

Docket No. RP07-_____
Black Marlin Pipeline Company
Notice of Rate Change

STATEMENT P
TIMOTHY D. BRENNAN

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Black Marlin Pipeline Company)

Docket No. RP07-____-000

PREPARED DIRECT TESTIMONY
OF
TIMOTHY D. BRENNAN

1 Q. Please state your name and business address.

2 A. Timothy D. Brennan, 2800 Post Oak Boulevard, Houston, Texas 77056.

3 QUALIFICATIONS

4 Q. For whom do you work and in what capacity?

5 A. Among other duties, I serve as Manager, Commercial Development for Black
6 Marlin Pipeline Company.

7 Q. Please describe your work experience and educational background.

8 A. I graduated in May 1984 with a B.S. in accounting and business administration
9 from Emporia State University, Emporia, Kansas. My experiences over the past
10 twenty years have been primarily with natural gas including: accounting,
11 scheduling, gas trading, and the commercial activities centered on producer
12 services related to gathering, processing and transportation, generally in the Gulf
13 of Mexico. I have also been involved on a limited basis with oil gathering
14 services in the Gulf of Mexico.

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SUMMARY

Q. Would you please describe your responsibilities in this case?

A. Yes. I have overall responsibility for Black Marlin's filing in this proceeding. In summary, I will list the statements that I am sponsoring. I will explain why Black Marlin requires the rate increase proposed in this proceeding and what is likely to happen if Black Marlin is not granted significant rate relief. I will discuss, in general terms, the decline in throughput on Black Marlin's system; I will also provide an overview of certain accounting issues related to this filing. Lastly, I will introduce the other witnesses who will be sponsoring testimony in this proceeding.

EXHIBITS SPONSORED

Q. What exhibits are you sponsoring?

A. I am sponsoring the following exhibits:

Exhibit No. BMP-2	Statement M
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Exhibit No. BMP-3	System Map
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BLACK MARLIN'S FINANCIAL CONDITION

Q. Please describe why Black Marlin initiated this rate case.

A. Black Marlin filed this rate case because of its distressed financial condition. The cause of Black Marlin's distressed financial condition is its continuing decline in throughput exemplified by a 74 percent decline in throughput from 2004 levels to 2005, and which is continuing. Black Marlin's financial situation is dire. For the 12 months ending June 30, 2006 (the "Base Period"), Black Marlin incurred an

1 operating loss of almost \$2 million (or approximately \$1.2 million excluding
2 depreciation). See Exhibit No. BMP-2. Black Marlin is in real need of rate relief
3 or else it will be compelled to seek abandonment authorization from the
4 Commission to cease operations. For this reason, Black Marlin has filed this rate
5 case and urgently requests that its proposed rates be made effective December 1,
6 2006 with a nominal suspension period. This is the first rate filing made by Black
7 Marlin since that filed in June of 1998 in FERC Docket. No. RP98-274. Black
8 Marlin's proposed rates are based upon an annual cost of service of \$2,966,836
9 utilizing actual costs for the Base Period, adjusted for known and measurable
10 changes for the 9 months ending March 31, 2007 (the "Test Period"). The cost of
11 service in this rate filing is essentially the same cost of service level filed almost 9
12 years ago in Docket No. RP98-274. Black Marlin's cost of service is discussed in
13 detail in the testimony of Black Marlin Witness Neustaedter. The resultant
14 revenue increase of approximately \$2.8 million that Black Marlin is seeking is
15 driven almost solely by the significant decline in throughput experienced on its
16 system.

17 Q. Is Black Marlin proposing any changes to its rate design?

18 A. No. Black Marlin's proposed rates do not reflect any change to its existing rate
19 design, but merely reflect an increase in its rates in order to remedy Black
20 Marlin's losses in income.

