

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

Portland Natural Gas Transmission System

Docket No. RP08-_____

**Prepared Direct Testimony
of
C. Scott Sieppert**

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

2 A.1 My name is C. Scott Sieppert. My business address is 450 – 1st Street SW,
3 Calgary, Alberta, Canada.

4 **Q.2 By whom are you employed and in what capacity?**

5 A.2 I am employed by TransCanada PipeLines Limited as Manager, U.S. Pipeline
6 Accounting.

7 **Q.3 Please briefly summarize your educational and professional background.**

8 A.3 I received a Bachelor of Science degree in Business Administration, with a
9 concentration in accounting, from the University of Calgary in 1994. I am a
10 Certified Management Accountant, a designation I received in 1997. I have been
11 employed by TransCanada since 1994 and have held a variety of positions of
12 increasing responsibility in the accounting area. In 2007, I was promoted to
13 Manager, U.S. Pipeline Accounting. I am a member of the Certified Management
14 Accountants of Alberta, Canada.
15 I am responsible for managing staff that perform accounting and financial
16 reporting functions for PNGTS.

1 **Q.4 What is the purpose of your prepared direct testimony in this proceeding?**

2 A.4 My testimony will cover rate base and return, accumulated deferred income taxes,
3 working capital, plant cost, accumulated depreciation, depreciation expense,
4 operating and maintenance (or O&M) expenses, administrative and general (or
5 A&G) expenses, ad valorem taxes, and income tax expense. The data sponsored
6 in my schedules and statements were taken from the books and records
7 maintained on behalf of PNGTS.

8 **Q.5 What materials are you sponsoring?**

9 A.5 I am sponsoring the following materials:

10	Exhibit No. PNG-9	Prepared Direct Testimony of
11		C. Scott Sieppert
12	Exhibit No. PNG-10	Appendix A – MMF Comparison
13	and	Statements and Schedules
14		A through F, H, I (except for I-5), L, and M

15 **Q.6 Were these materials prepared by you or under your direction or**
16 **supervision?**

17 A.6 Yes, they were.

COST ALLOCATION AND RATE DESIGN

18 **Q.7 Please generally explain the process utilized by PNGTS to develop its**
19 **proposed rates in this proceeding.**

20 A.7 Developing rates is a three-step process. First, individual costs comprising the
21 cost of service are typically functionalized to major services such as production,
22 storage, distribution and transmission. PNGTS, however, is a transmission-only
23 pipeline and provides no production, storage, or distribution services. Therefore,
24 all of PNGTS' costs are assigned to the transmission function.

1 Second, these functionalized costs are classified as either fixed or variable. As
2 was the case with PNGTS' one-part initial rates approved by the Commission,
3 there are no variable costs, and, therefore, all of PNGTS' costs are classified as
4 fixed. Costs are further classified between demand and commodity. Again, as in
5 its initial rate setting, PNGTS used the straight fixed-variable (SFV) method of
6 classification, which assigns all fixed costs to the demand component of rates and
7 all variable costs (of which there are none) to the commodity component. These
8 functionalized, classified costs are then reduced by credited revenues.

9 Finally, rates are designed by spreading these demand costs over the appropriate
10 billing determinants, as shown on Schedule J-2. Schedule J-2 incorporates the
11 billing determinants and is sponsored by PNGTS witness Haag.

12 **Q.8 Please now explain the statements which detail the process described above,**
13 **beginning with Statement A.**

14 A.8 Statement A summarizes PNGTS' overall cost of service for the test period. As
15 shown in column (e) at line 7, PNGTS' total cost of service is PNGTS' filing
16 reflects levelization as part of the process of determining PNGTS' total cost of
17 service, as described in the testimony of PNGTS witness Lovinger, and this is
18 shown on line 6 of Statement A.

RATE BASE AND RETURN

19 **Q.9 Please explain Statement B.**

20 A.9 Statement B summarizes PNGTS' incremental rate base for capital expenditures
21 made since PNGTS' last rate case, updated through the test period, along with the
22 return allowance on this incremental rate base. Various components of rate base

are described under column (a), with further detail provided in the statement or schedule referenced under column (b). Line 6 shows the adjusted incremental rate base of \$2,208,356. Line 7 shows the application of PNGTS' requested overall rate of return of 10.20%, as calculated on Statement F-2, to the adjusted incremental rate base, resulting in a return allowance of \$225,315.

Schedule B-1, line 7, column (e), shows the development of incremental accumulated deferred income taxes for the test period in the amount of \$196,699.

The adjustment shown on line 4 reflects the deferred tax liability associated with test period timing differences. The estimated test period balance for accumulated deferred income taxes is deducted from rate base as shown on Statement B, line 5.

COST OF PLANT

Q.10 How has PNGTS treated plant?

