

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

2 **A.** My name is Darrell R. Swensen. I am employed by Kern River Gas Transmission
3 Company (“Kern River”) as Controller. My business address is 2755 East
4 Cottonwood Parkway, Suite 300, Salt Lake City, Utah 84121.

5 **Q.** Please summarize your educational and employment history.

6 **A.** I received a B.S. degree in Political Science from the University of Utah in 1971
7 and an M.B.A. from the University of Utah in 1972. For over 30 years, I have
8 been involved in the natural gas pipeline business, serving in a number of finance
9 and accounting management positions since 1983. For most of that time, I was
10 employed by The Williams Companies, Inc.’s subsidiary, Northwest Pipeline
11 Corporation. I was the Manager of Finance & Accounting for Northwest Pipeline
12 from 1993 until April 2001, at which time I was promoted to Acting Controller. I
13 also served as Manager of Finance & Accounting for Kern River from May 1996
14 until April 2001, when I was promoted to Acting Controller. Since the sale of

1 Kern River to MidAmerican Energy Holdings Company (“MEHC”) in March
2 2002, I have been the Controller at Kern River.

3 **Q.** Please describe your current responsibilities as Kern River’s Controller.

4 **A.** In my current position, I direct Kern River’s finance and accounting functions,
5 including financial reporting, general and property accounting, accounts payable
6 and disbursements, income and other taxes, and financial planning and budgeting.

7 **Q.** What is the purpose of your prepared direct testimony?

8 **A.** I will explain and support Kern River’s cost of capital, including various, related
9 statements and schedules; will describe the intercompany charges to Kern River
10 from MEHC; and will present Kern River’s Balance Sheet and Income Statement.

11 In that regard, I will testify concerning the following statements and
12 schedules of Kern River’s rate change filing:

13	Statement F-2	Capitalization and Cost of Capital
14	Statement F-3	Debt Capital
15	Schedule H-1 (2)(j)	MidAmerican Energy (“MEHC”) Intercompany
16		Transactions Charged to Kern River Accounts
17	Statement L	Comparative Balance Sheet
18	Statement M	Statement of Income

19 Please provide an overview of Kern River’s capital structure.

20 **A.** The overall capital structure of the company at the end of the base period and as
21 adjusted to October 31, 2004, is presented on Statement F-2. The October 31,
22 2004 capital structure shown on Statement F-2 has been derived from rate model
23 projections, as explained by Mr. Bruce Warner in his direct testimony under the
24 explanation of the “Ozark method.” Kern River believes these amounts will be

1 similar to actual book balances at the end of the test period. The capital structure
2 employed for the Big Horn Lateral Project is 60 percent equity, 40 percent debt.
3 For all other projects, Kern River has used an initial capital structure of
4 approximately 70 percent debt, 30 percent equity. Mr. Warner explains in more
5 detail in his testimony why the capital structures vary under the "Ozark method"
6 during the levelization periods for the Rolled-In System and the 2003 Expansion.

7 **Q.** Please describe Kern River's current debt instruments.

8 **A.** Kern River's current debt instruments are shown on Statement F-3. On August
9 13, 2001, Kern River issued \$510 million in debt securities through its subsidiary
10 Kern River Funding ("Funding"). The offering was in the form of \$510 million
11 of 15-year amortizing senior notes bearing a fixed rate of interest of 6.676%
12 ("6.676% Senior Notes"). Proceeds from the issuance of the 6.676% Senior
13 Notes were used to repay the remaining outstanding balance of long-term debt,
14 fund the debt portion of capital expenditures including the 2002 Expansion, and
15 pay a portion of financing costs associated with the offering, which included
16 breakage costs associated with the previously held interest rate swaps. Kern
17 River entered into a Trust Indenture agreement dated as of August 13, 2001,
18 whereby Kern River guaranteed all \$510 million of Funding's debt.

19 On May 1, 2003, Funding issued \$836 million in debt securities. The
20 offering was in the form of \$836 million of 15-year amortizing senior notes
21 bearing a fixed rate of interest of 4.893% ("4.893% Senior Notes"). Proceeds
22 from the issuance of the 4.893% Senior Notes were loaned to Kern River, which
23 used the proceeds to repay the outstanding balance and accrued interest under its
24 \$875 million construction financing facility and to pay financing costs associated

1 with the offering. The 4.893% Senior Notes were issued under a supplemental
2 indenture to the Trust Indenture agreement dated as of August 13, 2001.