21 **IMPLEMENTATION DATE**

22 Q. Is Black Marlin seeking special relief from the Commission regarding the
23 implementation of its rate increase?

1 A. Because of Black Marlin's financial situation, as discussed previously, Black
2 Marlin requests that the Commission allow its proposed rate increase to become
3 effective, subject to refund, December 1, 2006, following 30 days notice and a
4 nominal suspension period. However, in the event the Commission does not grant
5 Black Marlin's request, alternatively, Black Marlin requests that the Commission
6 permit (1) a portion of Black Marlin's rate increase to become effective, subject to
7 refund, on December 1, 2006, following 30 days notice and a nominal suspension
8 period, and (2) then the full rate increase to become effective, subject to refund,
9 on May 1, 2007, following a maximum 5-month suspension period. The
10 implementation of this partial rate increase on December 1 will allow Black
11 Marlin an opportunity to recover only its "out-of-pocket" expenses, which consist
12 of operation and maintenance expenses, administrative and general costs and non-
13 income related taxes. This will allow Black Marlin some relief from its
14 continuing operating losses and provide its customers with some relief from the
15 overall rate increase being proposed. In addition, Black Marlin requests that it be
16 allowed to defer the booking of depreciation expense and negative salvage until
17 May 1, 2007. The development of such partial rate proposal for the period
18 December 1, 2006 through April 30, 2007 is supported in the testimony of Black
19 Marlin Witness Neustaedter.

20 **DESCRIPTION OF BLACK MARLIN'S SYSTEM**

21 Q. Please describe Black Marlin's system.

22 A. Black Marlin's system was originally constructed and placed in service in 1967.

23 It is principally located in the Gulf of Mexico, offshore Texas. Although it has

1 been subject to the Commission's jurisdiction as an interstate pipeline, Black
2 Marlin is essentially a small offshore gathering system. Black Marlin's system
3 consists of 67 miles of 16-inch diameter pipeline and 6.9 miles of 8-inch diameter
4 pipeline and extends from the shallow waters of the federal offshore production
5 area to an onshore separation and dehydration facility located at Texas City,
6 Texas. Black Marlin transports both natural gas and gas condensate to the
7 separation and dehydration facility and then delivers the natural gas to any one of
8 three pipeline interconnects located in close proximity to the separation facility.
9 Please see Exhibit No. BMP-3 for a map of Black Marlin's system.

10 **BLACK MARLIN'S THROUGHPUT**

11 Q. Please describe Black Marlin's customer base.

12 A. Under Black Marlin's Commission-approved Gas Tariff, Black Marlin offers firm
13 transportation service under Rate Schedules T-1 and FTS and interruptible
14 transportation service under Rate Schedule ITS. All of Black Marlin's existing
15 shipper customers subscribe to only interruptible service under Rate Schedule
16 ITS. Thus, Black Marlin is not guaranteed any minimum level of revenue that it
17 would otherwise collect via reservation charges were it providing firm
18 transportation service. Two of its shipper customers subscribe for over 70 percent
19 of the quantities transported by Black Marlin.

20 Q. What is Black Marlin's current level of throughput?

21 A. Black Marlin's annual throughput has declined from an average of 24,407,286
22 MMBtu over the years 1999 through 2004, to only 5,280,587 MMBtu in 2005,
23 further dropping to only 3,357,808 MMBtu during its Base Period.

1 Q. Are there expectations that this trend will reverse itself?

2 A. No. Black Marlin's throughput is tied to the remaining deliverability of the wells
3 connected to its system. And as Black Marlin Witness Dixon explains in his
4 testimony, there is no new production scheduled to come online in the near future.

5 Q. Will discounting Black Marlin's rates increase throughput on its system?

6 A. No. As Black Marlin Witness Dixon more fully addresses in his testimony, and
7 as I have stated above, Black Marlin's decline in throughput is a function of the
8 declining reserves and deliverability of the mature production connected to its
9 system.

10 Q. What throughput level has Black Marlin used to design its rates?

11 A. During the Base Period, Black Marlin transported an average of approximately
12 9,200 MMBtu per day. Due to termination of production activity in certain
13 producing areas as well as the identification of certain non-recurring
14 transportation activity, Black Marlin has made certain Test Period adjustments to
15 its Base Period throughput, reducing the billing determinants on which the
16 proposed rates are based to approximately 7,652 MMBtu per day. Black Marlin
17 Witness Dixon will describe in detail the adjustments made to Base Period
18 throughput to arrive at these Test Period billing determinants in his testimony.

