to the Commission's U-10547 grant of authority to
14 MGAT to allow blending, and thus minimize the total facilities constructed, in
15 turn keeping transportation costs at a reasonable level. MGAT has the
16 operational responsibility to meet the required CO₂ levels at downstream
17 take away points, but MGAT does not have the financial responsibility to
18 incur the above described additional expenses.

19

20 **Q. Is MGAT making unreasonable demands on Antrim shippers as**
21 **indicated on Page 10, lines 17-21?**

22 **A.** No. MGAT is actually the reasonable party, and has offered a simple
23 alternative to Dominion who has disregarded the terms of its contractual

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1 obligations, i.e., the Dedication. MGAT's requirement that the same gas it
2 treated for Dominion under contract to a level of 0.75%, must still be treated
3 to a CO₂ level of 0.75% under a 3rd party treating agreement to avoid
4 upsetting the entire AEP gas stream, which affects all shippers not just
5 Dominion, is innately reasonable. Attempting to force other shippers not
6 involved in this case to accept the potential outcomes of this case so that
7 Dominion can ignore its obligations under the Dedication and have a
8 preferential treating contract with CMS is unreasonable. If the Commission
9 were to accept Dominion's position in this case and allow Dominion to
10 contract directly with CMS for lesser CO₂ treating services than MGAT
11 requires, then MGAT would be forced to terminate agreements or curtail
12 production related to agreements it has with many or all AEP shippers, none
13 of whom are parties to this case. There would be nothing reasonable about
14 allowing one shipper to unilaterally dictate for all other shippers on a
15 common carrier pipeline the costs of transportation and treating, and the
16 ability to meet transportation requirements. When one shipper, (Dominion)
17 significantly and unilaterally changes the equation MGAT uses to maintain
18 the 2% or less CO₂ standard at the delivery points on the AEP, all of the
19 remaining shippers are impacted. Authorizing such behavior by one shipper
20 will likely lead to chaos and a perpetual cycle where each shipper
21 unilaterally seeks modifications to their treating arrangements and in turn
22 force other producers to change their agreements. This cycle could
23 ultimately lead to a pipeline CO₂ content exceeding 2% at the AEP delivery

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1 points and the shut-in of all gas transported on the AEP. Such a
2 consequence is not in the public interest nor what the Commission
3 envisioned when it gave MGAT the responsibility to manage the treating
4 requirements on the AEP.

5

6 **Q. Do you agree with the assertion that the reserves may be dedicated to**
7 **transportation and treating for the life of the AEP per Page 11, lines 3-**
8 **15?**

9 **A.** No. As discussed in my initial testimony and Mr. Persell's initial testimony in
10 this case, the dedications are for the life of the reserves.

11

12 **Q. Does this complete your testimony?**

13 **A.** Yes, it does.

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the complaint of DOMINION MIDWEST)	
ENERGY, INC. and DOMINION RESERVES, INC.)	
against MICHCON GATHERING COMPANY)	Case No. U-14754
and MICHIGAN CONSOLIDATED GAS COMPANY.)	
_____)	

PROOF OF SERVICE

STATE OF MICHIGAN)
)ss
COUNTY OF WAYNE)

JENNIFER EVANS, being duly sworn, deposes and says that on the 24th day of May, 2006, a copy of MICHCON GATHERING COMPANY'S AND MICHIGAN CONSOLIDATED GAS COMPANY'S REBUTTAL TESTIMONY OF ARTHUR RAY LYLE, II, in the above captioned matter was served upon the persons on the attached service list via e-mail.

Jennifer Evans JENNIFER EVANS	Digitally signed by Jennifer Evans DN: cn=Jennifer Evans, c=US, o=DECO/MichCon, ou=Regulatory Affairs, email=evansj2@tteenergy.com Date: 2006.05.24 15:12:08 -04'00'
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Subscribed and sworn to before me
on this 24th day of May, 2006.

Estella R. Branson Notary Public	Digitally signed by Estella R. Branson DN: cn=Estella R. Branson, c=US, o=Regulatory Affairs, ou=Detroit Edison/MichCon, email=bransone@tteenergy.com Date: 2006.05.24 15:14:15 -04'00'
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