

July 7, 2006

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

Re: *Quicksilver Resources and Terra Energy v MichCon Gathering Company and Michigan Consolidated Gas Company, MPSC Case No. U-14821 (paperless)*

Dear Secretary Kunkle:

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

Very truly yours,

HONIGMAN MILLER SCHWARTZ AND COHN LLP

Richard
Aaron

Richard J. Aaron

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Enclosures

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STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the complaint of QUICKSILVER	)	
RESOURCES, INC. AND TERRA ENERGY, LTD.	)	
against MICHCON GATHERING COMPANY	)	Case No. U-14821
and MICHIGAN CONSOLIDATED GAS COMPANY	)	
_____	)	

REBUTTAL TESTIMONY

OF

ARTHUR RAYMOND LYLE II

MICHIGAN CONSOLIDATED GAS COMPANY
REBUTTAL TESTIMONY OF ARTHUR RAY LYLE II

Line
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1 **Q. Would you please expand on your current employment and its related**
2 **duties?**

3 **A.** Yes. While I am an employee of MichCon, MGAT is a MichCon Pipeline
4 Company subsidiary and its subsidiaries receive services from MichCon
5 employees, and in turn MichCon bills the subsidiaries for those services. In
6 that regard, I perform services for MGAT, among other subsidiaries, and the
7 charges for my time are billed by MichCon to MGAT. While I am not a direct
8 employee of MGAT, my duties include performing services on behalf of
9 MGAT. Some of my responsibilities for MGAT include the review of
10 contractual agreements, monitoring of the parties' contractual performance
11 related to MGAT's services provided, monitoring and applying AEP system
12 information and review of potential sales or acquisitions of assets or for
13 services provided to MGAT in connection with its operation of the AEP.
14 Also included in the duties I perform for MGAT is working with our gas
15 control and field operations to maintain the balance of the AEP to remain
16 within the 2% or less CO₂ specification at the delivery points, and examine
17 the effects of new production or changes in production on the balance.

18

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

20 **A.** I will respond to the Michigan Public Service Commission (MPSC) Staff
21 witness Mr. Mazuchowski's testimony regarding MGAT and the AEP.
22 Specifically, I will address his statements regarding the responsibility for
23 maintaining 2% or less CO₂ content at all of the delivery points from the
24 AEP. I will also describe the negative effect on MGAT's balancing equation

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1 if the Commission were to adopt his position of allowing shippers to change
2 CO₂ specifications at the receipt points.

3

4 **Q. Would you clarify the reference to the requirements of the original**
5 **ASAT agreements referenced in Mr. Mazuchowski's statements on Page**
6 **2, lines 23 through Page 3, line 2 relating to the CO₂ content of the gas?**

7 **A.** Yes. The original ASAT agreements specified that the gas measured at the
8 receipt point must be 2% or less CO₂.

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 meant that the gas production entering 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. If the gas is over 2% at the receipt point and doesn't want to
19 install upstream treating, to be on equal terms with ASATT shippers,
20 producers need to contract for services to the same outlet content of 0.75%
21 provided under the ASATTs. If the gas was already at 2% at the receipt
22 point, MGAT would be able to determine if the gas would go through the
23 CMS plant under the Capacity Agreement as needed for operational
24 purposes.

25

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1 **Q. Has MGAT changed the CO₂ content for Antrim gas as Mr.**
2 **Mazuchowski testifies on Page 3, lines 7-9?**

3 **A.** No. MGAT has not changed the CO₂ content of the Antrim gas transported
4 on the AEP. The CO₂ content is based on variables related to the actual
5 production itself. The requirement that MGAT must maintain is a CO₂
6 content of 2% or less for all gas delivered from the AEP. This requirement
7 has not changed for any of the take away points located along the AEP.
8 MGAT's CO₂ requirement pertains to the entire gas stream, which is the
9 cumulative total of gas from all producers. Meeting the 2% or less CO₂
10 content requirement for the entire gas stream requires MGAT to carefully
11 balance all shippers' deliveries to the AEP, taking into account the volume
12 and the CO₂ content of each shipper's gas, and the specific location of the
13 receipt point (the point where that gas enters the AEP). If one shipper
14 changes the CO₂ content it delivers to the AEP, that change can upset the
15 entire equation on the AEP and cause the treatment requirements for all
16 other producers' gas to change. All gas delivered to CMS under the
17 Capacity Agreement is treated to 0.75% CO₂. MGAT still offers this same
18 service at the same terms. To avoid upsetting the CO₂ balancing equation
19 for all AEP shippers MGAT needs contractual assurance from shippers
20 opting for ASAT service, i.e. transportation only service, that they will obtain
21 the same level of treating that MGAT obtains and is offered by MGAT. If
22 CMS or another 3rd party treater is unwilling or unable to offer the treating
23 service at the same price, the shippers have the option to contract with
24 MGAT.

