

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Eastern Shore Natural Gas Company) Docket No. RP07-

PREPARED DIRECT TESTIMONY OF
ELAINE B. BITTNER

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Elaine B. Bittner, and I am Vice President, Eastern Shore
3 Natural Gas Company (“Eastern Shore”). My business address is 417 Bank
4 Lane. Dover, Delaware 19904.

5 **Q. Please describe briefly your educational and professional background.**

6 A. My educational background consists of chemical engineering and
7 environmental engineering education at Pennsylvania State University and
8 the University of Maryland and business education at Wilmington College.
9 I hold a Bachelor of Science Engineering degree in Chemical Engineering
10 with added concentration in Environmental Engineering from the
11 University of Maryland. I also hold a Masters in Business Administration
12 from Wilmington College. I joined Chesapeake Utilities Corporation in
13 1996 as an Environmental Engineer and was promoted to Manager of
14 Environmental Affairs in 1999 and Director of Environmental Affairs in

1 2000 where I had overall responsibility for management of environmental
2 studies, investigations, assessments, remediation and reporting of
3 environmental projects having regulatory oversight from the Federal and
4 State environmental agencies. In 2001, I was promoted to Director of
5 Regulatory Affairs and Customer Services at Eastern Shore and was
6 promoted to Director of Eastern Shore in 2003. In 2005, I was promoted to
7 my current position as Vice President of Eastern Shore.

8 **Q. What are your present responsibilities?**

9 A. My responsibilities include oversight of all business operations and
10 functions of Eastern Shore, including rates, regulatory, contracts,
11 transportation and scheduling, business development, planning, customer
12 services, certificates, engineering and environmental matters.

13 **Q. Have you previously submitted testimony before the Federal Energy**
14 **Regulatory Commission (“the Commission”)?**

15 A. No.

16 **Q. What is the purpose of your testimony?**

17 A. I will discuss briefly the history of Eastern Shore, including an overview of
18 Eastern Shore’s pipeline system, services, its recent system expansion
19 history and its future expansion plans. I will also discuss some of the
20 business and regulatory risks faced by Eastern Shore.

1 **Q. What is the relationship between your testimony and the testimony of**
2 **Eastern Shore witnesses Michael P. McMasters and Paul R. Moul in**
3 **this proceeding?**

4 A. My testimony provides an explanation of the business and regulatory risks
5 faced by Eastern Shore. Eastern Shore witness Michael P. McMasters
6 discusses the cost of debt financing, the proposed capital structure, and the
7 financial risks faced by the Company. Eastern Shore witness Paul R. Moul
8 has submitted testimony regarding the appropriate return on equity ("ROE")
9 for Eastern Shore. Mr. Moul's testimony also provides the regulatory
10 guidelines and financial considerations pertinent to rate of return estimates,
11 and considers my testimony and the testimony submitted by witness
12 McMasters in determining the appropriate ROE for Eastern Shore.

13 **Q. Please describe briefly Eastern Shore's pipeline system.**

14 A. Eastern Shore has operated interstate natural gas transmission facilities on
15 the Delmarva Peninsula since 1959. Currently, all of the natural gas
16 transported by Eastern Shore is received from Transcontinental Gas Pipe
17 Line Corporation ("Transco") and Columbia Gas Transmission Corporation
18 ("Columbia") at points of interconnection with those pipelines in
19 Southeastern Pennsylvania and Northern Delaware. Eastern Shore is a
20 secondary interstate pipeline transporting natural gas with a north-to-south
21 directional flow into Delaware and the Eastern Shore of Maryland. At the

1 end of the test period in this case, Eastern Shore's system will be comprised
2 of 366 miles of mainline pipeline facilities (including looping) and
3 compression facilities located at Daleville, Pennsylvania; Bridgeville,
4 Delaware; and Delaware City, Delaware. Eastern Shore does not have any
5 storage facilities on its system.

