UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Saltville Gas Storage Company L.L.C.	§ § §	Docket No. RP08-___-000

PREPARED DIRECT TESTIMONY OF PATRICK T. GIBSON ON BEHALF OF SALTVILLE GAS STORAGE COMPANY L.L.C.

Q. 1 Please state your full name, title, and current place of employment.

A. My name is Patrick T. Gibson. I am the Vice President of Marketing & Business Development for Saltville Gas Storage Company L.L.C. ("Saltville"), which is wholly owned by Spectra Energy Transmission, LLC ("Spectra"). Spectra's home office is located at 5400 Westheimer Court, Houston, Texas 77056.

Q. 2 Please briefly summarize your educational and professional background.

A. I received a Bachelor of Science degree in Computing Science from Sam Houston State University in 1986 and subsequently received a Master of Business Administration degree from the University of Houston. I joined a predecessor to Spectra, Texas Eastern Transmission Corporation, in 1987 as an analyst. Since then, I have progressed through positions of increasing responsibility in the areas of marketing, business development, and strategic planning. I assumed my current position in January of 2007.

Q. 3 On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Saltville.

Q. 4 Have you previously testified before the Federal Energy Regulatory Commission?

A. No.

Q. 5 What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide (i) a description of Saltville's contracts and services and how such services will be provided after the acquisition of the Spectra Energy Early Grove Company storage facility ("Early Grove Facility") and the Spectra Energy Virginia Pipeline Company storage facility ("Virginia Storage Facility") (collectively, the "Virginia Storage Project"), (ii) support for the level of revenues and billing determinants upon which Saltville has derived rates for this current filing, and (iii) a description of the types of risks faced by Saltville in the course of its business.

<u>SALTVILLE'S CONTRACTS AND SERVICES</u>

Q. 6 Please provide an overview of Saltville's current firm storage contracts.

A. As shown on Exhibit No. SGS-9, as of April 1, 2008, excluding the firm storage contracts associated with the Virginia Storage Project, Saltville will have firm storage service agreements under Rate Schedule FSS in effect for a total Maximum Storage Quantity ("MSQ") of 2,901,120 Dth, a Maximum Daily Injection Quantity ("MDIQ") of 106,410 Dth, and a Maximum Daily Withdrawal Quantity ("MDWQ") of 219,762 Dth.

Q. 7 How does Saltville currently sell its firm service?

A. A review of the storage, injection and withdrawal entitlements for the contracts under Rate Schedule FSS in Exhibit No. SGS-9 highlights the nature of the service that Saltville is able to market. Specifically, most of the agreements are for high-deliverability service. For instance, many of the agreements have an MDWQ that would allow the customer to withdraw its full MSQ in 10 days and an MDIQ that would allow it to inject the MSQ in 20-25 days, thus yielding a service under which the customer could inject and withdraw ("turn") the customer's MSQ approximately twelve times per year. In addition, many other agreements set the MDWQ so that the MSQ can be withdrawn over 20 days, with injection capable over 40-45 days, allowing approximately 6 full turns per year.

Q. 8 Please describe any change in services or agreements with the upcoming implementation of the Virginia Storage Project.

A. Saltville will continue to provide the same services under its Tariff upon the implementation of the Virginia Storage Project. There will be a wider variety of deliverability, however, due to the different characteristics of the Virginia Storage and Early Grove Facilities. Exhibit No. SGS-10, attached hereto, sets out the MSQ, MDIQ, and MDWQ, for all of Saltville's firm obligations as of April 1, 2008, assuming the completion of the Virginia Storage Project. With the addition of the Early Grove and Virginia Storage Facility contracts upon the completion of the Virginia Storage Project, Saltville will have firm storage service agreements under Rate Schedule FSS in effect for a total MSQ of 5,341,730 Dth, a MDIQ of 140,699 Dth, and a MDWQ of 284,794 Dth.

Q. 9 Have the customers of the Early Grove and Virginia Storage Facilities contracted for service with Saltville?

A. Yes. Upon the completion of the Virginia Storage Project, the customers of the Early Grove Facility and the Virginia Storage Facility will retain their capacity and continue paying the same rates that they previously paid for service for the remaining terms of their existing contracts. The customers have signed service agreements and negotiated rate agreements to this effect, which agreements will be effective upon the closing of the Virginia Storage Project.

Q. 10 What will be the operational and administrative benefits of the Virginia Storage Project?

A. The Virginia Storage Project will improve service to those who had previously been customers of the Early Grove and Virginia Storage Facilities, as well as to pre-existing customers of Saltville. The Virginia Storage Project will result in increased reliability and operational flexibility for the customers of all three facilities due to the pooling of storage capability and the streamlining and simplification of the nomination, scheduling, and delivery processes. Since the Virginia Storage Project will result in only one regulated entity and one tariff for the three storage facilities, the Virginia Storage Project will simplify customer contracting, account management, rate structures, service, and the accounting, legal, and regulatory processes.

