

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  
GREGG E. MCBRIDE  
ON BEHALF OF  
SALTVILLE GAS STORAGE COMPANY L.L.C.**

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

2    A.    My name is Gregg E. McBride. I am the Vice President of Rates and Economic  
3           Analysis for Saltville Gas Storage Company L.L.C. (“Saltville”), which is wholly  
4           owned by Spectra Energy Transmission, LLC (“Spectra”), a wholly-owned  
5           subsidiary of Spectra Energy Corp. Spectra’s home office is located at 5400  
6           Westheimer Court, Houston, Texas 77056.

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

8    A.    I received a Bachelor of Science degree in Accounting from Eastern Illinois  
9           University in Charleston, Illinois, in 1978. I have been employed with Spectra  
10          Energy Corp and its predecessor corporations, Duke Energy Corporation,  
11          PanEnergy Corp and Panhandle Eastern Corp., since January 1979. For over 20  
12          of those years, I have held positions in the Regulatory Affairs Department of  
13          those corporations’ respective natural gas pipeline companies. In addition, I have  
14          held positions of responsibility in the Investor Relations, Marketing, and Capacity  
15          Management departments of those corporations.

16                As part of my current responsibilities, I oversee the preparation of various  
17                rate, tariff, and certificate filings that Saltville files with the Federal Energy  
18                Regulatory Commission (“FERC” or “Commission”).

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

2   A.    I am testifying on behalf of Saltville.

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

5   A.    I have presented testimony for the FERC-regulated companies of Spectra and its  
6       predecessors in numerous proceedings before the Commission.

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

8   A.    The purpose of my testimony is to provide (i) an overview of the Saltville system  
9       and a discussion of Saltville's business operations, (ii) an overview of the filing  
10      and the testimony included as part of this Statement P, (iii) an overview of the test  
11      period adjustment for Saltville's acquisition of Spectra Energy Early Grove  
12      Company's storage facility ("Early Grove Facility") and Spectra Energy Virginia  
13      Pipeline Company's storage facility ("Virginia Storage Facility") (collectively,  
14      the "Virginia Storage Project"), (iv) an overview of the test period adjustment to  
15      reflect a transfer of the ownership of Saltville from Spectra to Spectra Energy  
16      Partners, LP ("SEP"), as well as (v) a discussion of Saltville's proposed tariff  
17      change.

18   **OVERVIEW OF SALTVILLE'S SYSTEM**

19   **Q. 6   Please explain Saltville's system.**

20   A.    Saltville is a limited liability company, formed under the laws of the  
21      Commonwealth of Virginia, that operates a high pressure, high deliverability,  
22      salt-cavern natural gas storage system in interstate commerce, subject to the  
23      jurisdiction of the Commission. Saltville was initially an intrastate storage facility  
24      regulated by the Virginia State Corporation Commission ("VSCC"), and was

1 being developed as such, until 2003 when the FERC found Saltville to be  
2 jurisdictional.<sup>1</sup> Saltville commenced providing service on August 1, 2003 under  
3 VSCC regulation. Saltville submitted an application with FERC for a certificate  
4 of public convenience and necessity and for related authorizations, and the FERC  
5 issued certificates to Saltville in 2004 (“Certificate Order”).<sup>2</sup>

6 Saltville was scheduled to be developed in four phases, over four years,  
7 ending in September of 2007. Saltville has completed the development of its  
8 facility. Based on the results of further development activities and further testing  
9 of the salt caverns, Saltville filed a certificate amendment filing to revise its  
10 working capacity on September 28, 2007 (“Amendment Filing”) which is  
11 attached hereto as Exhibit No. SGS-2. Specifically, Saltville requested a true-up  
12 its certificated capacity of 4.79 Bcf to its actual working capacity of  
13 approximately 3.0 Bcf. The Commission has granted the requested true-up.<sup>3</sup>

14 **Q. 7 You previously mentioned the Virginia Storage Project. Please describe that**  
15 **project.**

16 A. On December 18, 2007, Saltville submitted a Request for Authorization of  
17 Blanket Activity for the Virginia Storage Project to the Commission in Docket  
18 No. CP08-39-000, which is attached hereto as Exhibit No. SGS-3. In that  
19 Application, Saltville requested authorization to acquire two facilities: the Early  
20 Grove Facility and the Virginia Storage Facility. By operation of 18 C.F.R. §  
21 157.205(h), Saltville obtained Commission authorization of the Virginia Storage  
22 Project on March 3, 2008. The Early Grove Facility is a depleted reservoir

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<sup>1</sup> *Saltville Gas Storage Company*, 104 FERC ¶ 61,273 (2003).

<sup>2</sup> *Saltville Gas Storage Company*, 107 FERC ¶ 61,267 (2004).