A.10 Plant is sorted between levelized and non-levelized categories. PNGTS witness Lovinger explains in greater detail the method by which levelized historical plant has been separated from incremental plant that is not levelized.

Q.11 Please explain Statement C and supporting schedules.

A.11 Statement C summarizes PNGTS' book cost of gas utility plant by FERC account at the beginning and end of the base period and as adjusted for the test period and levelization schedule. Schedule C-1 provides details of the plant cost by FERC subaccount. PNGTS projects no plant additions or retirements during the test period.

PNGTS' adjusted cost of incremental plant is \$2,571,564, as shown on line 12 of Statement C, which equals the total of amounts in FERC Account 101, Gas Plant

1 in Service, as shown on Statement C, line 1, and Account 105, Gas Plant Held for
2 Future Use (consisting entirely of land) at line 5, less the plant included in the
3 levelization model (shown on Line 11). The total cost of incremental plant is
4 included in incremental rate base, as shown on Line 1 of Statement B.

ACCUMULATED DEPRECIATION

Q.12 Please explain Statement D and supporting schedule.

5 A.12 Statement D shows the accumulated provision for depreciation, depletion,
6 amortization and abandonment on PNGTS' books at the end of the base period
7 and as adjusted for the test period and the levelization schedule. The adjustments
8 shown in column (f) of Statement D reflect the additional depreciation calculated
9 on the end-of-base-period plant balance calculated for the 9-month adjustment
10 period.
11 PNGTS' adjusted accumulated depreciation on incremental plant is \$426,796, as
12 shown on Line 10 of Statement D, which equals the amount in FERC Account
13 No. 108, less the amount included in the levelization model (shown on Line 9).
14

WORKING CAPITAL

Q.13 Please explain Statement E and Schedule E-2.

15 A.13 Statement E summarizes the working capital components of rate base, which
16 include prepaid items and the allowance for materials and supplies balances.
17 PNGTS is not including a cash working capital allowance in its rate base.
18 The monthly balances for materials, supplies, and prepayments by FERC account
19 are set forth in Schedule E-2. As shown there, in accordance with Section
20 154.312(e) of the Commission's Regulations, such working capital components
21

1 were calculated as “the average of the 13 monthly balances of materials and
2 supplies and prepayments actually expended,” as adjusted for the test period. As
3 also indicated on Schedule E-2, I have included certain test period adjustments to
4 (1) prepaid ad valorem taxes and (2) miscellaneous prepaid amounts in order to
5 reflect the projected test period average balance.

COST OF CAPITAL

Q.14 Are you sponsoring the F series of Statements?

7 **A.14** Yes. The F series of statements provides data on the capital structure of PNGTS.
8 Further, Statement F-3 calculates the cost of PNGTS debt on a yield to maturity
9 basis (*see* Part 154.312(h)(5) of the Commission’s regulations) taking into
10 account, the coupon rate, the issuance expense, the net proceeds and the principal
11 outstanding.

O&M AND A&G EXPENSES

Q.15 Please explain Statement H-1 and related schedules.

13 **A.15** Statement H-1 shows O&M and A&G expenses, by FERC account, for each
14 month of the base period, and as adjusted for the test period. Statement H-1 also
15 contains an explanation of the test period adjustments, along with supporting
16 calculations showing how the adjustments were derived. Schedule H-1(1)(a),
17 which normally shows the base period and test period labor expenses, is not
18 applicable for PNGTS as PNGTS does not have any employees and is not
19 specifically charged any labor expenses. Operating services are provided under
20 two Service Agreements, as described in more detail below. Schedule H-1(1)(b)
21 shows the base period and test period materials and other expenses. The H-1(2)

1 schedules are workpapers showing the details of certain base period and test
2 period expenses. I am also sponsoring Schedules labeled H-1 Supplemental
3 through H-1(2)(k) Supplemental, which provide additional detail regarding items
4 reflected in those schedules. The supplemental H schedules show the direct costs
5 incurred by PNGTS and by the Service Companies in providing services to
6 PNGTS during the Base Period and they show Test Period adjustments for each
7 account including prorated impacts of the increase in the fixed fees charged by the
8 Service Companies.