6 **Q. Please describe briefly Eastern Shore's pipeline services.**

7 A. Eastern Shore provides firm and interruptible transportation services to
8 several local distribution companies ("LDCs"), as well as industrial and
9 power generation customers with operations on the Delmarva Peninsula.
10 Eastern Shore provides firm and interruptible transportation services on its
11 system under its FT, T-1, and IT Rate Schedules. Eastern Shore also
12 provides firm storage service to several of its LDC customers via Eastern
13 Shore's contracts with Transco in accordance with the restructuring of
14 Eastern Shore's services approved by the Commission in Docket Nos.
15 CP96-97, et al.

16 **Q. Please describe the scope of your testimony as it pertains to "business"**
17 **risks.**

18 A. My testimony provides an overview of some of the business risks faced by
19 pipelines that could potentially (i) reduce a pipeline's revenues, (ii) make its
20 revenues more uncertain, or (iii) increase its cost of doing business. The
21 business risks that I will address in my testimony include those associated

1 with supply, competition, and changes in the regulatory environment,
2 including environmental and safety regulations.

3 **Q. Will you be discussing any other business factors that are relevant to**
4 **business risk?**

5 A. Yes. I will also be discussing the magnitude of Eastern Shore's past, present
6 and future infrastructure investment.

7 **Q. Please describe Eastern Shore's supply risk.**

8 A. Eastern Shore currently faces two types of supply risk: (1) supply risk
9 related to *access and availability of* sufficient quantities of supply and (2)
10 supply risk related to *transportation*. I will first discuss access and
11 availability of supply. Eastern Shore does not currently have direct access to
12 supply because Transco and Columbia are the only supply sources for
13 Eastern Shore's customers. If adequate supplies are not available from those
14 interstate pipelines for transportation on Eastern Shore's pipeline system,
15 this will negatively impact Eastern Shore with respect to throughput, ability
16 to maintain existing transportation contracts, and ability to attract new
17 customers. Eastern Shore also faces supply risk related to transportation of
18 supply. As described earlier in my testimony, Eastern Shore's pipeline
19 system currently is limited to a north-to-south directional flow, with
20 Transco and Columbia as the two pipelines delivering supply to Eastern
21 Shore's system. If supplies are available in sufficient quantities but there is

1 an interruption or inability for supplies to be transported through the
2 upstream pipelines into Eastern Shore's system, Eastern Shore and its
3 customers will be severely affected.

4 **Q. Please describe Eastern Shore's competition risk.**

5 A. As described earlier in my testimony, Eastern Shore is a secondary
6 interstate pipeline interconnected with two major interstate pipelines at
7 points in southeastern Pennsylvania and northern Delaware. A third major
8 interstate pipeline, Texas Eastern Transmission Corp., is also located less
9 than ten miles from the northern portion of Eastern Shore's pipeline system.
10 Approximately 59% of Eastern Shore's firm transportation contract
11 quantities are delivered in the northern half of its pipeline system.
12 Customers in this region currently hold firm transportation capacity on
13 Transco and/or Columbia pipeline systems as well as Eastern Shore's
14 secondary pipeline system. As new expansion projects are explored by these
15 major interstate pipelines, the risk of bypass of Eastern Shore increases for
16 customers wishing to avoid capacity charges on two pipelines. Additional
17 projects have also been proposed by others to serve the northern half of
18 Eastern Shore's system.

19 **Q. Please generally describe Eastern Shore's regulatory risk as compared**
20 **to other pipelines.**

21 A. As a small pipeline operator, Eastern Shore generally has a higher than

1 average level of business risk resulting from changes in regulations relative
2 to larger pipelines. Eastern Shore must satisfy the same regulations as larger
3 pipelines and must meet those requirements in the same time frame.

4 **Q. Can you provide an example of a regulatory risk impacting Eastern**
5 **Shore?**

6 A. Yes. Pipeline Integrity Management is an example of a regulation that is
7 expected to have a significant cost impact on Eastern Shore. As Congress
8 promulgated new safety standards in the Pipeline Safety Improvement Act
9 of 2002, the new law has led to new regulations that require all interstate
10 pipelines, including Eastern Shore, to develop and implement an integrity
11 management program. Major requirements such as pipeline integrity
12 management have an inherently greater cost risk for a smaller pipeline due
13 to lower economies of scale. Pipeline integrity regulations have also
14 increased pipelines' competition for a limited pool of qualified, outside
15 service providers. This creates challenges for small pipeline operators such
16 as Eastern Shore in securing contracts and competitive pricing with outside
17 service providers. Eastern Shore is making substantial new infrastructure
18 investments to meet growing market demands. Adequate resources will
19 need to be invested to ensure that the growing environmental and safety
20 regulations such as Pipeline Integrity Management are fully satisfied.