<sup>3</sup> *Saltville Gas Storage Company L.L.C.*, 122 FERC ¶ 61,151 (2008).

1 storage field located at the Early Grove storage field in Scott and Washington  
2 Counties, Virginia, with a storage capacity of approximately 1.4 Bcf. The  
3 Virginia Storage Facility is a salt-cavern storage facility located in Smyth and  
4 Washington Counties, Virginia, near Saltville's existing facilities with a storage  
5 capacity of approximately 1.0 Bcf. Saltville will operate the Early Grove and  
6 Virginia Storage Facilities as part of its integrated natural gas storage operations,  
7 under the same rate schedules and tariff rates under which it provides services to  
8 its existing customers. The benefits of this Virginia Storage Project are described  
9 in detail by Mr. Patrick T. Gibson in his Prepared Direct Testimony.

10 **Q. 8 What services does Saltville provide?**

11 A. Saltville is an open-access storage provider. It offers firm and interruptible  
12 storage services, all of which are included in its FERC Gas Tariff. Saltville  
13 currently provides a firm storage service under Rate Schedule FSS, and  
14 interruptible storage service under Rate Schedule ISS. Saltville also offers  
15 interruptible parking and lending services under Rate Schedules IPS and ILS,  
16 respectively.

17 **OVERVIEW OF RATE FILING**

18 **Q. 9 Why has Saltville filed this Section 4 rate case before the Commission?**

19 A. This Section 4 rate filing ("Rate Filing") is Saltville's first rate proceeding. The  
20 Commission, in the order issuing certificates to Saltville, as amended,<sup>4</sup> required  
21 Saltville to restate its initial rates every year of the "phased" development of the  
22 project and required Saltville to file a cost and revenue study in September of  
23 2008. Saltville is filing this Rate Filing to satisfy the certificate condition relating

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<sup>4</sup> *Saltville Gas Storage Company L.L.C.*, 109 FERC ¶ 61,200 (2004).

1 to the cost and revenue study, and to reflect (i) certain changes in costs and  
2 revenues from the assumptions underlying the rates originally approved by the  
3 certificate order, as well as (ii) the costs and revenues associated with the Virginia  
4 Storage Project, which is discussed more fully in my testimony.

5 **Q. 10 By way of overview, please generally explain how Saltville developed the**  
6 **cost-of-service that underlies its proposed rates.**

7 A. Consistent with general Commission practice, Saltville developed the rates  
8 proposed in this filing based on the costs incurred by Saltville to provide service,  
9 including a reasonable return on capital investment.

10 **Q. 11 How were the cost levels for the cost-of-service components derived?**

11 A. Cost levels for the components of the cost-of-service are derived from a “test  
12 period” specified by the Commission’s regulations. To develop the test period  
13 costs, it is first necessary to establish “base period” costs, which consist of 12  
14 consecutive months of recently available actual cost experience. To derive the  
15 test period cost-of-service, base period costs are adjusted for changes that are  
16 known and measurable with reasonable accuracy at the time of the rate filing, and  
17 which will become effective within nine months after the end of the base period.

18 **Q. 12 What base period and adjustment period did Saltville use for this rate filing?**

19 A. For this rate filing, Saltville used a base period consisting of the 12 months ending  
20 November 30, 2007, as adjusted for known and measurable changes through the  
21 period ending August 31, 2008.

22 **Q. 13 Please briefly describe the individual components of the cost-of-service.**

23 A. The operating and maintenance expense component allows Saltville to recover  
24 costs related to the operation and maintenance of jurisdictional facilities and costs

1 of administrative and general items, such as employee salaries and benefits,  
2 materials and supplies, insurance, and other expenses. The depreciation expense  
3 component compensates investors for the loss in value of Saltville's assets and  
4 provides for return of capital investment. Saltville is compensated for taxes,  
5 including income and other taxes, such as ad valorem taxes, through the tax  
6 expense components. Finally, Saltville is given an opportunity to recover a  
7 reasonable amount over and above operating and maintenance expenses,  
8 depreciation, and taxes through the overall rate of return applied to rate base. The  
9 return allowance is intended to provide investors a reasonable return on their  
10 investment in these FERC-jurisdictional facilities. As Mr. Robert B. Hevert  
11 indicates in his Prepared Direct Testimony, Saltville would be justified in seeking  
12 a higher return on equity. Saltville is proposing a more conservative return on  
13 equity, however, in order to ameliorate the proposed revenue requirement increase  
14 to its customers. Saltville has proposed a return on equity of 13.5 percent, which  
15 is consistent with the midpoint of Mr. Hevert's proxy group.

