

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Iroquois Gas Transmission System, L.P.) Docket No. RP04-____

**PREPARED DIRECT TESTIMONY OF
KENNETH B JOHNSTON
ON BEHALF OF
IROQUOIS GAS TRANSMISSION SYSTEM, L.P**

Introduction

Q1. Please state your name, position and business address.

A. My name is Kenneth B. Johnston. I am a Senior Vice President with H. Zinder & Associates, a consulting firm that specializes in energy matters. My business address is 7508 Wisconsin Ave., Suite 300; Bethesda, Maryland, 20814.

Q2. What is your business experience?

A. I have over three decades of consulting experience at H. Zinder & Associates in the areas of utility regulation and energy matters. My assignments in the energy industry have encompassed aspects of regulatory practice, procedure and history; industry structure; competition; investment and capital recovery; business risk, and related economic, financial and regulatory considerations. In the last rate case of Iroquois Gas Transmission System, L.P. ("Iroquois") that was litigated in FERC Docket No. RP97-126, I sponsored at hearing the pipeline's evidence on cost allocation, rate design, and various related issues. Appendix 1 to my testimony contains summary details of my education and business experience.

1 **Scope of Testimony**

2 **Q3. What is the scope of your evidence in this rate proceeding?**

3 A. I sponsor the supporting exhibits, and explain and the cost allocation and rate
4 design, that underlies the proposed rates that are filed in this proceeding for
5 Iroquois' Eastchester Extension Project ("Eastchester Project" or "Eastchester").

6 **Q4. Which exhibits and rate filing support materials do you sponsor?**

7 A. I sponsor:

Exhibit ____ (KBJ-1): Prepared Direct Testimony of Kenneth B.
Johnston

Exhibit ____ (IGT-1): Cost Allocation and Rate Design Statements and
Schedules-- I-1, I-1(d), I-2, J, J-1, J-2

8 **Eastchester Extension Project Rates**

9 **Q5. What general rate precepts govern the proposed rates for Eastchester?**

10 A. Consistent with the objectives and constraints contained in (1) the certificate
11 directives issued by the Commission for Eastchester in FERC Docket No. CP00-
12 232, and (2) Commission policy on pipeline extensions, the proposed Eastchester
13 rates are based on: (a) a project-specific, incremental cost of service with respect
14 to facility additions, to ensure that Iroquois' existing (non-expansion) shippers do
15 not subsidize the expansion shippers; and (b) a cost of capital that reflects
16 company-wide costs. Also, the Commission in the certification process indicated
17 that there should be an allocation of Iroquois' overall administrative and general
18 ("A&G") costs to Eastchester. A portion of Iroquois' A&G costs therefore was
19 allocated to the Eastchester service. Finally, Iroquois has designed the

1 Eastchester rates using billing determinants reflecting the full project capacity
2 (230,000 Dth/d), with no adjustment for currently unsubscribed capacity or
3 contracts at less than maximum rate, thereby assuming the full risk to market all
4 of the project capacity at maximum rates.

5 **Rate Filing Statements & Schedules**

6 **Q6. With respect to the rate filing statements and schedules that you sponsor, what**
7 **rate filing support information is displayed in Statement I-1?**

8
9 A. Statement I-1 shows the classification of Eastchester costs to functions (*e.g.*,
10 production, storage or transmission). All of the Eastchester costs are classified to
11 the transmission function.

12 **Q7. What rate filing support information is displayed in Schedule I-1(d)?**

13 A. Page 1 of that schedule shows the overall allocation of Iroquois A&G costs to
14 Eastchester. On page 2 of that schedule, adjusted test period A&G costs are
15 classified as “labor related,” “plant related,” or “other.” Those A&G costs
16 classified as “other” are distributed proportionately to the classified “labor” and
17 “plant” categories. Costs from those latter two A&G categories, as just adjusted,
18 are then allocated to Eastchester in proportion to the applicable labor and plant
19 ratios. In addition, page 1 of Schedule I-1(d) displays the regulatory expenses
20 assigned directly to Eastchester, amortized over a three-year period.

21 **Q8. What rate filing support information is displayed in Statement I-2?**

22 A. In this statement, Eastchester costs are classified, first, as to their fixed or variable
23 nature. Following the Commission’s straight fixed-variable rate design practice,

1 the classified fixed costs are then classified to the demand component of the
2 Eastchester service rates. Since all of the costs are properly classified as fixed, no
3 costs were assigned to the commodity component.

4 **Q9. What rate filing support information is displayed in Statement J?**

5 A. Statement J compares and reconciles the projected Eastchester revenues (which
6 are derived from the proposed rates and the projected billing determinants) with
7 the allocated cost of service.

