UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Transwestern Pipeline Company, LLC § Docket No. RP06-_____-000

PREPARED DIRECT TESTIMONY OF MICHAEL T. LANGSTON

Q. Please state your name and business address.

A. My name is Michael T. Langston. My business address is 5444 Westheimer Road, Houston, Texas 77056.

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

A. I am testifying on behalf of Transwestern Pipeline Company, LLC ("Transwestern").

Q. What are your responsibilities with Transwestern?

A. I am Senior Vice President, Government and Regulatory Affairs with primary responsibility for rate and regulatory matters for Transwestern.

Q. Please describe briefly your educational and professional background.

A. I received a Bachelor of Science Degree in Electrical Engineering with honors from the University of Texas in Austin in 1975. I received a Master of Business Administration from Southern Methodist University in Dallas, Texas in 1978. I was employed by Mobil Pipeline Company from 1975 to 1979 in various positions in their engineering department. From 1979 to 1986, I was employed by Texas Oil & Gas Corp. and its affiliate, Delhi Gas Pipe Line Corporation, holding various positions in corporate planning, special projects, and project development. I joined Southern Union Company ("Southern Union") in September 1986 and have been employed by Southern Union and its affiliates since that time, holding various positions involving gas supply, marketing, gas control, contract administration, and federal regulatory areas. I am also a Registered Professional Engineer in the states of Texas, Louisiana, and Oklahoma.

Q. Have you previously testified or presented testimony before the Federal Energy Regulatory Commission?

A. Yes. I provided testimony in Docket No. RP04-249-000 on behalf of Florida Gas Transmission Company, LLC and in Docket No. RP88-44-000 on behalf of Southern Union Gas Company.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to: (1) provide the background of this proceeding; (2) discuss the overall rate filing, return on equity levels, capital structure, and testimony and support offered by other Company witnesses; (3) discuss various tariff changes that Transwestern has committed to make; and (4) discuss modifications to the existing fuel rates, including the roll-in of fuel associated with the Red Rock Expansion Project certificated by the Commission in Docket No. CP01-115-000.

Q. Please briefly describe the prepared testimony of Transwestern's other witnesses in this proceeding.

A. First, Mr. Lawrence J. Biediger, Senior Director of Rates, describes the overall Cost of Service calculations including Rate Base and Return, Accumulated Deferred Income

Taxes, Regulatory Assets and Liabilities, Depreciation, Operation and Maintenance Expenses and Federal and State Income Taxes.

Second, Mr. Rickey J. Brocato, Rate Manager, describes the Gas Plant, Accumulated Provision for Depreciation, Working Capital and Taxes Other Than Income.

Third, Ms. Shelley A. Corman, Transwestern's Senior Vice President and Chief Commercial Officer, describes Transwestern's load profile, customer base, market characteristics, and commercial risk factors. She explains the Test Period adjustments to billing determinants and throughput, and associated revenues underlying Transwestern's proposed rates, and discusses the supporting data.

Fourth, Mr. William W. Grygar, Vice President of Rates & Regulatory, will describe cost classification, cost allocations, billing determinants, and overall rate design. In addition, he will support the roll-in rate treatment for various system expansions.

Fifth, Mr. Blair V. Lichtenwalter, Rate Manager, describes the Base Period revenues and billing determinants, Test Period revenues and billing determinants, miscellaneous revenue calculations, and Gas Balance.

Sixth, Mr. Stephen D. McGregor, Vice President of Tax for Southern Union Company, will describe Transwestern's compliance with the Commission's income tax policy statement, and the support for the Federal and State income tax allowance.

Seventh, Mr. Robert B. Hevert, President of Concentric Energy Advisors, provides support for Transwestern's cost of equity capital.

Eighth, Mr. John J. Reed, Chairman and Chief Executive Officer of Concentric Energy Advisors, discusses the business risk factors facing Transwestern and provides support for the cost of equity capital.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following exhibits:

Exhibit No.	Reference	Description
TW-2	Non-Internet Public	Map of Transwestern's system
TW-3	Non-Internet Public	PRCI Report
TW-4		FERC Policy Statement PL04-3
TW-5		NGC+ White Paper on CHDP
TW-6		CHDP Historical Data
TW-7		Heating Value Historical Data
TW-8		NGC+ White Paper on Gas Interchangeability
TW-9		Wobbe Historical Data
TW-10		Gas Quality Comparison to other Pipelines
TW-11		Proposed Tariff Sheets
TW-12		Updated Fuel Usage Table
TW-13	Statement F-2	Capitalization
TW-14		FERC Allowed Certificate Returns
TW-15	Statement F-3	Debt Capital

Q. Please outline the corporate structure under which Transwestern is owned and operates.

A. Transwestern is a limited liability company which is owned 100% by Transwestern Holding Company, LLC. This entity is in turn owned 100% by CrossCountry Energy, LLC, which is owned 100% by CCE Holdings, LLC ("CCEH"). CCEH is in turn ultimately owned 50% by Southern Union Company, a Delaware corporation, approximately 30% by EFS-PA, LLC, a wholly-owned indirect subsidiary of General Electric Company, and the remaining approximately 20% by four other entities. Mr. McGregor will provide a more detailed description of the Transwestern ownership structure in his testimony supporting the income tax allowance.