16 **Q. 14 What capital structure has Saltville used?**

17 A. Saltville has used the capital structure of SEP. As explained below, SEP will  
18 indirectly own 100 percent of the interest in Saltville by the end of the test period.  
19 Commission policy, as expressed in Opinion 414-A, is that companies use the  
20 capital structure of their parent entity if the FERC-regulated entity does not issue  
21 its own debt.<sup>5</sup> Since Saltville does not issue its own debt, it is therefore  
22 appropriate to use the capital structure of SEP, its parent, at the end of the test

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<sup>5</sup> *Transcontinental Gas Pipe Line Corporation*, 84 FERC ¶ 61,084, at pp. 61,417-18 (1998) (Opinion No. 414-A).

1 period, consistent with Commission policy. Mr. Lon C. Mitchell provides the  
2 capital structure for SEP, as adjusted, in his Prepared Direct Testimony.

3 **Q. 15 Please provide an overview of the results of the cost-of-service calculations**  
4 **you have described.**

5 A. Statement A summarizes Saltville's overall cost-of-service taken from Saltville's  
6 books and records for the 12 months ended November 30, 2007, as adjusted for  
7 known and measurable changes through August 31, 2008. The overall cost-of-  
8 service is the sum of the various cost components described in column (A), with  
9 further detail provided in the statement or schedule referenced in column (B).  
10 Saltville witness Ms. Lisa A. Moore is responsible for aggregating these various  
11 components of the cost-of-service as they are ultimately reflected in Statement A.

12 Statements A and J of this filing reflect a revenue requirement of  
13 \$29,359,600, which, as shown on Schedule J-2, yields a maximum recourse rate  
14 for storage service under Rate Schedules FSS as follows: Space Reservation  
15 Charge (annual) of \$1.067/Dth, Withdrawal Reservation Charge (monthly) of  
16 \$2.428/Dth, Injection Reservation Charge (monthly) \$4.877/Dth, and a  
17 Withdrawal and Injection Usage Charge \$0.088/Dth, and under Rate Schedule  
18 ISS, ILS and IPS as follows: Storage Capacity Charge (monthly) of \$0.377/Dth  
19 plus a Withdrawal and Injection Usage Charge of \$0.088/Dth, when the proposed  
20 billing determinants and other rate design parameters are factored into the design  
21 of the rate.

22 **Q. 16 What is the resulting increase in the revenue requirement associated with**  
23 **this case?**

24 A. Given the change in operating capacity as well as the additional costs and  
25 revenues associated with the Virginia Storage Project during the test period, a

1 more valid comparison of the increase in potential revenues is reflected in Exhibit  
2 No. SGS-5, which shows a 35 percent increase in revenue. As noted in Mr.  
3 Gibson's Prepared Direct Testimony, Saltville is not likely to recover this full  
4 amount of revenue due to the fact that most of its customers pay negotiated rates.

5 **Q. 17 How will this increase in revenue requirement affect the rates the customers**  
6 **currently pay?**

7 A. As Mr. Patrick Gibson explains in his description of business risks that affect  
8 Saltville, most of the pre-existing Saltville customers have negotiated rates so this  
9 Rate Filing will not affect their rates during the remaining terms of their  
10 agreements. Similarly, since the existing customers of the Virginia Storage  
11 Facility and the Early Grove Facility have negotiated rate agreements at their  
12 current rates for service upon the completion of the Virginia Storage Project, the  
13 Rate Filing will not affect the rates of those customers during the terms of their  
14 existing agreements.

15 **Q. 18 Please provide a summary of Saltville's sponsorship of the other material**  
16 **segments of the case.**

17 A. The witnesses sponsoring the various segments of the case are as follows:

18	Gregg E. McBride	Overview of Filing
19		
20	Patrick T. Gibson	Business Risks and Risk Factors
21		
22	Lisa A. Moore	Overall Cost of Service and Operating and
23		Maintenance Expense
24		
25	Joe A. Payne	Revenues and Billing Determinants
26		
27	John E. Smith	Cost Allocation and Rate Design
28		
29	Lon C. Mitchell	Capital Structure and Debt Cost for Spectra
30		Energy Partners, LP
31		
32	Robert B. Hevert	Rate of Return

1		
2	Dwight E. Jeter	Calculation of Federal and State Income Tax
3		Rates for Tax Allowance Calculation
4	Kimberly A. Johnston	Calculation of Tax Allowance and
5		Accumulated Deferred Income Taxes
6	Brenda B. Wisniewski	Financial Statements

7 **Q. 19 What statements, schedules, or exhibits are you sponsoring in conjunction**  
8 **with your direct testimony?**

9 A. I am sponsoring the Statement F-1 and portions of Statement F-2 that calculate  
10 Saltville's overall return utilizing the cost of debt and corporate structure  
11 sponsored by Mr. Mitchell and the cost of equity supported by Mr. Hevert. In  
12 addition, I am sponsoring a corporate structure diagram that is explained below, a  
13 revised system map as Exhibit No. SGS-4, and a schedule reflecting the proposed  
14 revenue impact of this rate filing. In addition, as discussed above, I am  
15 sponsoring a copy of the amendment filing to Saltville's certificate of public  
16 convenience and necessity as submitted with the Commission and a copy of the  
17 prior notice application that Saltville submitted with the Commission for the  
18 Virginia Storage Project.

