Exhibit No. DCP-30

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Dominion Cove Point LNG, LP) Docket No. RP06-_____

PREPARED DIRECT TESTIMONY OF
EDWARD H. FEINSTEIN
ON BEHALF OF
DOMINION COVE POINT LNG, LP

Q. Please state your name and business address.

A. My name is Edward H. Feinstein and my business address is 1155 15th Street, N.W., Suite 400, Washington, D.C. 20005.

Q. Please state your occupation.

A. I am a consulting petroleum engineer with the firm of Brown, Williams, Moorhead & Quinn, Inc.

Q. Please briefly describe your education, background and training.

A. I received my Bachelor of Petroleum Engineering degree at the University of Tulsa in May 1963. From July 1963 to February 1998, I worked at the Federal Energy Regulatory Commission ("FERC or Commission") and its predecessor, the Federal Power Commission ("FPC"). From the time of my employment at the FPC until approximately 1970, I was engaged in work involving economic feasibility studies in certificate proceedings under the Natural Gas Act ("NGA"). This work was concerned primarily with market, engineering, and financial analyses for the purpose of determining the economic feasibility of pipeline projects proposed in certificate applications. From 1970 to the present, my efforts have been concentrated on determining the appropriate depreciation rates for oil and gas pipeline facilities, including the determination of potential supplies of oil and natural gas, and with other rate issues such as storage utilization, operations and cost allocation and gathering rates. During my nearly 35 years with the Commission, I earned positions of increasing responsibility, including Chief of the Depreciation Branch. In March 1998, I joined the firm of Brown, Williams, Scarbrough and Quinn, Inc., precursor to Brown, Williams, Moorhead & Quinn, Inc. ("BWMQ"). At BWMQ, my efforts concerning various depreciation and negative salvage issues have included oil and natural gas pipelines and electric generating and transmission companies.

Q. Are you a member of any professional societies?

A. Yes, I am a member of the Society of Depreciation Professionals and the Society of Petroleum Engineers.

Q. Have you testified in proceedings before the FPC and the FERC?

A. Yes, I have presented testimony in many different areas in the field of energy, including depreciation and negative salvage. A list of testimony served in recent proceedings is shown in Exhibit No. DCP-31.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to determine the just and reasonable depreciation rates to be applied to DCP's depreciable LNG system and transmission facilities and DCP's general plant categories. My testimony is also directed to a discussion of DCP's proposal to implement a methodology, using Financial Accounting

Standard (FAS) No. 143, *Asset Retirement Obligations,* to calculate a recovery rate for DCP's LNG facilities.

Q. Would you please summarize the results of your analysis of the depreciation rates and asset retirement obligation ("ARO") expense for DCP?

A. Based on my study of the relevant facts (as discussed in further detail below), the results support a higher depreciation rate over DCP's existing depreciation rate of five (5) percent for its Other Storage Plant function ("Liquefaction Facilities"). However, the company has elected to maintain the existing rate. With respect to its Base Load Liquefied Natural Gas Terminaling and Processing Plant function ("LNG Storage Plant"), I found that its existing rate of five (5) percent is just and reasonable to recoup the company's investment in such facilities when compared with its current and potential future operations, even though a higher depreciation rate is indicated. With respect to its Transmission Plant, I found that its current rate of five (5) percent is just and reasonable.

Associated with depreciation are issues of negative salvage. For the transmission plant, I recommend a negative salvage rate of 0.68 percent of the gross depreciable plant. With respect to the negative salvage issue for other storage and LNG Storage Plant, I recommend that DCP apply an ARO expense of $3,167,009 to its cost of service. The ARO expense will reflect the FAS 143 methodology of adequately recovering the cost of the decommissioning obligation of its LNG facilities. In the event that an ARO is not allowed, then the company should be granted a negative salvage allowance computed on the traditional basis as shown in Schedule Nos. 22 and 23 of Exhibit No. DCP-32.

A comparison of DCP's existing authorized depreciation rates and negative salvage with the rates and amounts indicated by my analysis is shown on Schedule No. 1 of Exhibit No. DCP-32.

Q. Would you please summarize how you determined the indicated depreciation and negative salvage rates and the ARO expense?

A. I analyzed DCP's system operations along with its markets, competition and LNG supply. I determined an average remaining life of DCP's facilities based on their physical lives and an average economic life of 20 years. I also considered how competition and changing gas supply in the natural gas industry affect the economic life of DCP's facilities. I applied the average remaining life to each of DCP's plant accounts to determine the composite depreciation rates for the Transmission, Liquefaction and LNG Storage Plant facilities. The methodology I employed for determining DCP's just and reasonable depreciation rates is consistent with Commission precedent.

With respect to the decommissioning of DCP's LNG facilities, I recognized that there is a legal obligation to remove such facilities. As such, I applied the procedure set out in FAS 143 and the Commission's Order 631 to establish an ARO recovery method for rate setting purposes. The accrual of such cost to decommission is in the form of a dollar expense to the cost of service rather than a percentage rate.

The negative salvage rate for the transmission plant was determined by applying the terminal net salvage estimate provided to me by DCP Witness Taylor. The methodology employed is consistent with that used in previous proceedings where the Commission authorized negative salvage rates. For the decommissioning of the transmission plant facilities, I did not establish an ARO treatment because at this time, there is not a specific legal obligation to do so.

DEPRECIATION

Q. Let us turn first to a definition of depreciation. Would you please define and describe depreciation?

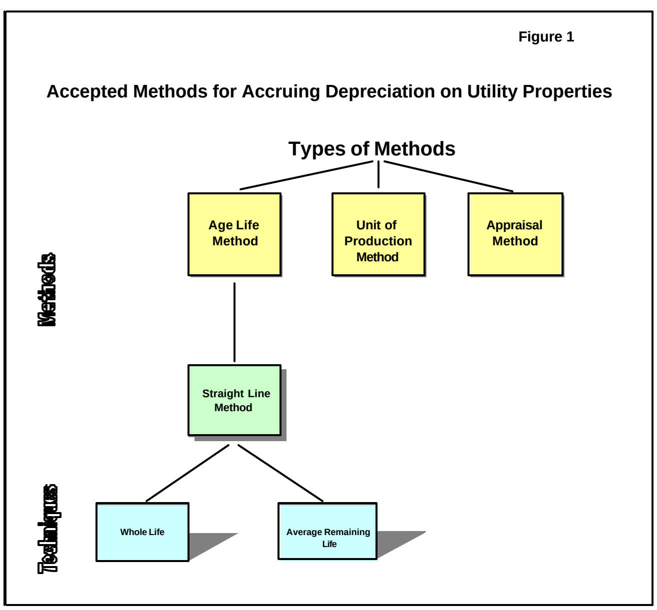
A. Depreciation is the allocation of the original cost of tangible facilities in service over their useful lives. Stated another way, depreciation is the mechanism by which the plant investment is recouped in an orderly fashion over the useful life of the investment. For rate setting purposes, it is treated the same as an operating expense. Depreciation is intended to systematically recover the invested capital over the useful life of the universe of relevant assets.