21 **Q. Please describe Eastern Shore's historical growth in new infrastructure**
22 **investment.**

1 A. Over the years, Eastern Shore has expanded its pipeline system to meet the
2 growing needs of its customers on the Peninsula. Over the past ten years
3 alone, Eastern Shore has more than doubled its natural gas transmission
4 capacity on the Peninsula by looping its two main north-south pipelines,
5 adding compression facilities, and extending its mainline to areas which
6 previously had no access to natural gas. During that period, Eastern Shore
7 has significantly invested in new pipeline infrastructure, increasing its peak
8 firm service capacity from approximately 59,000 dekatherms (“dts”) per
9 day to approximately 158,500 dts per day.

10 **Q. Please describe Eastern Shore’s infrastructure plans for 2006-2008.**

11 A. In Eastern Shore’s most recent certificate proceeding, at Docket No. CP06-
12 53, the Commission authorized construction of additional facilities to be
13 constructed in 2006, 2007 and 2008 to meet projected additional customer
14 firm service requirements through the winter of 2008. The three-year north-
15 south system expansion will provide additional firm transportation capacity
16 of 47,350 dekatherms per day when completed.

17 **Q. Please describe Eastern Shore’s future infrastructure investment plans.**

18 A To meet the needs for additional pipeline transportation capacity beyond
19 2008, Eastern Shore believes that it must both continue to expand its
20 existing system on the Peninsula and also provide access to new
21 supplemental supply sources by constructing new pipeline infrastructure

1 that would extend from Dominion Resources' liquefied natural gas
2 ("LNG") facilities located at Cove Point, Maryland, cross under the
3 Chesapeake Bay and interconnect with Eastern Shore's existing pipeline
4 system ("Project").

5 **Q. What are the benefits of this infrastructure investment?**

6 A This Project would provide the necessary infrastructure that would provide
7 Eastern Shore's existing and potential customers access to a new source of
8 supply and would reduce their total dependence on upstream pipelines as
9 the sole current sources of supply and capacity for transportation to Eastern
10 Shore's system. The Project would also provide relief from the capacity
11 limitations that Eastern Shore has experienced at its interconnection at
12 Hockessin, which required the construction of a compressor station at
13 Delaware City in order to maintain required pressures at the southern end of
14 Eastern Shore's system. In sum, by adding new pipeline infrastructure that
15 would connect with Eastern Shore's existing main pipelines, Eastern Shore
16 would: (1) greatly enhance supply diversification, operational reliability and
17 flexibility on its system; (2) greatly strengthen and expand its ability to
18 meets its customers' demands on both the northern and southern halves of
19 its system; and (3) provide the opportunity for low cost future expansion on
20 its system.

21 **Q. Are there any environmental benefits with this new infrastructure**
22 **investment?**

1 A. Yes. The Project could also contribute to both a reduction in the rate of
2 electricity demand and an increase in natural gas transmission capacity
3 available to provide fuel for electric generation, particularly distributed
4 generation facilities on the Delmarva Peninsula. Such expansion could
5 provide a cost-effective and environmentally beneficial contribution to
6 resolving electric transmission congestion problems on the Delmarva
7 Peninsula in both the near and long-term.