19 **OVERVIEW OF ACCOUNTING ISSUES**

20 Q. Has Black Marlin discovered any accounting issues when preparing its filing for
21 this rate case?

22 A. Yes.

23 Q. Please explain.

1 A. As more fully discussed and supported in Black Marlin Witness Neustaedter's
2 testimony and exhibits, certain historical accounting errors were discovered in the
3 preparation of this filing. The accounting issues addressed by Black Marlin
4 Witness Neustaedter include a correcting entry to the books for depreciation
5 expense, the exclusion from Gas Plant in Service of certain costs related to the
6 acquisition of Black Marlin by its previous owners, and the correction of a
7 transposition accounting entry related to the retirement of certain facilities as part
8 of a pipeline replacement project installed by a previous owner. These accounting
9 adjustments are reflected as Test Period adjustments to the Base Period, which
10 Black Marlin Witness Neustaedter will discuss in more detail. These accounting
11 adjustments essentially offset one another. That is, when all these accounting
12 adjustments have been made, Black Marlin's proposed rates are roughly the same
13 as they would have been had these accounting issues not been discovered. Please
14 note that none of these accounting issues have affected the existing rates paid by
15 Black Marlin's shippers, as they all arose after Black Marlin's existing rates were
16 approved in 1998.

17 **INTRODUCTION OF BLACK MARLIN'S WITNESSES**

18 Q. Is there anything else about which you would like to testify at this point?

19 A. Yes. I would like to introduce all of Black Marlin's other witnesses in order to
20 complete my overview of Black Marlin's rate case filing in this proceeding.
21 These witnesses are:

22 - Kevin M. Dixon who will testify as to Black Marlin's historical and
23 projected throughput;

- Charles E. Olson who will testify as to Black Marlin's capital structure and rate of return; and
- Robert W. Neustaedter who will testify as to the accounting matters discussed above as well as Black Marlin's cost of service and rate design.

CONCLUSION

Q. Does this conclude your prepared direct testimony?

A. Yes, it does. Thank you.

VERIFICATION

THE STATE OF TEXAS

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SS

COUNTY OF HARRIS

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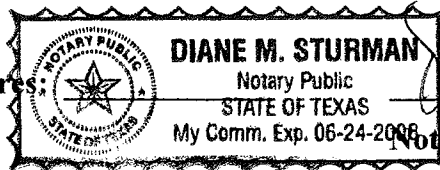
TIM D. BRENNAN, being first duly sworn, deposes and saith that he is the same TIM D. BRENNAN whose Prepared Direct Testimony accompanies this verification; that such testimony was prepared by him; that he is familiar with the contents thereof; that the facts set forth therein are true and correct to the best of his knowledge, information and belief; and that he does accept the same as his sworn testimony in this proceeding.