The concept of depreciation can be viewed in the light that the purchase of capital goods is in essence a purchase of future services. Consequently, depreciation is the expiration or consumption, in whole or in part, of the service life, capacity, or utility of property resulting from the action of one or more of the forces operating to bring about the retirement of such property from service. It therefore follows that the basic objective of depreciation under established regulatory practice is the recovery of the full capital investment in facilities in a reasonable and consistent manner over the time period related to such facilities' use in providing service. This means that customers who are served by a particular investment pay for that investment in timed installments over the life of the investment.

Plant costs are incurred to make the provision of services possible. Units of plant are no more than stored up services, or stored up work units. The use of plant results in the provision of services and reduces the stored up future services. As service is performed, a corresponding part of the cost of plant (cost of stored up services) should be charged to the service. The stored up services are usually referred to as the service life. Accordingly, depreciation signifies the using up of service capacity or utility of plant.

Q. What methodology did you use in your study to determine the appropriate life for DCP's facilities?

A. I used the Average Service Life Methodology and recommend that DCP's depreciation rate in this case be based on this methodology. This methodology is the most widely used of all the methods to determine depreciation rates for major onshore transmission pipeline systems. Although DCP's facilities are very different from an onshore facility, this method is acceptable since our experience with LNG import facilities is limited. A diagram of depreciation methodologies is outlined below in Figure 1.



Depreciation rates depend on estimates of service life of plant investment. Because natural gas pipeline systems are made up of a host of different complex property units, it is impractical to calculate and apply separate depreciation rates for each unit. This calculation would place an undue burden on the accounting system, requiring the maintenance of records for each unit of property. Consequently, the normal approach for developing depreciation rates is to calculate the rates for groups of plant based upon average service lives for those groups, which are determined through studies of the forces affecting the lives of the pipeline's facilities. Under this method, individual facilities booked to each relevant FERC account are treated as a single group by those accounts. Such approach is commonly referred to as the composite depreciation rate method.

<u>DETERMINATION OF DEPRECIATION – THE REMAINING LIFE FACTORS</u>

Q. Would you please discuss the relationship between useful life and depreciation?

A. The measurement of depreciation recognizes that all plant will ultimately reach the end of its useful life. The end of the useful life and retirement from service is impacted by the following factors:

- wear and tear
- action of the elements
- deterioration
- inadequacy of plant
- obsolescence
- requirements of public authorities and
- adequacy of supply or market.

The physical causes, such as wear and tear and deterioration, are the most readily observed reasons for retirements. Normal use of facilities involves fatigue of materials, stress and friction which results in wear and tear. An example of wear and tear is the wearing out of major components of compressor stations. Deterioration, on the other hand, may be caused by exposure to salt water, rusting, chemical processes, or temperature variations. An example of deterioration is the corrosion of metal pipeline segments that require costly repairs or retirement, which is especially true in the marine environment in which Cove Point is located.

Functional causes, such as inadequacy, obsolescence, requirements of public authorities and inadequacy of supplies or markets are probably the more prevalent causes of retirements in the pipeline industry.

Inadequacy of plant refers to the lack of capacity that is required for supply and demand. Thus, a pipeline main may be retired and replaced by one of larger size in order to achieve an adequate delivery level.

Obsolescence may result in retirements due to improvements that render certain facilities uneconomical and inefficient. A common example of obsolescence is the communication equipment used by the pipeline industry. New communication equipment is being developed continually.

Public authorities may from time to time require pipelines to be replaced with thicker walled pipe because of population encroachment toward such facilities, or relocated because of infrastructure improvements, such as highway widening.

For a natural gas processing and transportation system such as Cove Point, all of the above causes of retirement, whether physical or functional, have one thing in common: they are ever-occurring and affect individual facilities. On the other hand, the adequacy of supply or market is unrelated to the physical characteristics of the property or the action of public authorities. The adequacy of supply and markets is probably the single most important factor resulting in premature retirements because this factor may affect a large portion of a pipeline system. Therefore, I will treat this subject in more detail.

In a depreciation study, the adequacy of supply and markets is referred to as the economic life.

THE DEPRECIATION MODEL

Q. Would you please describe the depreciation model that you employed in your study?

A. I employed the straight-line average remaining life method as traditionally adopted by the Commission. In theory, the determination of the annual depreciation expense is derived by division of the investment by the life estimate as depicted in the following formula:

$$\text{Depreciation Expense} = \frac{\text{Investment}}{\text{Life}}$$

For the remaining life approach the annual depreciation expense is derived by division of the undepreciated portion of the investment by the determined average remaining life of such investment as depicted in the following formula :

$$\text{Depreciation Expense} = \frac{\text{Undepreciated Investment}}{\text{Average Remaining Life}}$$

The Depreciation Model shown below includes the specific components necessary to derive the amount of the undepreciated investment includable in the depreciation expense computation:

$$DE = \frac{DB - (S - COR) - DR}{ARL}$$

Where,

DE = the annual depreciation expense
DB = the depreciation base or original cost
S = the gross salvage
COR = the cost of removal
DR = the accumulated depreciation reserve
ARL = the average remaining life

The determination of the depreciation rate simply reflects the division of the annual depreciation expense by the depreciation base -- the original cost of the facility being depreciated, as depicted in the formula below:

$$\text{Depreciation Rate} = \frac{DE}{DB}$$

The determination of depreciation using the above equations serves three purposes:

capital recovery - ratably allocates a known fixed cost,

cost of removal - ratably allocates a future obligation, and

salvage - ratably reflects recognition of future value.