9 **Q.16 How is PNGTS charged for the operating, maintenance, administrative and**
10 **general services administered on its behalf?**

11 A.16 PNGTS is a party to two Service Agreements, as described in more detail below,
12 pursuant to which these services are provided. The Service Agreements are with
13 9207670 Delaware Inc. and 1120436 Alberta Ltd., both of which are wholly-
14 owned subsidiaries of TransCanada. Under these Service Agreements,
15 TransCanada provides operating, maintenance, administrative and general
16 services to PNGTS. The cost to PNGTS of services provided under each Service
17 Agreement is a fixed amount set out in the Service Agreement that increases at
18 the beginning of each year based on a predetermined schedule. In addition, there
19 are a limited number of services that are not covered by the fixed fees under the
20 Service Agreements. When PNGTS uses such services, it is charged additional
21 amounts by TransCanada. The additional services included in this rate case filing
22 for which PNGTS is requesting recovery in its cost of service are Pipeline
23 Integrity Expenses and costs incurred in preparing this rate case filing

1 **Q.17 Have you compared the overhead cost allocated to PNGTS under these**
2 **Service Agreements with the cost that would be allocated to PNGTS using**
3 **the Modified Massachusetts Formula (“MMF”)?**

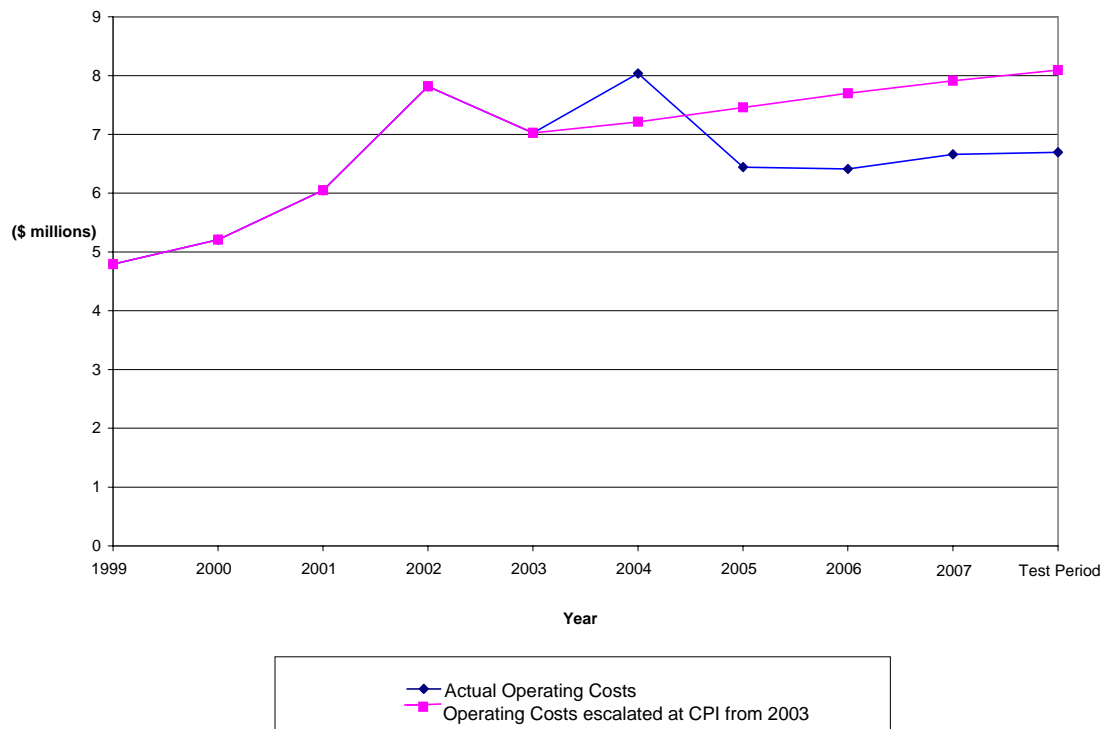
4 A.17 Yes. As previously noted, PNGTS is charged fixed fees for services provided by
5 the Service Companies, and these fixed fees do not identify a separate overhead
6 component. However, I have supplied schedules labeled H-1 Supplemental
7 through H-1(2)(k) Supplemental that provide additional detail regarding the direct
8 costs incurred in providing service to PNGTS during the Base Period. Schedule
9 H-1(2)(e) Supplemental includes charges for Corporate Overhead, derived by
10 taking the total fixed fees charged PNGTS under the Service Agreements in
11 providing service to PNGTS during the same period. Appendix A (marked as
12 Exhibit No. PNG-10) compares this Corporate Overhead amount with the level of
13 such cost that would be allocated to PNGTS using MMF. The comparison
14 demonstrates that a lower level of such cost is attributed to PNGTS under the
15 Service Agreements than would have been attributed had MMF been utilized.