Ch. Brenne

TIM D. BRENNAN

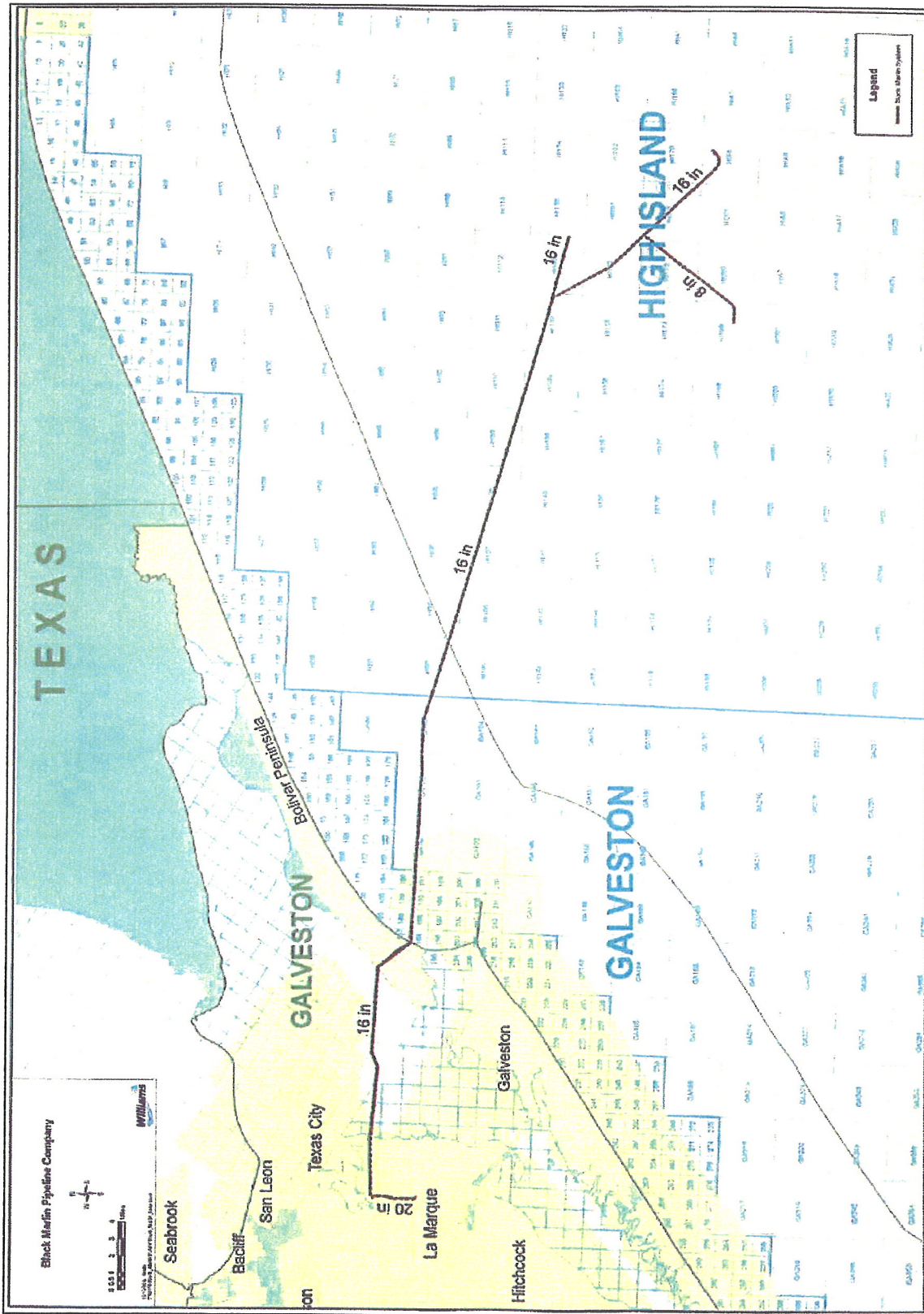
SUBSCRIBED and SWORN to before me this 25th day of October, 2006.

My commission expires:



IN Gene McGowan

Notary Public



Docket No. RP07-_____
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STATEMENT P
KEVIN M. DIXON

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Black Marlin Pipeline Company

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Docket No. RP07-____-000

PREPARED DIRECT TESTIMONY
OF
KEVIN M. DIXON

1 Q. Please state your name and business address.

2 A. My name is Kevin M. Dixon and my business address is 2800 Post Oak
3 Boulevard, Houston, Texas 77056.

4 QUALIFICATIONS

5 Q. By whom are you employed and in what capacity?

6 A. In addition to other responsibilities, I am a Commercial Marketing Representative
7 for Black Marlin Pipeline Company ("Black Marlin").

8 Q. Please describe briefly your educational background and experience.

9 A. I hold a Bachelor of Arts degree from the University of Virginia in Charlottesville
10 in Government, American Politics. In June 2005, I joined the Williams
11 Midstream ("Williams") organization for the Gulf Coast region in my current
12 position. Prior to joining Williams, I held various marketing positions with other
13 energy companies. In my current position, I am responsible for developing and
14 maintaining positive business relationships with current and potential customers
15 and for contract negotiation and formation.