Q. Would you describe the average remaining life approach?

A. The concept of an average remaining life approach or remaining service life for a property group recognizes that the various units in the group have differing lives. The average life of any group of plant items is a matter of estimate until all the items in that group have been finally retired. The issue then is to determine the average life before complete retirement of all units occurs. The average remaining service life method determines the average period of time the facilities will be in service. This is normally done by first determining the historical life of the plant group and then estimating the life expectancy for the items remaining in service. The life experienced plus the expected life comprises the average life for the group. This analysis can be done by determining the separate lives for each of the property units or by constructing a survivor curve for the entire group. In this testimony, I employed the group method and I used a survivor curve for each group of facilities.

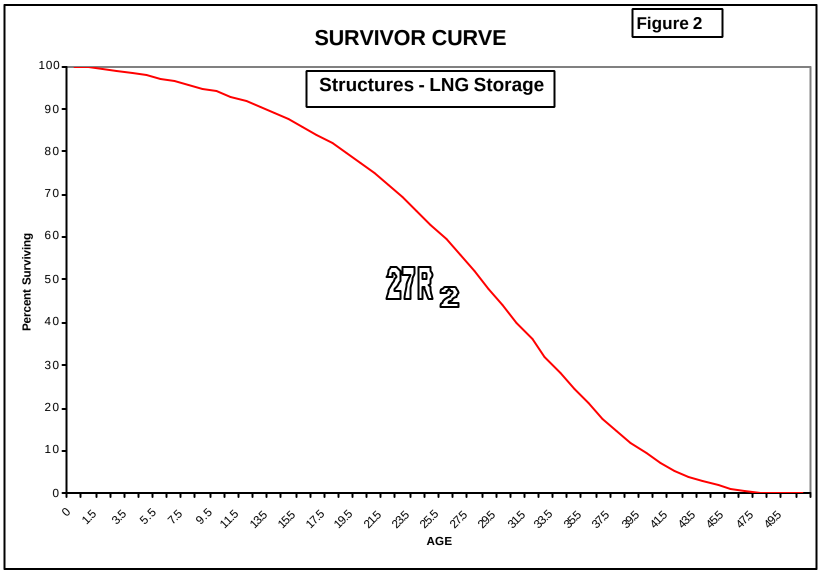
Q. What is a survivor curve?

A. A survivor curve, fitted to a particular type of plant, assists in the prediction of the average remaining service life and retirement pattern of that type of plant. A survivor curve graphically reflects the percent of capital investment existing at each age throughout the entire physical life of an original group of property. From the survivor curve, the average service life or average remaining life can be calculated. The average service life is obtained by calculating the area under the survivor curve from age zero to the maximum age and dividing the area by 100 percent. The average remaining life at any age is obtained by calculating the area under the survivor curve from the observation age to the maximum age, and dividing this area by the percent of plant surviving at the observation age.

The average remaining life is the average length of time that all units of a group are expected to last. The retirement pattern estimates how much of the group will be retired each year as the group ages. The average remaining life, which is of particular importance in the calculation of the depreciation rate, is derived from the useful life of the facility and from each plant's survivor curve.

Analyses of historical data are employed in estimating average service lives due strictly to physical or commonly occurring retirement forces. The analyses consist of compiling the history of the plant groups, reducing the history to mortality trends by the use of actuarial techniques, and forecasting the trend of survivors for each depreciable group on the basis of past trends and future company plans. The combination of the historical trend and the future trend yields a complete survival pattern from which the physical portion of the average service life is derived. The historical experience data upon which indications of past service life are based reflect not only the capital investment of property items retired during each year of age, but also the capital investment of property items that remain in service at the beginning of each year of age out of the total capital investment originally placed in service in any year. These properties that remain in service are said to be exposed to the risk of retirement.

The survivor curves are referred to as Iowa type survivor curves as depicted in Figure 2 below and on Schedule Nos. 1A, 1B and 1C of Exhibit No. DCP-32.



The survivor curves were originally developed at the Iowa State College Engineering Experiment Station and refined through an extensive process of observation and classification of the ages at which industrial property had been retired. Iowa survivor curves are used to account for the normal retirements that occur over the life of a specific type of plant.

The determination and use of a survivor curve to determine the physical life of facilities requires a great deal of experience and knowledge in the interpretation of the results of such a study. The use of judgment must include investigation into whether future normal retirements can be predicted based on the past performance of those facilities. It is important to note that, while the determination of a survivor curve based upon historical plant additions and retirement data is a valuable tool in the evaluation of the average service life, other factors that relate to the useful life must also be considered, such as the operation of the facilities in the future.

DETERMINATION OF THE AVERAGE SERVICE LIFE

Q. Would you please discuss the determination of the average service life of the facilities that make up DCP's LNG storage system?

A. A summary of the average service lives (physical life) along with the Iowa type survivor curve is shown in Schedule No. 2 of Exhibit No. DCP-32 and discussed below.

There are two broad groups of facilities that make up the LNG storage system. They correspond to specific account numbers: (1) Account 363.1, Other Storage Plant (liquefaction facilities), and (2) Account 364, Base Load Liquefied Natural Gas Terminaling and Processing Plant, with Accounts 364.2 Structures, 364.3 Processing Equipment, 364.5 M & R Equipment, 364.6 Compressor Equipment, 364.7 Communication Equipment and 364.8 Other Equipment.

Other Storage Plant

Q. Please discuss the average service life of the other storage plant.

A. **Account 363.1 – Liquefaction Facilities**

The company's investment in this account at the end of March 2006 totals $21,909,701. This account includes the cost in place of the original 1994 FERC authorized liquefaction unit. This unit is typical in the industry with its coolers, pumps, piping, valves and control equipment used in connection with the liquefaction. It is not in active operation, but held in readiness for the FPS peak shaving customers. With the reactivation of the import services, it is more efficient not to use the liquefier. Where it took a whole injection season to fill the storage tanks by liquefying natural gas delivered via pipeline, with water borne LNG, it takes only hours.