3 Both financings used a similar, monthly amortization structure as defined
4 in the supplemental indenture and the trust indenture, dated as of August 13,
5 2001. Both series achieve final maturity after fifteen years from the issue date.
6 Both series contain a final balloon payment that was calculated in a manner that
7 benefits shippers, since the balloon payments will result in a capital structure that
8 will include a significant debt component even after the expiration of current
9 shipper contracts, thereby lowering rates. In addition, by reducing the amount of
10 debt principal to be amortized and, therefore, providing a higher debt service
11 coverage ratio than otherwise would have been possible at the time the debt was
12 issued, the balloon arrangement helped Kern River maintain its A- credit rating.
13 This facilitated the very reasonable interest rates achieved for the financings.
14 Kern River, however, has taken on additional risk resulting from the higher
15 leverage and refinancing requirements associated with this debt structure.

16 **Q.** Does Kern River anticipate issuing any new debt during the test period?

17 **A.** No.

18 **Q.** How has Kern River calculated its cost of debt?

19 **A.** Statement F-3 summarizes the cost of debt capital computations for the two major
20 outstanding debt series. The detailed calculations are included in the workpapers
21 submitted with Kern River's filing. Kern River's rate calculations combine the
22 two debt issues to compute a weighted average overall cost of debt, which Kern
23 River uses in calculating rates for both the Rolled-In System and the 2003

1 Expansion services. Mr. Warner explains the basis for this approach in his
2 prepared direct testimony.

3 **Q.** How has Kern River's debt cost changed from the level reflected in Kern River's
4 Docket No. RP99-274 Rate Settlement?

5 **A.** The cost of debt has changed for both outstanding debt series, compared to that
6 used in Kern River's prior rates. This is because the cost has been updated for
7 actual payments of financing costs and revised estimates of future fees (where
8 necessary) and to make a correction related to the \$510 million debt issue. The
9 correction is due to Kern River erroneously excluding from the initial Extended
10 Term ("ET") transportation rate calculations some of the unamortized fees that it
11 paid in connection with the debt issue that was refinanced. The cost of debt has
12 also been updated to include a component to recognize that certain of the
13 payments to cancel interest rate swaps and to finance debt issuance fees were
14 financed by stockholders' equity. This component of the cost of debt includes
15 carrying costs, including an income tax allowance, on the equity investment in the
16 swap and debt issuance costs. Recovery of this component of the debt cost is
17 reasonable due to the ET program's rate reduction benefit and further deferral
18 (five to ten years) of the recovery of Kern River's equity investment in the
19 Original System, as well as the very favorable interest rate achieved in the 2003
20 Expansion financing.

21 **Q.** How does Kern River reflect intercompany charges billed from its parent,
22 MEHC?

23 **A.** Kern River is billed charges from MEHC and its subsidiaries for services
24 provided or costs incurred on behalf of Kern River. These transactions are shown

1 on Schedule H-1 (2)(j). MEHC uses the following methods for charging its
2 affiliates:

3 Direct Charges - The assignment of costs directly to the entity that receives the
4 benefit by the employee who records the charges as they are incurred. This is
5 MEHC's preferred method of cost assignment.

6 Allocated Costs - When costs incurred by MEHC benefit multiple organizations
7 within the holding company, MEHC uses allocations to distribute the costs
8 systematically among the benefiting organizations according to relationships that
9 drive the costs. Allocations are utilized where it is impossible or impractical to
10 assign costs directly.

11 Service Charges - Service charges are used to distribute costs that are impractical
12 to charge directly and for which allocations do not appropriately assign cost
13 responsibility. These costs require specific studies based on cost/benefit
14 relationships for the particular category of cost involved. Service charges are
15 utilized where it is not practical to incorporate additional logic into the other
16 allocation processes.

17 **Q.** What types of costs are billed by MEHC to Kern River?

18 **A.** All charges to Kern River in the base and test periods have been made or are
19 expected (in the case of adjustments) to be made as direct charges or allocated
20 costs. Kern River has received charges from MEHC applicable to all the
21 functional areas presented in Schedule H-1 (2)(j). Most of these charges fall
22 within six primary categories, with various kinds of other charges in substantially
23 lesser amounts. One of the largest categories is benefits, which is not fully
24 covered in H-1 (2)(j), but is described in more detail in Schedule H-1 (2)(f) for

1 Account 926. All costs of benefits for Kern River employees are passed through
2 to Kern River from MEHC. Benefits include post-retirement benefits other than
3 pensions (“PBOP”) and pensions. Kern River has included \$696,586 of PBOP
4 and \$1,220,000 of pension costs in its rate filing as shown in Schedule H-1 (2)(f)
5 for Account 926 and as further explained in the testimony of Mr. Martin Hansen
6 under test period adjustments to O&M and A&G costs.