25

Line
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1 **Q. Do you agree with Mr. Mazuchowski's point on Page 3, lines 16-21 that**
2 **MGAT elected to blend Niagaran and PDC formation gas with Antrim**
3 **gas instead of treating all Antrim gas accurate?**

4 **A.** No. While this may have been the case prior to the construction and
5 operation of the AEP, the blending which takes place on the AEP is a cost
6 effective means of assuring Antrim gas from multiple receipt points is
7 available for transport and ultimate delivery at downstream takeaway points
8 at 2% or less CO₂. Without blending of Antrim gas, significant additional
9 facilities in the form of pipelines and CO₂ treating plants would be required
10 to enable the various producers with no direct access to CO₂ treating
11 facilities to be able to transport their gas. The Niagaran and PDC
12 production received by MGAT for AEP transport actually passes through the
13 CMS treating facility as part of the blended gas stream delivered for treating
14 services. Otherwise, the Niagaran and PDC production transported on the
15 AEP has nothing to do with blending on the AEP. To illustrate,
16 approximately 245 MMcf/d of production contracted for transportation on the
17 AEP flowed through the CMS CO₂ treating plant on average in May 2006,
18 which included approximately 4 MMcf/d of Niagaran production.

19

20 **Q. At page 5, lines 4-6, Mr. Mazuchowski testifies that MGAT is being**
21 **unfair, unreasonable and discriminatory with the requirement to treat**
22 **to 0.75% CO₂, do you agree?**

23 **A.** No. First, MGAT is not mandating a "new" 0.75% CO₂ level for Antrim gas
24 transportation contracts. As I have explained previously, MGAT is merely
25 insisting that gas under a 3rd party treating agreement receive the same

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1 level of treating service MGAT provided. Second, MGAT is not being unfair,
2 discriminatory or unreasonable. Each contract with a shipper recognizes
3 different receipt points will have gas delivered with varying CO₂ content.
4 MGAT is operating the AEP fairly to assure all gas is delivered on behalf of
5 all of the shippers that hold contracts for transportation service on the AEP.
6 The ASAT language should be modified and approved by the MPSC
7 allowing MGAT to accept gas at 2% or less at the receipt points but
8 requiring gas exceeding 2% at the receipt points to contract for services
9 equal to those MGAT has under the Capacity Agreement.

10

11 **Q. Do all Antrim gas Shippers pay the same treating charge for CO₂**
12 **removal as indicated by Mr. Mazuchowski on Page 5, lines 8-10?**

13 **A.** No. While MGAT's treating contracts provide the same treating charge of
14 \$0.11/Mcf for treating service from 14% to 0.75% for all Shippers, it appears
15 that CMS is requiring Shippers to pay the same rate but for a lower amount
16 of CO₂ removal service. Specifically, the treating CMS proposes to provide
17 is from 14% to 2%. This lesser service, however, for some Shippers is
18 priced at the same rate charged by MGAT for treating this same gas to
19 0.75%. CMS appears to demand an additional amount for treating to a level
20 of 0.75%, and thus shippers would be paying an overall higher price for
21 treating to the same level that MGAT receives from CMS.

22

23 **Q. Do you agree with the statements on page 5, lines 14-21 of Mr.**
24 **Mazuchowski's testimony that MGAT does not have enough gas to**
25 **blend, and that it is trying to pass the cost on to its shippers?**

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1 **A.** No. Contrary to Mr. Mazuchowski's assertions, MGAT did not depend on
2 the non-Antrim production for blending services. The level of non-Antrim
3 production remaining on the AEP was kept to an economically feasible
4 minimum, and in fact is treated by flowing through the CMS plant as part of
5 the blended production upstream of the CMS plant inlet. As to his assertion
6 that not enough Antrim volumes are currently treated to a 0.75% CO₂ level,
7 this is the issue arising from third party treating services that differ from what
8 MGAT's volumes receive, i.e. treated to 2% instead of 0.75% CO₂ content.
9 No additional costs are incurred under an ASATT for this level of treating
10 service, but MGAT is not in control of the treating agreement terms or rates
11 signed by other parties, which may result in additional costs. In Mr.
12 Mazuchowski's reference to MGAT not having enough capacity, as I
13 previously discussed, some of the issues that MGAT has no control over are
14 the amount of gas delivered upstream of Kalkaska and the actual outlet
15 content received from the CMS plant, each of which effects the amount and
16 quality of gas available for delivery downstream on the AEP. These
17 conditions are examples of why MGAT, like all other common carrier
18 pipeline operators, needs to be able to strike the balance among all
19 production that will be transported on the AEP and ensure that all
20 producers' gas will continue to flow.