Due to the change in ownership and the relatively short period of time in which the liquefier facilities were operating (1995 to 2001), retirement data is insufficient to construct a survivor curve. However, the type of liquefaction facilities (cryogenic pumps, piping, nitrogen tanks and exchangers) are typical for such operations which are largely conducted by local distribution companies. The industry average service life for such equipment as a whole is 24 years.

Base Load LNG Terminaling and Processing Plant

Q. Please discuss the average service life of the base load liquefied natural gas terminal and processing plant.

A. **Account No. 364.2 – Structures and Improvements**

The company's investment in this account is $16,495,420. This account contains the surviving original superstructures and roads, various buildings, the tunnel, offshore platform, piling wraps and other structure-type facilities. Based on my analysis of the above type facilities as well as the industry-wide service life of such facilities, a service life of 27 years was employed. Schedule No. 3 of Exhibit No. DCP-32 shows the development of an average service life of 27 years as the industry-wide experience for Account No. 361 Structures and Improvements. With the exception of the offshore facilities the type of assets in Account No. 361 are essentially the same as those classified to Account No. 364.2.

<u>Account No. 364.3 – Processing Equipment</u>

The company's investment in this account is $217,009,388. This account contains most of the LNG receiving, storage and processing facilities. It contains the air separation units, including the exchanger and compressors; the vaporization system; electric generators and turbine engines; the cryogenic blower; station piping; gas holders; the marine facility, including the escape pods; transfer system; pollution control and various meters. Approximately $8,000,000 of the original plant remains; most of the facilities in the account were installed in 2004.

Analysis of the type of equipment in this account, as well as the experience of other LNG companies which operate similar facilities, results in a 24-year average service life. The development of the industry-wide average for such storage processing facilities is shown in Schedule No. 4 and 4A of Exhibit No. DCP-32.

<u>Account No. 364.5 – Measuring and Regulating Equipment</u>

The company's investment in this account is $1,961,536. It is made up of typical gas volume and pressure measuring equipment such as orifice runs, electronic meters, chromatograph and associated equipment including valves, 2-inch to 30-inch pipe and headers. Most of the equipment in this account was installed in 2003. Small amounts remain from the original operation.

Analysis of the type of equipment in this account -- standard in the pipeline industry, as well as the experience of other companies, both LNG storage and pipeline, results in a 24-year average service life.

Account No. 364.6 – Compressor Equipment

The company's investment in this account is $1,693,442. It is made up of a main compressor unit to increase the pressure of vaporized gas along with associated equipment such as the gas heating boiler and heater and water cooling tank and pumps. The main compressor unit is from the original operations while the gas heating and water cooling equipment were installed in 2003.

Analysis of the type of equipment in this account, as well as the experience of other companies that operate similar facilities, results in a 31-year average service life. Typical average service lives for compressor units vary between 25 and 35 years.

Account No. 364.7 – Communication Equipment

The company's investment in this account is $924,078. This account is made up of various miscellaneous communication equipment such as radios. Typical lives for the equipment in this account are 10 to 15 years. My analysis indicates that a 15-year life is reasonable to develop depreciation for the facilities in this account.

Account No. 364.8 – Other Equipment

The company's investment in this account is $588,317. This account is made up of testing equipment, pressure calibrators, gas monitors and a boat. I assigned a 24-year average service life for the multi-facilities in this account based upon my analysis of the type of facility and the lives of similar facilities throughout the gas industry.

<u>Transmission Plant</u>

Q. Please discuss the determination of the average service life of the facilities that make up DCP's gas transmission plant.

A. DCP's transmission plant is made up of pipelines, compressors and meters in order to transport natural gas from the LNG facility and from the interstate pipeline grid to delivery points along the DCP pipeline. A summary of the average service lives of the transmission plant along with the Iowa type survivor curve is shown in Schedule No. 2 of Exhibit No. DCP-32 and discussed below.

<u>Account No. 365.2 – Rights of Way</u>

The company's investment in Rights of Way is $604,398. The rights of way are located in Virginia and Maryland. The vast majority of the rights of way are from the original 1978 operations. The service life of rights of way is directly related to the lives of the pipeline system. Typical average service lives of pipeline mains are 50 to 65 years. For DCP's transmission mains I used an average service life of 60 years.

Assets in this account would have average service lives somewhat longer than the mains, due to the fact that not all pipeline retirements will result in the retirement of the related rights of way. Some pipeline retirements will be replaced along the same rights of way.

<u>Account No. 366.1 – Structures – Compressor Stations</u>

Structures in this account include compressor stations buildings. The company's investment in this account is $7,577,171. The facilities are comprised of foundations, roadways, superstructures, fences and fire protection equipment.

The facilities are generally at the 2004-2005 vintage. Typical lives of the compressor station structures are 25 to 35 years. I employed 30 years as the average service life.

<u>Account No. 366.2 – Structures – Measuring & Regulating Station</u>

The investment in this account is $263,863. Structures in this account include those related to gas control, such as meters and related measuring facilities, including the regulation building, fences and roadways. Typical lives for these structures are also 25 to 35 years. I employed 30 years as the average service life.

<u>Account No. 367 – Mains</u>

The current investment in mains is $25,224,499. The facilities are comprised of pipeline mains, valves, cathodic protection, line pack and drips. Typical lives for pipeline mains are 40 to 65 years. I employed an average service life of 60 years to DCP's transmission lines.

<u>Account No. 368 – Compressor Station Equipment</u>

The compressor station equipment is 2005 vintage. The company's investment in such equipment is $33,779,083. The facilities in this account are comprised of the main reciprocating compressor units, station piping, valves, odorizing unit, gas heating boiler, emission control devices and an assortment of other related equipment. Typical lives for compressor station equipment range between 25 and 35 years. I employed an average service life of 30 years for the facilities in this account.

<u>Account No. 369 – Measuring & Regulating Station Equipment</u>

The company's investment in meter station equipment is $11,862,838. The facilities are comprised of orifice runs, regulators, pressure gauges, valves, flow computers, pipe, telemetering equipment and various computer systems. The industry-wide average service of meters and related equipment is 20 to 30 years. I employed an average service life of 26 years for the facilities in this account.

Account No. 370 – Communication Equipment

The company's investment in communication equipment is $746,164. Typical communication equipment for pipeline systems is telephone and radio microwave equipment. Most of the investment in this account is made up of microwave transmission communication equipment located in Virginia, all of which is pre-2002 vintage. The industry-wide average service life of such equipment is in the range of 8 to 15 years. I employed an average service life of 10 years for the facilities in this account.