16

EXHIBITS SPONSORED

Q. What is the purpose of your testimony and what exhibits are you sponsoring?

A. I will testify as to the historic and projected revenues and throughput of Black Marlin and am sponsoring the following exhibits:

Exhibit No. BMP-5 - Statement G, which sets forth the billing determinants and revenues for the twelve months ended June 30, 2006 (the "Base Period"), as adjusted for known and measurable changes through March 31, 2007 (the "Test Period");

Exhibit No. BMP-6 - Schedule G-1, which sets forth, by customer, the quantities transported and revenue charged for the Base Period;

Exhibit No. BMP-7 - Schedule G-2, which sets forth a reconciliation of the billing determinants and revenues for the Base Period to the billing determinants and revenues for the Test Period; and also shows the same information reflected in Schedule G-1, but for the Test Period;

Exhibit No. BMP-8 - Schedule G-3, which details the adjustments to the Base Period transportation quantity to arrive at the billing determinants that underlie the rates being proposed in this proceeding; and,

Exhibit No. BMP-9 - Schedule G-5, which sets forth Other Revenues collected by Black Marlin during the Base Period.

HISTORICAL THROUGHPUT

Q. Please discuss Black Marlin's historical throughput.

A. Based on information from Black Marlin's FERC Form 2-A reports, Black Marlin's annual and average day throughput for the period 1999 through 2005 was:

	<u>Year</u>	<u>Annual Throughput (MMBtu)</u>	<u>Avg. Day Throughput (MMBtu/Day)</u>
	1999	20,024,261	54,861
	2000	26,596,776	72,868
	2001	40,354,318	110,560
	2002	25,434,126	69,682
	2003	14,051,733	38,498
	2004	19,982,497	54,747
	2005	5,280,587	14,467

As shown on Exhibit No. BMP-5, for the 12-month Base Period, annual throughput has declined further to 3,357,808 MMBtu, or 9,199 MMBtu per day.

Q. Why did you start with throughput figures for 1999 even though Black Marlin commenced operation far earlier?

A. The years listed represent the period of time for which Black Marlin's current rates have been in effect. The current rates were established by a Commission-approved settlement in Docket No. RP98-274 and became effective January 1, 1999.

Q. Why is this historical throughput instructive and relevant to this proceeding?

A. This historical information is important to show, in a relative sense, how Black Marlin's current rates were implemented during a period of more robust transportation activity, but that annual throughput has declined substantially over the last several years and continues to decline.

Q. What was the cause of the major decline in throughput from 2004 to 2005?

1 A. The major cause of the decline in throughput from 2004 to 2005 is predominately
2 attributed to reservoir and production declines from several offshore areas
3 connected to Black Marlin's system. For example, production flowing into Black
4 Marlin's system from sources in and around High Island Block 134 decreased
5 from 8,472,600 MMBtu in 2004 to only 317,228 MMBtu in 2005, representing a
6 reduction in excess of 96 percent. Production flowing into Black Marlin from
7 sources in and around High Island Block 138 decreased from 1,339,105 MMBtu
8 in 2004 to 671,594 MMBtu in 2005, representing a 50 percent year-over-year
9 decline. Production flowing into Black Marlin from High Island Block 200
10 declined from 1,372,268 MMBtu in 2004 to only 150,855 MMBtu in 2005, an 89
11 percent annual decrease. Production in and around High Island Block A-5 that
12 flows into Black Marlin dropped from 3,012,930 MMBtu in 2004 to 1,897,216
13 MMBtu in 2005, or some 37 percent. Additionally, Black Marlin experienced a
14 decline in receipts from High Island Block A-6 from 4,487,422 MMBtu in 2004
15 to 749,829 MMBtu in 2005 – representing a reduction of over 83 percent. All-in-
16 all, total Black Marlin system receipts declined almost 74% from 2004 to 2005,
17 all of which is attributable to reservoir depletion and the abandonment of
18 operations at the end of the productive life of reserves as determined by the
19 producer.