16 **Q.18 Do you have any other data that demonstrates that the fixed fees charged to**
17 **PNGTS under the Service Agreements are reasonable?**

18 A.18 Yes. Figure 1 – PNGTS Operating Costs History, below, shows the historical
19 levels of operating costs incurred by PNGTS from 1999 through 2007 and
20 projected for the Test Period. Operating Costs included here comprise
21 Transmission operating expenses (Accounts 850 through 860) and Administrative
22 & General operating expenses (Accounts 920 through 931) and exclude non-
23 recurring operating expenses. For comparison, I have also included an illustration
24 of operating costs based on the actual costs for the year 2003 escalated by annual

inflation rates for the years 2004 through to the Test Period. The annual inflation rates used are the 'All items' CPI rates reported by the U.S. Department of Labor's Bureau of Labor Statistics for 2004, 2005, 2006 and 2007, which were 2.7%, 3.4%, 3.2%, and 2.8%, respectively. For the Test Period, I used the average of the 2004 through 2007 CPI rates, or 3.03%, multiplied by 0.75 to reflect the 9 months of the Test Period, for an inflation rate of 2.27%. The resulting Test Period amount is approximately \$8.1 million, or approximately \$1.4 million higher than the comparable amount included in the Cost of Service in this rate filing.

Figure 1 – PNGTS Operating Costs History



10

11 **Q.19 Please explain the test period adjustments to O&M and A&G expenses**
 12 **reflected in the series of H Schedules that you are sponsoring.**

A.19 I am supporting the following adjustments to O&M and A&G expenses:

Adjustment No. 1, Pipeline Integrity Expense: Increases pipeline integrity expense in Account 863 by \$948,000 to reflect anticipated test period expenditures. This increase in expenditures is due to additional maintenance and monitoring activities required to comply with the Pipeline Safety Improvement Act of 2002.

Adjustment No. 2, Uncollectible Accounts: To remove from Account 904 bad debt expenses recorded during the base period that are of a non-recurring nature.

Adjustment No. 3, External Legal Costs: To remove from Account 923 external legal costs incurred during the base period, either because the underlying services are of a non-recurring nature or in order to transfer expenses associated with the preparation of this rate case to Account 928 – Regulatory Commission Expenses.

Adjustment No. 4, Increase in Service Agreement Fee: Amounts charged to PNGTS for services provided under the Service Agreements are primarily fixed amounts, each of which increases at the beginning of each calendar year by a predetermined amount set out in each agreement. This adjustment to Account 923 in the amount of \$119,997 reflects these increases, which equate to a total increase of approximately 1.83% in the Service Agreements Fees in the test period over the base period.

Adjustment No. 5, Regulatory Commission Expense: Increases regulatory commission expense in Account 928 by \$342,336 to reflect a normalized level of rate case expenses associated with this proceeding. The total of these rate case expenses incurred during the base period and expected to be incurred during the

1 test period is \$2,132,595. PNGTS is requesting that these expenses be amortized
2 over five years for purposes of determining its cost of service. The resulting
3 annual amount is \$426,519, or \$342,336 higher than the base period amount of
4 \$84,183 in Account 928.

DEPRECIATION EXPENSE

Q.20 Please explain Statement H-2.

6 A.20 Statement H-2 shows depreciation, depletion and amortization expenses per books
7 at the end of the base period and as adjusted for the test period. The adjusted
8 annual depreciation and amortization expense shown in column (g) is derived by
9 multiplying the plant balance shown in column (b) by the depreciation or
10 amortization rate shown in column (d). This Schedule reflects no change in the
11 depreciation rates from those currently in effect. However, PNGTS witness
12 Sullivan has determined that maintaining this 2% rate will cause PNGTS to
13 severely under-recover its cost of service over the useful life of its facilities.
14 Accordingly, PNGTS witness Lovinger has also calculated the levelized cost of
15 service based upon a depreciation rate calculated by witness Sullivan to provide
16 for the systematic recovery of capital costs over the remaining economic life of
17 the facilities.

Q.21 Please explain Schedule H-2 (1) and Schedule H-3.

19 A.21 Schedule H-2(1) shows the reconciliation of depreciable plant included in
20 Statement H-2 with the total adjusted cost of plant included on Statement C.
21 Schedule H-3 provides a summary of federal, state and local income tax
22 obligations.

AD VALOREM TAXES

1 **Q.22 Please explain Statement H-4.**

2 A.22 Statement H-4 shows taxes other than income taxes for the base period and for the
3 test period. These comprise ad valorem taxes. The test period adjustments to ad
4 valorem taxes reflect the most current tax assessments received for each tax
5 jurisdiction.

REMAINING SCHEDULES

6 **Q.23 Please explain Schedule I-1.**

7 A.23 Schedule I-1 discusses the functionalization of the overall cost of service, as
8 shown on Statement A.

9 **Q.24 Please explain Schedule I-2.**

10 A.24 Schedule I-2 shows the individual costs of PNGTS' overall cost of service as
11 classified, using the SFV method, between fixed and variable and between
12 demand and commodity.

13 **Q.25 Are you sponsoring Statements L and M?**

14 A.25 Yes.

15 **Q.26 Does this conclude your prepared direct testimony?**

16 A.26 Yes it does.