Q. When there is no historical retirement and salvage data, is the use of industry wide values of average service life and negative salvage study reliable?

A. In this case, where the facilities are relatively new and some of the older facilities have been refurbished (i.e., no retirement experience), I believe that the average service life and negative salvage amounts allowed and used by others are highly reliable for two reasons. First, the onshore equipment used by others, such as liquefaction, storage and vaporization units, are all similar to equipment used by DCP (see Schedule No. 5 of Exhibit No. DCP- 32). Second, my experience based on studies and analyses of removal costs indicate that the values exhibited by DCP's peers are very similar. For example, see Schedule No. 5A of Exhibit No.

DCP-32. This schedule shows a comparison between the industry-wide cost of removal and those estimated by DCP Witness Taylor.

Q. Please describe your analysis of DCP's system as it relates to the useful life of its facilities.

A. The purpose of the depreciation study is to determine the useful life of DCP's Liquefaction, LNG Storage Plant and Transmission facilities. To achieve this goal, I analyzed and determined the forces bringing about retirement of DCP's facilities. Those forces, as mentioned earlier, are an adequate supply of natural gas, a market to serve and competition for both supply and markets.

ECONOMIC LIFE OF DCP'S FACILITIES

Q. Please describe DCP's system.

A. A description of DCP's system begins with its history. The former Consolidated Natural Gas Company ("Consolidated") partnered with Columbia Gas System ("Columbia") to build Cove Point to receive, store and process supplies of LNG. With the exception of small amounts of interruptible transportation through the pipeline, the Cove Point facilities were not used from 1980 to 1994. From September 1995 until mid-August 2003 the facility was used to liquefy, store and distribute domestic natural gas in the Mid-Atlantic region.

Q. Please describe DCP's operations.

A. DCP provides two types of services at the terminal: peak-shaving and LNG terminaling and discharging service. Under Rate Schedules FPS-1, FPS-2 and FPS-3, DCP provides peaking service to various local distribution companies for the purpose of storing gas during the summer for use at peak times during the winter. Under Rate Schedule LTD-1, DCP provides firm LNG terminaling and discharging service with a total Maximum Daily Delivery Quantity of 750,000 Dth.

DCP's existing facilities include five storage tanks, ten vaporizers, three first-stage send out pumps, ten second-stage send out pumps, three four-stage boil-off compressors, three gas turbine generators, an offshore receiving pier with two unloading docks, a tunnel connecting the pier to the onshore facilities and the transmission pipeline which extends 88 miles from the LNG facilities to interconnections with Columbia Gas Transmission, Transcontinental Gas Pipe Line and Dominion Transmission.

Q. Please describe your analysis of the economic life of DCP's system as it relates to the useful life of its facilities.

A. The purpose of the depreciation study is to determine the useful life of DCP's LNG storage and transmission facilities. To achieve this goal, I analyzed and determined the forces bringing about retirement of DCP's facilities. One of those forces, as mentioned earlier, is an adequate supply of natural gas, or in DCP's case, an adequate market for natural gas and supply of LNG.

Q. What economic life did you use in your depreciation determination?

A. I used an economic life of 20 years.

Q. How did you arrive at 20 years as the economic life for DCP's existing facilities?

A. In the development of a 20-year economic life, I considered various factors such as supply, demand and competition for DCP's peaking and importing service.

I recognize that international LNG sources, as well as the broad demand for imported LNG may be viable for 20 years, plus. However, with respect to the competition for markets, DCP is faced with uncertainty whether its current peaking service customers as well as its import service customers will remain on line for more than 20 years.

The following uncertainties exist:

- The willingness of current FPS peaking service customers, who are generally local to DCP's facilities to continue to require service for more than 20 years.
- The willingness of current LTD-1 customers, BP, Shell and Statoil, to extend their current 20-year contracts (17 years remaining). Two of these import shippers are involved or will be involved in potentially similar import terminals and are likely to elect to utilize their own import facilities over those of a third party.
- Uncertainty based upon the history of DCP's operations, which includes a lengthy period of inactivity.
- Competition for supply and markets from the numerous other planned competing LNG projects.
- The uncertainty of the sustained availability of non-hemispheric LNG supplies.
- Uncertainty of finding long-term LNG supplies recently resulted in Anadarko Petroleum recently shelving its Bear Head LNG Terminal in Nova Scotia.

Beginning with the current long-term contractual obligations of BP, Shell and Statoil with remaining terms of 17 years and considering the above factors, I believe that the use of a 20-year remaining economic life is prudent at this time. The 20-year economic life represents three (3) years over and above the actual remaining contractual obligation. The 17-year obligations of BP, Shell and Statoil, represent the low end of an economic life. I believe that a 20-year remaining economic life, under the present circumstances, is somewhat conservative, yet realistic at this time.

DETERMINATION OF DEPRECIATION RATES

The Straight Line Remaining Life Approach

Q. Please explain the differences between average service life, economic life and average remaining life.

A. First of all, the term "average" as used herein refers to the large number of property units that make up pipeline and storage systems.

The average service life is the useful life of groups of units from the in-service date to the date the unit is taken out of service or when it no longer performs a useful service. It is used in this application as the physical life.

The "economic life" or, in this application, the "remaining economic life" of a group of units is the period of time from the current time to the point where economic, rather than physical, forces bring about the end of its useful life.

The average remaining life is the useful remaining life when both economic and physical forces are considered together. The average remaining life is the direct marker to the calculation of the annual depreciation accrual. That is, in the remaining life technique of the straight line method, depreciation expense equals the quotient of the undepreciated plant and the average remaining life.

Q. How did you apply the 20-year economic life limit to the depreciation model?

A. The 20-year remaining economic life limit plays a key role in the determination of the average remaining life. It represents the average year of the final recoupment of DCP's investment in its facilities as an overall group. The best way to describe the relationship of the economic life to the average remaining life is to overlay it with the normal retirement survivor curve. The reason for overlaying the 20-year economic life to the survivor curve is that normal or interim retirements will take place before the 20-year economic end life.