20 Q. Are High Island Blocks 134, 136, 200, A-6 and A-5 dually connected to Black
21 Marlin and other export pipelines?

22 A. No, they are not. Black Marlin is the only export route for these blocks.

1 Q. Do you expect production, associated with these blocks, to increase above
2 existing levels?

3 A. No, I do not. I fully expect for the production decline to continue. In fact, the
4 year-over-year decline that Black Marlin is experiencing in 2006 supports this
5 conclusion. As mentioned previously, overall, for the twelve months ended June
6 30, 2006, volumes produced and received into Black Marlin's system were only
7 3,357,808 MMBtu, a further decline of almost 2 million MMBtu from 2005.

8 Q. Do you expect new production to be attached to Black Marlin's system?

9 A. To my knowledge, there is no new production scheduled to come online in the
10 near future.

11 **BASE PERIOD QUANTITIES**

12 Q. Please discuss Exhibit No. BMP-5.

13 A. Exhibit No. BMP-5, or Statement G of the filing, shows billing determinants and
14 transportation revenues received during the Base Period, calculated at Black
15 Marlin's existing rates (including discounted rates) and revenues that would be
16 generated from Black Marlin's proposed rates and Test Period transportation
17 quantities.

18 Q. Please discuss Exhibit No. BMP-6, or Schedule G-1 of the filing.

19 A. Schedule G-1 shows the actual transportation quantities that were delivered during
20 the Base Period by shipper, by contract, and by month. During the Base Period,
21 Black Marlin experienced throughput of 3,357,808 MMBtu or an average flow of
22 9,199 MMBtu per day. These quantities were transported under 8 contracts. In

1 addition, Schedule G-1 shows the corresponding revenues generated under the
2 existing contract rates which at the time were at a discount below Black Marlin's
3 maximum tariff rate for some shippers. By the time the proposed rates go into effect,
4 Black Marlin will have terminated all rate discounts.

5 **TEST PERIOD ADJUSTMENTS**

6 Q. Please discuss Exhibit No. BMP-7.

7 A. Exhibit No. BMP-7, or Schedule G-2 of the filing, shows the reconciliation of
8 Base Period quantities and revenues to Test Period billing determinants and
9 revenues. In addition, this schedule shows the transportation quantities during the
10 Base Period as adjusted for the quantities projected to be delivered during the Test
11 Period by month and by shipper. As a result of the adjustments it is making to
12 Base Period transportation quantities, Black Marlin expects to experience an
13 actual average flow of 7,652 MMBtu per day. This schedule also shows the
14 revenues that will be generated when the proposed rates are applied to the Test
15 Period transportation quantities.

16 Q. What adjustments to the Base Period transportation quantity is Black Marlin
17 proposing that will provide the Test Period billing determinants used to determine
18 the proposed rates?

19 A. As shown in Exhibit No. BMP-8, or Schedule G-3 of the filing, Black Marlin is
20 making four adjustments to exclude certain non-recurring transportation from the
21 Base Period transportation quantities to arrive at the Test Period billing
22 determinants. As will be explained, two shippers halted production, one shipper

1 flowed gas for only approximately six weeks during the Base Period and another
2 shipper ceased transportation from a production block that became inactive.