7 **Q.** Does Kern River incur any other intercompany charges?

8 **A.** Yes. As shown on Schedule H-1 (2)(j), the remaining primary types of
9 intercompany charges and corresponding test period amounts are:

10 ➤ Corporate Allocations included in Account 923, approximately \$300,358.

11 These allocations are for indirect charges.

12 ➤ \$3,303,122 in direct payroll and related benefits charges by MEHC employees
13 doing work for Kern River, also included in Account 923. These charges are
14 passed through by MEHC and are based upon the hours that the MEHC
15 employees charge to Kern River.

16 ➤ \$111,843 of professional services by outside consultants, passed through to
17 Kern River by MEHC and included in Account 923. Some of these services
18 are performed specifically for Kern River, whereas others are performed for
19 all the MEHC platforms. Kern River is billed its charge or portion of the
20 charge by MEHC.

21 ➤ \$76,906 of property and employee insurance charges included in Account
22 924. The amounts are calculated by an outside party, based on overall
23 property value or employee head count and billed to MEHC. MEHC in turn
24 bills Kern River for the charge or its portion of the charge.

1 ➤ \$90,190 of General Transportation and other minor charges included in
2 Account 923. Nearly all of the transportation charges were for use of MEHC
3 aircraft during MEHC business pertaining to Kern River. The computation
4 and billing of these charges is done by MEHC.

5 **Q.** Does MEHC's assessment of intercompany charges comport with applicable
6 regulatory policy?

7 **A.** It is my understanding that MEHC's approach to intercompany charges is
8 consistent with regulatory policies of the Iowa Utilities Board and the Illinois
9 Commerce Commission, which have primary regulatory jurisdiction over
10 MidAmerican Energy Company, MEHC's electric utility subsidiary. MEHC's
11 corporate allocations included in Account 923 to Kern River are less than those
12 Kern River would be allocated under application of the FERC's Modified
13 Massachusetts formula for allocation of parent company overheads.

14 **Q.** How does Kern River allocate employee costs between incremental and rolled-in
15 services?

16 **A.** To the maximum extent feasible, Kern River's operations and maintenance
17 personnel directly charge their time and costs to the 2003 Expansion, the High
18 Desert Lateral, the Big Horn Lateral, and the Rolled-In System. When such direct
19 billing is not feasible, employees charge time and expenses to "default" allocation
20 codes. For example, suppose an employee in the field attends a safety meeting.
21 The employee's time at the meeting may benefit the original system and each of
22 the incremental projects, but it would not be practical to charge particular portions
23 of that time to each service category. In such a case, the employee charges his/her
24 time to a pre-determined "default" code for distribution of the relevant time. This

1 code distributes the time charged among the original system and the incremental
2 projects according to percentages previously established by the employee and
3 his/her manager.

4 Administrative personnel likewise directly charge time and expenses
5 among the Rolled-In System and incremental projects where feasible, but such
6 direct charging is less likely for such functions than for O&M functions. Again,
7 where direct charging of time and expenses is not feasible, a pre-determined,
8 “default” code established for each employee is used to distribute the charges to
9 or among the appropriate A&G account(s). All A&G costs other than employee
10 time and expenses that are directly charged are recorded to accounts that are
11 allocated among the original system and the incremental projects using the KN
12 methodology.

13 **Q.** In addition to those already described above, are you sponsoring any other
14 schedules or statements with your testimony?

15 **A.** Yes. Statements L and M to Kern River’s rate filing are a balance sheet and an
16 income statement, along with accompanying notes to financial statements, as of
17 the end of the base period.

18 **Q.** Does this conclude your prepared direct testimony?

19 **A.** Yes.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Kern River Gas Transmission Company) Docket No. RP04-___-000

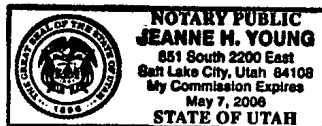
STATE OF UTAH)
 : ss
COUNTY OF SALT LAKE)

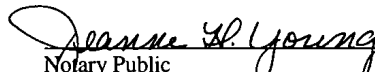
AFFIDAVIT OF DARRELL R. SWENSEN

Darrell R. Swensen, being first duly sworn, on oath states that he is the witness whose testimony appears on the preceding pages entitled "Prepared Direct Testimony of Darrell R. Swensen"; that, if asked the same questions that appear in the text of said direct testimony, he would give the answers that are herein set forth; and that affiant adopts the aforesaid testimony as his sworn, direct testimony in this proceeding.


Darrell R. Swensen

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Utah, this 21st day of April, 2004.




Notary Public