Q. Please explain this procedure.

A. When the economic life is applied to the survivor pattern, future normal retirements beyond the average economic life are not relevant. The average remaining life is determined by integrating or calculating the area under the truncated survivor curve. For example, LNG Terminal Processing Equipment (Account No. 364.3), where the average service life (installation to retirement) is 24-years, the average remaining life was determined to be 17.3 years. Similar determinations were made for the other plant accounts in the Other Storage, Base Load LNG Terminaling and Processing, and Transmission functions (see Schedule No. 6 of Exhibit No. DCP-32). This calculation is shown in conceptual form in Schedule No. 7, of Exhibit No. DCP-32.

Q. Please explain the mechanics of your calculations of the depreciation rates for Other Storage, Base Load LNG Terminaling and Processing and Transmission functions.

A. After determining the individual average remaining lives for each account -- shown in the sixth column of Schedule No. 6 of Exhibit No. DCP-32 -- I then divided the difference between the depreciable plant and the accumulated reserve for depreciation by the average remaining life, thus arriving at the indicated depreciation expense. The indicated depreciation expense for each account was totaled. This is the indicated depreciation expense for each function. The results of my calculation of the indicated composite depreciation rate for each function are shown on Schedule No. 6 of Exhibit No. DCP-32. The indicated rates are as follows: Other Storage Plant - 5.99%, Base Load LNG Terminaling and Processing - 5.06%, and Transmission - 4.94%.

The procedure for determining the depreciation rate is illustrated in the diagram shown in Schedule No. 8 of Exhibit No. DCP-32.

Q. How did you determine the depreciation rates for the General Plant function?

A. Depreciation rates were determined for each account in the general plant. The general plant facilities shown on Schedule No. 9 of Exhibit No. DCP-32 exhibit very high turn over rates -- meaning there are frequent replacements of these units. Such facilities are vehicles, computers and power operated equipment. Because of the high turnover rate, the whole life method of depreciation (installation to retirement), rather than the remaining life is used. The determination of the average service life was made based upon discussions with company personnel, industry-wide experience and my experience. A list of the recommended depreciation rates for the general plant function is shown on Schedule No. 9 of Exhibit No. DCP-32.

TRANSMISSION PLANT NEGATIVE SALVAGE

Q. Would you now please turn to the issue of negative salvage for transmission plant?

A. The gas transmission facilities are treated under the Commission's traditional negative salvage approach as there is no strict legal obligation to remove such facilities. Certain gas transmission facilities must be removed as they pose a hazard, while others may be conditioned and abandoned in place.

Q. Please explain the term "negative salvage."

A. Negative salvage is the net amount of funds necessary to retire a specific facility or group of facilities. It is the difference between the gross salvage, if any, and the cost of removal. Gross salvage may take the form of value of the facilities stored in a warehouse for reuse or the proceeds from a sale of such facilities.

Q. What is a negative salvage rate?

A. A negative salvage rate is the annual rate, as a percent of the gross plant (which is the traditional Commission approach), or an expense to the cost of service (Asset Retirement Obligation approach) subject to retirement that will accrue enough funds in an orderly and fair manner to cover the cost of retirement. I used the same straight line remaining life method that I employed to determine the depreciation rates to accrue negative salvage funds.

The negative salvage rate reflects the future obligation of removal when the plant is retired. Like depreciation expense, the cost of retiring facilities is a legitimate cost of doing business. It is both reasonable and necessary for the ratepayers who are receiving service from these facilities to fund the additional costs of retirements through negative salvage depreciation rates. To ensure that an adequate reserve will be on hand to decommission the facilities when they are retired, and to restore the land to its original condition, I recommend that DCP propose to collect such an amount in rates over the estimated remaining useful life of its plant. Failing to include such an expense in current rates will force a subsequent generation of ratepayers to subsidize service provided to current ratepayers. Furthermore, a negative salvage allowance requires current ratepayers to pay the full cost of using these facilities by bearing their fair share of these costs.

Q. What determines the manner in which abandonment takes place?

A. Authorization under Section 7 of the Natural Gas Act for the abandonment of natural gas facilities provides for actions that require an environmental assessment by the FERC (see 18 C.F.R. §380.5 (2005)). Further, legal obligations may require the removal of a company's facilities. It is this process that establishes abandonment authorization. This places a monetary burden on DCP to decommission its facilities correctly and restore the land to its original condition.

Q. In your view, will DCP's facilities eventually be decommissioned?

A. DCP's pipeline facilities will have to be decommissioned. Pipeline and LNG processing facilities eventually wear out, become obsolete or uneconomic. This fact is demonstrated by my plant retirement and survivor curve analysis, which reflects retirements due to physical causes. Gas supply, markets and facility utilization studies reflect retirements that occur due to specific pipeline and LNG processing facilities becoming obsolete, redundant or otherwise unnecessary. At some point, each natural gas transportation facility reaches the end of its useful life. In addition, pursuant to an agreement among Cove Point, Sierra Club and Maryland Conservation Council, Inc., specific steps must be taken to demolish the facilities and restore the Cove Point site when operations cease.

Q. What did you calculate DCP's negative salvage rate for gas transmission facilities to be and how did you determine that rate?

A. A decommissioning study was prepared by DCP Witness Taylor encompassing DCP's transmission facilities Based on my analysis of interim retirements, and their related cost of removal, along with a terminal negative salvage study performed by DCP Witness Taylor, I determined a composite transmission plant net negative salvage rate to be 0.68 percent.

Q. Can you provide a more detailed description of your determination?

A. My determination of the appropriate negative salvage rate for the transmission facilities began by familiarizing myself with DCP Witness Taylor's decommissioning study. The summary of the decommissioning estimate is shown on Schedule No. 5A of Exhibit No. DCP-32.

My determination of the negative salvage rate is a combination of two distinct annual negative salvage accrual calculations – interim negative salvage and final closure negative salvage. The negative salvage rate is the quotient of the annual negative salvage accruals, divided by the gross plant. I determined the negative salvage base for the ongoing normal, interim retirements separately from the major retirements and final closure, because each has an associated average life different from the other.