REVENUES AND BILLING DETERMINANTS

Q. 11 What is the impact on actual revenues of this Rate Filing?

A. It will be negligible, at least for the short term. Since Saltville has many negotiated rate customers, its actual revenue is and, for the immediate future, will continue to be less than its cost of service revenue requirement. This is a business risk for Saltville that I describe below.

Q. 12 Have you provided billing determinant and revenue data to Mr. Joe A. Payne for his Prepared Direct Testimony?

A. Yes. I have provided Mr. Payne with billing determinant and revenue data based on the firm contracts described above as well as projections that I have made for future billing determinants and revenue.

Q. 13 Please describe the projected quantities associated with firm contracts at the end of the test period.

A. I am projecting that, by the end of the test period, Saltville will have firm MSQ contract entitlements of 5,562,000 Dth. The basis for this projection is reflected in Schedule G-3, which is sponsored by Mr. Payne. I discuss below the business risks associated with expiring or terminating contracts.

Q. 14 Have you provided a forecast of the interruptible revenues and volumes through the end of the test period?

A. Yes, I am projecting that interruptible revenue for the adjustment period on an annualized basis will be less than it was for the base period. As shown in Schedule G-1, interruptible revenue on a monthly basis has declined during the base period, and I expect this trend to continue through the end of the test period. As a result, the total base period interruptible revenue shown in Statement G is not representative. Instead, a more representative amount of interruptible revenue generated by Saltville is $ 1 million. Adjustments have also been reflected in the Statement G as appropriate to reflect this interruptible forecast. This amount has been assigned to interruptible services, which is described by Mr. John E. Smith in his Prepared Direct Testimony.

BUSINESS RISK

Q. 15 What are Saltville's business risks?

A. Saltville's business risks generally fall into the categories of marketplace risks and contractual risks. I will discuss these areas of risk below.

A. Marketplace Risk

Q. 16 Please explain Saltville's marketplace risks.

A. Saltville's most significant business risk is that market conditions as a whole have worked to establish prices for storage that are less than Saltville's maximum recourse rates. Such market conditions include competition from other pipelines and storage providers, including Gulf Coast storage providers, most of whom have market-based rates. Saltville has to compete with facilities with market-based rates in off-peak periods, which means that, during the off-peak, it must discount down to the market for capacity. However, facilities with market based rates will make up for that by charging what the market will bear during peak periods. Since Saltville's rates are capped at its recourse rate, Saltville does not receive the corresponding benefit of a higher market price during the peak period that would offset the discounts it had to give during off-peak periods. This places Saltville at a competitive disadvantage with respect to such storage providers. In addition, storage involves certain, inherent risks because storage rates are based on seasonal differences in prices. Assuming no legal, contractual or other requirements to the contrary, storage over a period of time is not worth more than the current seasonal spread. In other words, if gas is worth $2.00 per Dth more in the winter than the summer, a customer would be willing to pay something less than $2.00 per Dth to store the gas.

Q. 17 What are the consequences of the market conditions discussed above?

A. In response to this highly competitive business environment, where pricing is often the lesser of cost based or market pricing, Saltville has entered into contracts with the majority of its customers for negotiated rates that are less than the maximum recourse rate. Saltville anticipates that it will need to continue to respond to market conditions through negotiated rate agreements, otherwise it could lose customers to other competing market participants.

Q. 18 Are there risks associated with having this high concentration of negotiated rate agreements?

A. Yes. Since Saltville has to collect its cost-based recourse rates to recover its full cost of service, the most obvious risk associated with such a high concentration of negotiated rate contracts with rates below the maximum recourse rate is that Saltville will not be able to recover its costs. Another risk is that, if the rates are fixed, as Saltville's negotiated rates are, the storage provider ultimately bears the risk of inflation, particularly with the long-term negotiated rate deals. Finally, the incurrence of major, unforeseen costs present one of the most fundamental risks for storage providers with fixed negotiated rates. In those situations in which customers are paying recourse rates, the storage provider would file a rate case to increase its rates to address unforeseen costs. Since the rates under negotiated rate agreements are fixed and a rate case is not an option, the storage provider is at risk.

B. Contractual Risks

Q. 19 Please explain Saltville's contractual risks.

A. For purposes of this case, I have projected that, by the end of the test period, Saltville will enter into contracts with customers such that, at the end of the test period, it will have in the aggregate contractual entitlements of 5,562,000 Dth. Saltville's primary contractual risk is that firm agreements that represent a sizeable portion of the total firm commitments on Saltville may terminate or expire in the near future. Thus, the risk to Saltville is that, in the near future, revenues associated with actual reservation charges may be substantially lower than what is assumed with its current billing determinants and resulting rates. To the extent that these firm customers do not pay the maximum recourse rates, Saltville would then not be able to recover its cost of service.

The necessity of continued re-contracting is a business risk that is inherent in the independent storage business model. In that regard, storage providers have a different risk profile than local distribution and other companies, and comparisons to other sectors of the industry for risk analyses are not valid.

Q. 20 Does this conclude your prepared direct testimony?

A. Yes, it does.