21

22 **Q. Is MGAT trying to get the shippers to "foot the bill" as Mr.**
23 **Mazuchowski states on Page 5, lines 20-21?**

24 **A.** No. MGAT is attempting to keep all gas delivered from the AEP at 2% or
25 less CO₂ and is unwilling to incur additional costs. MGAT is not required to

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1 provide services for free and MGAT's approach is much more like a utility
2 cost concept where all shippers pay the same price for treating gas
3 regardless whether the treating is by blending or through a physical plant.
4

5 **Q. Is MGAT required to transport gas to 2% or less per Page 6, lines 6-9?**

6 **A.** No. Transporting gas does not inherently change the level of CO₂. MGAT is
7 required to make deliveries from the AEP of gas with a CO₂ content of 2% or
8 less, but MGAT currently receives and transports gas in excess of 2% from a
9 multitude of Receipt Points on the pipeline. If the Commission desires that no
10 gas in excess of 2% be transported on the system, the result will be additional
11 treating facilities being installed at each Receipt Point.
12

13 **Q. Is MGAT requiring that the producers spend extra money as**
14 **referenced on Page 6, lines 11-15?**

15 **A.** No. The shippers still have the available option of executing an ASATT, at
16 the same rate offered previously, to provide the treating with the outlet
17 specification of 0.75% CO₂. MGAT does not control what other parties may
18 charge shippers for an alternative treating service. What MGAT must be
19 able to control to ensure all producers gas continues to flow on the AEP is
20 the balancing of the level of CO₂ treating which the Commission authorized
21 MGAT to do at the time construction of the AEP was approved. MGAT has
22 no control if CMS charges shippers a higher rate for the same service or
23 charges shippers the same rate for less CO₂ removal service, when
24 compared with what MGAT offers under its ASATT agreements.
25

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1 **Q. Is MGAT making unreasonable demands on Antrim shippers as**
2 **indicated on Page 7, lines 15-17?**

3 **A.** No. MGAT is requiring that all gas contracting for third party treating
4 services request treating to a level of 0.75% CO₂, as MGAT provides for
5 treating under the ASATT agreements, which is innately reasonable as it
6 keeps all gas flowing and minimizes the construction of facilities. If the
7 Commission were to accept Complainant's position in this case and allow
8 producer's to contract for lesser CO₂ treating services than MGAT requires
9 to manage gas flow on the AEP, then MGAT would be forced to terminate
10 agreements or curtail production related to agreements it has with many or
11 all AEP shippers, none of whom are parties to this case. There would be
12 nothing reasonable about allowing one or a few shippers to unilaterally
13 dictate for all other shippers on a common carrier pipeline the costs of
14 transportation and treating, and the ability to meet transportation
15 requirements. Authorizing such behavior by one shipper will likely lead to
16 chaos and a perpetual cycle where each shipper unilaterally seeks
17 modifications to their treating arrangements and in turn force other
18 producers to change their agreements. This cycle could ultimately lead to a
19 pipeline CO₂ content exceeding 2% at the AEP delivery points and the shut-
20 in of all gas transported on the AEP. Such a consequence is not in the
21 public interest nor what the Commission envisioned when it gave MGAT the
22 responsibility to manage the treating requirements on the AEP.

23

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

25 **A.** Yes, it does.

STATE OF MICHIGAN
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* * * * *

In the matter of the complaint of QUICKSILVER	)	
RESOURCES, INC. AND TERRA ENERGY, LTD.	)	
against MICHCON GATHERING COMPANY	)	Case No. U-14821
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 7th day of July, 2006, a copy of MICHCON GATHERING COMPANY'S AND MICHIGAN CONSOLIDATED GAS COMPANY'S REBUTTAL TESTIMONY OF TODD F. ARTHUR R. LYLE, II, in the above captioned matter was served upon the persons on the attached service list via e-mail.

Jennifer Evans	Digitally signed by Jennifer Evans DN: cn=Jennifer Evans, c=US, o=DECo/MichCon, ou=Regulatory Affairs, email=evansj2@dteenergy.com Date: 2006.07.07 07:26:55 -04'00'
JENNIFER EVANS	

Subscribed and sworn to before me
on this 7th day of July, 2006.

Kimberly A. Krasnodemski	Digitally signed by Kimberly A. Krasnodemski DN: cn=Kimberly A. Krasnodemski, c=US, o=Detroit Edison and MichCon, ou=Regulatory Affairs, email=krasnodemskik@dteenergy.com Date: 2006.07.07 08:45:28 -04'00'
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Notary Public

MPSC Case No: U-14821

SERVICE LIST

Administrative Law Judge

Hon. Mark D. Eyster
Administrative Law Judge
Michigan Public Service Commission
6545 Mercantile Way, Suite 14
Lansing, MI 48909-7721
(517) 241-0499
mdeyste@michigan.gov

MPSC

Emmanuel Odunlami
Assistant Attorney General
Public Service Division
6545 Mercantile Way, Ste. 15
Lansing, MI 48911
(517) 241-6680
odunlamie@michigan.gov

MichCon Gathering Company and Michigan Consolidated Gas Company

Richard P. Middleton
2000 Second Avenue, 688 WCB
Detroit, Michigan 48226
(313) 235-3647
(313) 235-8500 (fax)
middletonr@dteenergy.com
mpscfilings@dteenergy.com

Richard J. Aaron
Honigman Miller Schwartz and Cohn LLP
222 North Washington Square
Suite 400
Lansing, MI 48933
(517) 377-0701
(517) 364-9501 (fax)
RAaron@honigman.com

QUICKSILVER RESOURCES, INC. and TERRA ENERGY, LTD.

James A. Christopherson
Dingeman, Dancer & Christopherson, P.L.C.
100 Park Street
Traverse City, MI 49684
(231) 929-0500
(231) 929-0504 (fax)
christopherson@ddc-law.com