Normal retirements will occur from 2006 for a period of an average of 20 years reflecting the average economic life. The remaining facilities will be subject to the final closure at the 20-year average remaining economic life. I determined the retirements for each plant account from the same survivor curves that I developed earlier for depreciation purposes. Recall that the survivor curve is actually a graphic representation of normal retirements over a period of time. The 20-year period of negative salvage of the interim retirements in the transmission plant is shown on Schedule No. 10 of Exhibit No. DCP-32. I combined all the interim retirements and determined a weighted average remaining life of 14.10 years that would apply as the average period of time to accrue the negative salvage for the interim retirements.

I adjusted the final closure negative salvage estimate to reflect the fact that some of the facilities will not be retired at decommissioning, but as normal (interim) retirements over a previous period of time. This is shown on Schedule No. 11 of Exhibit No. DCP-32. The 20-year average remaining economic life was applied to the final closure estimate. I then created a composite of the 20-year accrual period for the final closure with the 14.10 year accrual period for the interim retirements to arrive at an average period of 17.40 years. This is shown on Schedule No. 10 of Exhibit No. DCP-32.

The 17.40-year period of time is the result of direct weighting of the net negative salvage cost and the number of years to retirement.

Q. Can you describe the mathematical calculations used to determine the negative salvage rate?

A. Schedule No. 12 of Exhibit No. DCP-32 shows the calculation of the negative salvage rate for DCP's transmission plant. I divided the estimated amount of negative salvage by the accrual period of 17.40 years. I then divided that result by the transmission plant in service to arrive at 0.68 percent.

Q. How do you recommend net salvage be reflected for accounting purposes for DCP's transmission plant?

A. I recommend that DCP establish a sub-account for negative salvage in Account 108, Accumulated Provision for Depreciation of Gas Utility Plant. Negative salvage accruals and net salvage (gross salvage and cost of removal) will be recorded in this sub-account. This treatment will enable the negative salvage accruals and the actual net salvage costs resulting from retirements to be identified separately, apart from the accumulated depreciation accruals.

Q. What is the reason for creating this sub-account?

A. There are two reasons. First, a sub-account allows the negative salvage reserve to be reviewed periodically with ease. This allows the detection of deficiencies or excesses in the accumulated reserve for negative salvage. Second, when negative salvage accruals and net salvage costs from retirements are reflected in the depreciation reserve, such reserve is distorted by the negative salvage amounts. This phenomenon obscures the data in the reserve when making capital recovery depreciation analyses. Inflation, environmental and political considerations may result in future negative salvage costs that may differ from today's estimates.

ASSET RETIREMENT OBLIGATION - LNG SYSTEM

Q. What is an ARO as you have used it in this proceeding?

A. An ARO is a legal obligation associated with the retirement of tangible, long-lived property that an entity is required to retire and remove and restore land to its original condition as a result of an existing law or regulation, contractual obligation or promissory estoppel. The ARO is the result of FAS 143, issued June 2001. Responding to FAS 143, the FERC has issued new regulations that address the accounting and financial reporting requirements applicable to asset retirement obligations.

FAS 143 requires that the legal obligation associated with the retirement of a tangible long-lived asset be recognized as a liability and measured at fair value at the time the asset is acquired. When the liability is credited, the offsetting debit is to the related operational asset. The term "fair value" refers to the present value of estimated future cash flows necessary to decommission the LNG facilities.

The decommissioning of DCP's facilities is an example of such an obligation. DCP Witness Taylor, as part of his decommissioning study, discusses this legal obligation.

Removal costs that do not arise from a regulatory or contractual obligation are not governed by the new rule.

Q. Would you please explain how the ARO is measured?

A. Under FAS 143, an entity must recognize an asset retirement obligation at its fair value. Therefore, an estimate of the cash flows required to settle the retirement liability must be performed. This also includes an estimate of the amount and timing of the related cash flows, incorporating explicit assumptions about inflation and the estimated cost of retirement. The cash flows must be discounted using what FAS 143 considers a "credit-adjusted risk-free rate."

Q. Please explain the impact of FAS 143 on DCP's facilities.

A. DCP has adopted FAS 143. The FAS 143 requires that companies identify all legal obligations associated with the final retirement of long-lived facilities. In this proceeding, DCP proposes to implement a FAS 143 methodology to calculate a recovery rate for its LNG facilities. DCP has identified and considers all LNG facilities located at the current operations site to be under such an obligation. There is no doubt concerning the legal obligation bestowed on DCP to remove the facilities it is presently using to perform its LNG service and restore the land to its original state.

Q. How is DCP planning to record and implement the FAS 143 methodology for rate setting purposes?

A. A schematic diagram describing the process of applying FAS 143 for rate setting purposes is shown on Schedule No. 21 of Exhibit No. DCP-32. Schedule Nos. 13 through 19 of Exhibit No. DCP-32 show the various calculations used to determine DCP's retirement obligation. The net present value of projected asset retirement obligations ("ARO") will be recorded on DCP's books in accordance with the Uniform System of Accounts upon final approval by the Commission in this proceeding, effective when the rates in this proceeding are no longer subject to refund.

Q. Please describe the costs associated with the "ARO."

A. The costs are two fold: depreciation expense of the capital costs (decommissioning) and accretion expense. Note that the term "depreciation" in association with ARO recovery refers to the recoupment of the present value of the capital cost of decommissioning. The accretion expense recognizes the increasing value of the obligations.

Q. How does DCP propose to treat and recover the ARO amounts?

A. Schedule Nos. 13 through 20 of Exhibit No. DCP-32 show how DCP proposes to amortize the regulatory asset over a 20-year period. The 20-year period represents the estimated remaining life of the Cove Point facility. Additionally, DCP proposes to record ARO depreciation for the capitalized costs and accretion expense. Typically, these provisions are recorded on a monthly basis. And, the monthly accretion provision increases each month to recognize the increasing cost of the decommissioning obligation due to the lessening amount of time before the projected time of retirement.

To the extent of the increasing accretion provision, DCP proposes to average the projected annual accretion expense for a three year period.

To summarize the ARO recovery, the determination consists of three parts:

- ARO implemented regulatory asset
- ARO depreciation expense

- Annual accretion expense

Recovery of the ARO regulatory asset along with the ARO depreciation and accretion expenses will enable DCP to recover its obligatory retirement costs from current customers prior to actually incurring such costs. This approach is reasonable because the customers are currently benefiting from the use of DCP's facilities related to the ARO.