19 **Q. 20 Were the portions of the Statement F-1 and F-2 that you are sponsoring and**  
20 **the exhibits you are including prepared by you or under your direction or**  
21 **supervision?**

22 A. Yes, they were prepared under my direction and supervision.

23 **ADJUSTMENT FOR VIRGINIA STORAGE PROJECT**

24 **Q. 21 What test period adjustments has Saltville made to its Rate Filing for the**  
25 **Virginia Storage Project?**

26 A. Saltville has made numerous test period adjustments to reflect the additional costs  
27 and revenues associated with the Virginia Storage Project, as discussed in more

1 detail by Ms. Moore in her Prepared Direct Testimony and by Mr. Gibson in his  
2 Prepared Direct Testimony. As noted above, by operation of the blanket  
3 certificate regulations, Saltville's prior notice application for the Virginia Storage  
4 Project was authorized by the Commission on March 3, 2008. Saltville  
5 anticipates closing the transaction by April 1, 2008, which is before the end of the  
6 test period in this case. Adjusting the cost of service to reflect the addition of the  
7 Early Grove Facility and the Virginia Storage Facility also reflects the reality of  
8 Saltville's operations. Before the end of the test period, Saltville will be  
9 operating, on an integrated basis, three storage facilities under FERC regulation  
10 instead of one.

11 **ADJUSTMENT FOR CHANGE OF OWNERSHIP**

12 **Q. 22 Please explain the test period adjustment for the change of ownership of**  
13 **Saltville.**

14 A. Spectra Energy Corp will contribute its interest in Saltville to SEP once the  
15 Virginia Storage Project closes, making Saltville a wholly-owned, indirect  
16 subsidiary of SEP. SEP is a publicly traded master limited partnership, of which a  
17 Spectra Energy Corp subsidiary is the general partner and, along with Spectra  
18 Energy Corp and another Spectra Energy Corp subsidiary, currently owns  
19 approximately 83 percent of the outstanding units. Following the expected  
20 contribution of Saltville, Spectra Energy Corp will own directly or indirectly  
21 approximately 84 percent of the outstanding units of SEP. Specifically, following  
22 the expected contribution, Saltville will be a wholly-owned subsidiary of Spectra  
23 Energy Partners OLP, LP ("Spectra OLP"). SEP directly owns 99.999 percent of  
24 the equity interest in Spectra OLP, and indirectly owns the remaining .001 percent

1 equity interest. After the acquisition of Saltville, approximately 84 percent of  
2 SEP will be owned indirectly by Spectra Energy Corp, with public unit-holders  
3 owning the remaining 16 percent. I have included a diagram, as Exhibit No.  
4 SGS-6, to illustrate the transaction.

5 This contribution is anticipated to occur on April 1, 2008, which is before  
6 the end of the test period. As a result, adjustments have been made to reflect this  
7 change in ownership, such as changes to Saltville's capital structure and the  
8 inclusion of revenues and billing determinants reflecting the acquisition of the  
9 Early Grove and Virginia Storage Facilities. In addition, Mr. Dwight E. Jeter  
10 explains in his Prepared Direct Testimony how to calculate the weighted average  
11 marginal federal and state income tax rates after the contribution for use as part of  
12 the calculation of the appropriate income tax allowance for this Rate Filing.

### 13 **OTHER TARIFF CHANGES**

#### 14 **Q. 23 What tariff change is Saltville proposing in the instant filing?**

15 A. Saltville is proposing a change to its tariff related to the introduction of a  
16 company use gas and fuel charge.

17 Specifically, Saltville is proposing to add a company use gas and fuel  
18 charge to its tariff that will recover company use gas and fuel in kind. Saltville  
19 has not historically had a separate charge for company use gas and fuel but has  
20 instead included such costs as operating and maintenance expenses. Adding the  
21 company use gas and fuel charge thus is economically no different for customers,  
22 but Saltville is proposing to do so for two reasons. First, it will increase the  
23 transparency of the company use gas and fuel. Second, it will promote efficiency  
24 by encouraging Saltville to economize its company use gas and fuel, thereby

1           potentially reducing overall costs for customers. I have included a work paper as  
2           Exhibit No. SGS-7 that details the calculation of the company use gas and fuel  
3           charge.

4   **Q. 24 Does this conclude your prepared direct testimony?**

5   A.     Yes, it does.