8 **Q10. What rate filing support information is displayed in Schedule J-1?**

9 A. That schedule shows the bases for and derivation of the billing determinants used
10 in the preceding Statement J reconciliation of allocated costs and projected
11 revenues.

12 **Q11. What rate filing support information is displayed in Schedule J-2?**

13 A. This schedule shows the calculation of proposed Eastchester rates. The firm
14 service rate (RTS-E) is based on allocated costs divided by billing determinants.
15 The interruptible service rate (ITS-E) is the unit commodity rate that is derived
16 from 100% load-factor use of the firm service. The monthly demand design
17 determinant for rate design (2,760,000 Dth) is derived from the full incremental
18 capacity (230,000 Dth/day) that is added by Iroquois for the Eastchester services.

19 **Q12. For those firm service Iroquois shippers who already have existing (non-**
20 **Eastchester) service entitlements, what recourse rate is applicable to those**
21 **shippers for secondary access to Eastchester service delivery points?**
22

23 A. For each unit of secondary access service, those existing Iroquois shippers will
24 pay an additional amount which, when added to the unit charge for their primary

1 Zone 1 or Zone 2 service, brings their total charge up to the level of the posted
2 incremental recourse rate for the Eastchester service. Thus, all shippers who want
3 service on the Eastchester extension face the same total (incremental) recourse
4 rate. This approach is consistent with section 1.2(c) of Iroquois' August 29, 2003
5 rate settlement in Docket No. RP03-589.

6 **Q13. In your opinion, do these foregoing rates constitute rates that comply with the**
7 **Commission's filing and rate-design guidelines for this project?**

8
9 A. Yes.

10 **Q14. In your opinion as a rate expert, are those foregoing Eastchester rates just and**
11 **reasonable?**

12
13 A. Yes.

14 **Q15. Does that conclude your testimony?**

15
16 A. Yes.

Statement of Qualifications of Kenneth B. Johnston

I received a Bachelor of Arts Degree with High Honors in Economics from the University of Virginia. I am a member of Phi Beta Kappa. I completed graduate level courses in the following disciplines at these universities: North Carolina State University (Economics), University of Utah (Business Administration), and The George Washington University (Telecommunications).

In the course of my consulting career of over thirty years at H. Zinder & Associates, I have designed and/or reviewed transportation, storage and sales rate schedules, forms of service agreements, and executed service agreements, for the major natural gas pipelines in the United States and Canada. I have testified on matters such as transportation rate design for pipelines and distributors; industrial organization and the application of such principles to the natural gas industry; minimum bill provisions; take-or-pay cost recovery and gas inventory charge issues; the application of marginal cost pricing principles to utility rate making; credit market conditions; regulatory accounting procedures; and the history of public utilities and utility rate making principles.

I was the tariff and rate advisor to the Alaskan Northwest Natural Gas Transportation and Northern Border Pipeline Companies. My consulting duties with the Alaskan Natural Gas Transportation System began in 1973. I had the responsibility for overseeing the drafting and preparation of the Federal Energy Regulatory Commission ("FERC") Gas Tariff filed by those pipelines in response to FERC directives in Determination of Incentive Rate of Return Tariff and Related Issues for the Alaskan Natural Gas Transportation System, Docket No. RM78-12, and in Docket No. CP78-123, et al. I sponsored those tariffs before the FERC in formal proceedings. As comprehensive cost-of-service tariffs, those documents addressed all major elements of the rate making process, including depreciation, rate base determination, capitalization, rate of return, capital recovery, overall cost-of-service determination, cost allocation, rate form, and rate design. With respect to publications, I had the primary responsibility for the chapters on pipeline cost allocation, rate design, tariffs, and gas utilization in the Third Edition of Gas Rate Fundamentals, published by the American Gas Association. I also contributed to the latest edition of that publication.

In the United States, I have testified on gas matters in proceedings before the FERC as well as its predecessor, the Federal Power Commission and before the state regulatory agencies in Alaska, California, Wisconsin and Michigan. I have testified in state and federal courts in Texas, Oklahoma, New Mexico, Colorado, Utah, Wyoming, Illinois and Delaware. I have sponsored tariff and rate making testimony before the Federal Communications Commission.

In Canada, I have testified in proceedings before (i) the National Energy Board ("NEB") in its Mackenzie Valley pipeline proceeding and in proceedings of TransCanada PipeLines Limited and Westcoast Energy; (ii) the Alberta Energy and Utilities Board ("AEUB") and its predecessor agency in proceedings of NOVA Gas Transmission Ltd; and (iii) both the NEB and AEUB in their respective generic rate of return inquiries.