Q. As part of the ARO depreciation calculation, how did you determine the net present value of DCP's retirement obligation?

A. The current dollar estimate of the decommissioning costs provided by DCP Witness Taylor was escalated at 4.26 percent in order to obtain the future dollar estimated decommissioning costs based on the escalation rate applied over the projected number of years to the final removal of the LNG facilities. The escalation rate was based on the ENR Construction Cost Index and the Handy-Whitman Cost Trends of Gas Utilities. The estimated amount of the future retirement (after adjustment for cost escalation) is shown in the ninth column of Schedule Nos. 18 and 19 of Exhibit No. DCP-32.

After determining the estimated future decommissioning cost, I discounted the value based upon a risk-adjusted risk free rate of five (5) percent back to the DCP point of liability on September 5, 2002. The application of the five (5) percent discount rate to the future decommissioning cost resulted in a net present value amount, which is to be capitalized as the initial retirement obligation.

Q. How did you take into account the increasing accretion over time?

A. I projected current accretion expense for the ARO for the 2007 to 2009 period. The average accretion over the 2007 to 2009 period is $1,745,832. This determination is shown on Lines 8 through 10 of Schedule Nos. 13 through 17 of Exhibit No. DCP-32.

Q. How will DCP account for the three elements in the ARO recovery?

A. For rate setting purposes, DCP will record ARO regulatory asset, ARO depreciation, and accretion expense monthly..

Q. Would you please describe the total FAS 143 related costs for the cost of service?

A. The total FAS 143 related costs are:

Amortization of the ARO Regulatory Asset	$ 149,001
Accretion Expense	$ 1,745,832
ARO Depreciation Expense	$ 1,272,176
Total	$ 3,167,009

These costs are shown in Schedule No. 20 of Exhibit No. DCP-32

Q. Please reiterate the main qualifications for the establishment of an ARO recovery process.

A. The determination of an ARO for rate setting purposes requires two main ingredients: the first is the establishment of legal obligation and the second is the timing of the settlement of the obligation. In the instance of DCP, as well as others, the obligations are unconditional. The exact timing of the eventual settlement may be in doubt.

Q. Is there any uncertainty with respect to the obligation to decommission and restore to the original condition, the Cove Point facility?

A. No, there is no uncertainty. As stated previously, DCP is required under an agreement with the Sierra Club and the Maryland Conservation Council, Inc. to demolish all above ground structures at the conclusion of the plant's service.

Q. Is there any uncertainty in the establishment of a settlement date for rate setting purposes?

A. There is uncertainty in the precise settlement date. However, in my opinion this date can be determined with a reasonable degree of certainty. My analysis of the "timing of the settlement" or remaining life of the LNG facilities is based upon both physical and economic factors.

Q. How did you determine the "timing of the settlement" for rate setting purposes?

A. I first determined the remaining physical life of the LNG facilities. As described earlier in my testimony, I employed Iowa type survivor curves to determine the average service life and ultimately the remaining life. This determination is standard in the pipeline and electric industries. The remaining physical life, for the Base Load LNG Terminaling and Processing facilities, is determined to be as follows:

Account 364.2	25.5 years
Account 364.3	22.8 years
Account 364.5	23.1 years
Account 364.6	30.3 years
Account 364.7	13.2 years
Account 364.8	22.6 years

The above remaining lives demonstrate that the physical life of the LNG facilities indicate that the life of the LNG facilities is not indeterminate.

On the other hand, I performed a physical life and an economic life study. As described earlier, I established a range of economic lives and arrived at my recommended 20-year remaining economic life.

Q. Do you believe that it is prudent to abate any rate recovery of the eventual decommissioning costs at the Cove Point facility at this time?

A. No, I do not. First, there is no uncertainty concerning the legal obligation to remove and restore. Second, any uncertainty involves only the date of the settlement of the obligation. It is important to realize that an estimate of the obligation event, while not as certain as the obligation itself is, nevertheless, based on factual data and reasonable assumptions where uncertainty is built into the estimate.

To abate the ARO treatment because of an amount of uncertainty in the timing of the settlement date is not prudent. In essence, speed counts more than accuracy in reporting the obligation. In an exaggerated analogy, it is better to be approximately right (reasoned estimate) than exactly wrong (abate the ARO recovery). Because of the uncertainty in the precise settlement or retirement date, current ratepayers will not pay their fair share of the retirement costs. And, more cost burden is placed on future customers and/or the retirement cost will not be recovered at all. It is unfair that today’s ratepayers would not share any of the burden of the retirement costs.

Q. Did you take into account a probable range of economic lives for the Cove Point facility when determining the ARO for rate setting purposes?

A. Yes, I did. Based upon supply, market and competition considerations, I estimated a range of 18 to 30 years as the economic life of the Cove Point facility. The low end of the economic life is the range of lives of the contracts with the import shippers. The contract term is 18 years. Analysis of the availability of large sustained volumes imported LNG indicates a reasonable economic life of 30 years at the high end of the range. I used 20 years, which I believe is conservative (3 years more than the existing contract), yet realistic.

Q. You previously stated that if an ARO is not allowed, DCP should be granted a negative salvage allowance computed on a traditional basis. Please explain.

A. The logic for a traditional negative salvage allowance is the same as for an ARO—all users of the facility should contribute their share to the ultimate cost of decommissioning the facility. A computation of negative salvage allowance on a traditional basis is included on Schedule Nos. 22 and 23 of Exhibit No. DCP-32.

Q. Does this conclude your direct testimony?

A. Yes, it does.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Dominion Cove Point LNG, LP) Docket No. RP06-_____-000

AFFIDAVIT OF
EDWARD H. FEINSTEIN

Edward H. Feinstein, being first duly sworn, deposes and says that he is the Edward H. Feinstein whose "Prepare Direct Testimony of Edward H. Feinstein" appears on the proceeding pages, that such testimony was prepared by him; that he is familiar with the contents thereof, that the facts set forth herein are true and correct to the best of his knowledge, information, and belief; and that he does adopt the same testimony in this proceeding.

Edward H. Feinstein

Subscribed and sworn before me, a Notary Public, in and for the District of Columbia, this 27 day of June, 2006.

Notary Public
District of Columbia

My Commission expires: Nov. 14, 2007