8 **Q. Are there other factors related to Eastern Shore's infrastructure**
9 **investment plans that Eastern Shore would like the Commission to**
10 **consider relative to Eastern Shore's business risk?**

11 A. Yes. Eastern Shore's infrastructure investment plan is an example of its
12 proven track record of undertaking the risks of expansion to meet both the
13 supply-diversification and transportation needs of its existing and potential
14 customers and to foster increased availability of natural gas on the
15 Delmarva Peninsula. The Commission should consider rewarding Eastern
16 Shore for its consistent track record of taking on expansion risks to increase
17 and improve service to its customers. Taking into account Eastern Shore's
18 much smaller size relative to both the pipelines held by the Corporate
19 Pipeline proxy group companies discussed by Eastern Shore witness Moul
20 and all interstate pipeline and storage companies, excluding those with net
21 plant of less than \$10 million, Eastern Shore has invested a proportionately
22 much larger amount in new plant than those companies over the past two

1 years.

2 **Q. Please explain how Eastern Shore's investment in expansion of its**
3 **system compares with those other pipelines.**

4 A. Based on data submitted to the Commission in Form Nos. 2 and 2A, the
5 ratio of Eastern Shore's capital investment to its net plant increased from
6 10.1% in 2004, to 27.7% in 2005. By comparison, the average ratio of
7 pipeline capital investment to net plant among the Corporate Pipeline proxy
8 group declined over those years from 9.8% in 2004, to 5.8% in 2005.
9 Moreover, only two members of that group, the El Paso Companies and
10 Equitrans, accounted for most of the capital investment by the entire group
11 over those years. Furthermore, Equitrans, by far the smallest member of
12 that group in terms of net plant, was more than three times larger than
13 Eastern Shore in terms of net plant at the end of 2005. Looking beyond the
14 Corporate Pipeline proxy group, the average ratio of capital investment to
15 net plant among all interstate pipeline and storage companies, excluding
16 those with net plant of less than \$10 million, declined from 10.0% in 2004
17 to 5.7% in 2005. In short, Eastern Shore, relative to its size, has taken on
18 far more risk of investment in new pipeline infrastructure than both
19 comparison groups over the two years preceding 2006.

20 **Q. Please describe Eastern Shore's investment plans for 2006-2008.**

21 A. During 2006, Eastern Shore is making significant investments in new

1 pipeline infrastructure, representing an increase of approximately 35% to
2 40% in its net plant over that at the end of 2005. These expenditures
3 constitute the first phase of a three-year infrastructure investment program.
4 Eastern Shore will continue to make significant investments in 2007 and
5 2008. During the three-year period from 2006 through 2008, the average
6 ratio of Eastern Shore's investment in new pipeline infrastructure to net
7 plant is estimated to be approximately 25% to 30% per year.

8 **Q. Please describe Eastern Shore's investment plans beyond 2008.**

9 A. We currently estimate that the 2009-2010 capital expenditures could range
10 from \$95 to \$100 million, including the Bay Crossing Project discussed
11 earlier in my testimony, which would double the amount of Eastern Shore's
12 2008 net plant.

13 **Q. Are there any other important factors that the Commission should**
14 **consider in evaluating Eastern Shore's business risks and an**
15 **appropriate return on equity?**

16 A. In order for Eastern Shore to take the investment risks that I discuss in my
17 testimony, it should be allowed the opportunity to earn a return that will
18 continue to attract investors willing to underwrite such risks. The
19 Commission, in Order No. 679, has recently recognized the need to promote
20 electric transmission investment through pricing reform, including
21 incentive-based returns on equity. The Commission has also increasingly

1 recognized the need to promote natural gas infrastructure investment. In
2 the case of a small pipeline like Eastern Shore that has demonstrated its
3 commitment to infrastructure investment, the Company encourages the
4 Commission to consider applying an incentive-based return on equity.

5 **Q. Does that conclude your testimony?**

6 A. Yes, it does.

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AFFIDAVIT OF ELAINE B. BITTNER

Elaine B. Bittner, being first duly sworn according to law, on oath deposes and says: that she is the witness whose testimony appears on the preceding pages entitled

“PREPARED DIRECT TESTIMONY OF ELAINE B. BITTNER” in this proceeding; that, if asked the questions which appear in the text of the aforesaid testimony, affiant would give the answers that are therein set forth; and that affiant adopts the aforesaid testimony as her sworn testimony in these proceedings.

Elaine B. Bittner

Subscribed and sworn to before me this _____ day of October, 2006.

Notary Public