3 Q. Please describe each adjustment.

4 A. The first adjustment involves SPN Resources LLC, a producer-shipper under
5 contract number BM 690 who halted production activity during August 2006 (two
6 months beyond the end of the Base Period). This shipper accounted for 304,423
7 MMBtu (or an average of 834 MMBtu per day) of the transportation quantity
8 during the Base Period. The second adjustment involves Denbury Offshore, LLC,
9 a producer-shipper under contract number BM680 who halted production in April
10 2006. This shipper accounted for 100,331 MMBtu (or an average of 275 MMBtu
11 per day) of the transportation quantity during the Base Period. The third
12 adjustment relates to Hydro Gulf of Mexico, LLC a producer-shipper receiving
13 service under contract number BM661. Black Marlin provided transportation
14 service for this producer-shipper for approximately six weeks over three Base
15 Period months, September through November 2005. The reason this shipper
16 flowed gas during these weeks was to assist Black Marlin's "smart pig" operation
17 which occurred over this same time frame. The shipper's gas was necessary to
18 provide sufficient pressure to "push" the pig through the pipe. The Base Period
19 quantity associated with this contract was 151,225 MMBtu (or an average of 414
20 MMBtu per day). The last adjustment involves Kinder Morgan, a marketer-
21 shipper receiving service under contract number BM259 that received part of its
22 transportation service from High Island Block 133 during the first three months of

1 the Base Period only. Although it continues to receive transportation service from
2 other blocks connected to Black Marlin's system, production from High Island
3 133 has ceased. As a result, Black Marlin has reduced Kinder Morgan's billing
4 determinants by 8,778 MMBtu.

5 Q. Please discuss any non-recurring transportation activity since the end of the Base
6 Period.

7 A. Hydro Gulf of Mexico, LLC, the producer-shipper that assisted Black Marlin in
8 its smart pig operation, requested transportation service from Black Marlin soon
9 after the conclusion of the Base Period. Black Marlin commenced transportation
10 service for this shipper of approximately 10,500 MMBtu per day. The reason for
11 this shipper's request was that its primary service provider, Transcontinental Gas
12 Pipe Line Corporation, was undergoing a system maintenance outage which
13 necessitated the curtailment of this shipper's transportation service. Black Marlin
14 is not including this quantity in its design determinants because, based upon
15 communications with this shipper, these quantities will be flowing on Black
16 Marlin for a limited time period – only through approximately October 2006.
17 Therefore, because these quantities are non-recurring, they should not be taken
18 into account for designing the proposed rates.

19 Q. Are there any ongoing negotiations or do you anticipate rendering new service for
20 any shippers or additional service for any existing shippers within the Test
21 Period?

22 A. No.

1 Q. Please describe Exhibit No. BMP-9.

2 A. Exhibit No. BMP-9, or Schedule G-5 of the filing, shows Other Revenues, in the
3 amount of \$126,220 received by Black Marlin during the Base Period. Other
4 Revenues consist of revenues from the transportation of liquid condensate
5 received into Black Marlin's system and the separation and handling of such
6 condensate at its onshore separation facility. Also included in Other Revenues are
7 operating fees received by Black Marlin from Cameron Highway Oil Pipeline
8 Company for operating certain of its facilities.

9 Q. Is Black Marlin proposing any adjustments to Base Period Other Revenues?

10 A. No it is not. Although approximately \$236 of liquids transportation, separation
11 and handling charges were collected during the Base Period associated with
12 activity under Contract BM661, which is not expected to recur as discussed
13 above, because of its de minimis impact, Black Marlin is not making an
14 adjustment to Base Period Other Revenues. As Witness Neustaedter describes in
15 his testimony, Other Revenues are treated as a credit to Black Marlin's cost of
16 service.

17 CONCLUSION

18 Q. Does that conclude your testimony?

19 A. Yes it does.

VERIFICATION

THE STATE OF TEXAS


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COUNTY OF HARRIS

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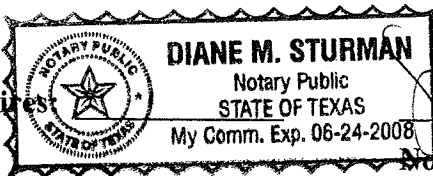
KEVIN M. DIXON, being first duly sworn, deposes and saith that he is the same KEVIN M. DIXON whose Prepared Direct Testimony accompanies this verification; that such testimony was prepared by him; that he is familiar with the contents thereof; that the facts set forth therein are true and correct to the best of his knowledge, information and belief; and that he does accept the same as his sworn testimony in this proceeding.



KEVIN M. DIXON

SUBSCRIBED and SWORN to before me this 25th day of October, 2006.

My commission expires



Notary Public