Background of This Proceeding

Q. What is the reason for this rate case filing?

A. This rate case is being filed pursuant to a Stipulation & Agreement entered into as part of the resolution of various issues in Docket No. RP95-271-000, et. al. ("Global Settlement").

Q. Please describe Transwestern's pipeline system.

A. The Transwestern system consists of approximately 2,500 miles of transmission pipeline that transports natural gas from the San Juan, Anadarko, and Permian Basins to markets in the Midwest, Texas, Arizona, New Mexico, to interconnects serving Nevada, and to the California border. A map of Transwestern's pipeline system, including compressor stations and major interconnects, is shown in Exhibit No. TW-2.

Q. Does Transwestern own or operate gathering or storage facilities on its system?

A. No. Transwestern does not own or operate gathering or storage facilities, and does not offer these services on its system. Transwestern is interconnected to third party owned gathering and storage facilities.

Q. Has Transwestern's system changed significantly since the Global Settlement?

A. Yes. There have been a significant number of expansions on the system, including several expansions of the San Juan lateral and expansion of the mainline capacity. In addition, at the time of the Global Settlement, gas generally entered the system in the producing basins and flowed west to the California border. Currently, however, gas that enters the system in the San Juan Basin moves to the mainline at Thoreau and moves both east and west depending on the demand on the system.

Q. Please explain the selection of the Base Period and Test Period in this filing.

A. The Base Period in this filing is the twelve months ended May 31, 2006. The Base Period data has been adjusted to reflect known and measurable changes in revenues and costs for the nine-month period ending February 28, 2007 ("Adjustment Period"). The Base Period, as adjusted in this manner, is referred to in Transwestern's filing and testimony as the "Test Period".

Q. What is the overall Cost of Service utilized by Transwestern in this filing?

A. Transwestern has filed a cost of service totaling $210,780,870, as shown on Exhibit No. TW-17 and discussed in Mr. Biediger's testimony.

Q. What rate design methodology is utilized by Transwestern?

A. Transwestern continues to utilize the Straight Fixed Variable rate design methodology which it utilized in its last rate case filing. In addition, Transwestern is utilizing the same rate areas for rate design purposes which it utilized in its last rate case filing, as shown in the testimony of Mr. Grygar.

Q. When was the last Transwestern rate case filing?

A. Transwestern's last rate case was filed on November 30, 1992 and was reviewed in Docket No. RP93-34-000 ("1993 Rate Case").

Q. How was this filing resolved?

A. Transwestern and its customers resolved this 1993 Rate Case by entering into a Stipulation and Agreement which was filed November 23, 1993, and approved by Commission order dated March 30, 1994.

Q. How does the cost of service which was settled in the 1993 Rate Case compare to this filing?

A. The cost of service underlying the settlement rates in the 1993 Rate Case was $169,800,000 as compared to the cost of service filed in this case of $210,780,870, or an increase of 24%.

Q. What are the major reasons for this rate increase?

A. The main reason for the increase in cost of service is a substantial increase in rate base since the 1993 Rate Case. In the 1993 Rate Case, the rate base was $465,000,000. In this filing, as of May 31, 2006, the rate base, as shown in Statement B, is $792,174,014, an increase of 70%. This increase reflects several major expansions since the 1993 Rate Case, and those expansions are discussed further in the testimony of Mr. Grygar.

Q. What impact does this increased cost of service level have on overall system rates?

A. In addition to the large increase in rate base generated by the additional system investments, the overall competitive position of the pipeline has resulted in greater discounts to retain contracted transportation on the system. The associated discount adjustments, when coupled with the increased cost of service levels, has resulted in higher reservation rates in all three primary rate areas. The rates for each area are shown in Schedule J-2, as further discussed in Mr. Grygar's testimony.

Q. Do you have an exhibit that shows the tariff sheets which state the proposed rates?

A. Yes. Part of my Exhibit No. TW-11 includes copies of the tariff sheets which set forth the proposed rates for Transwestern's transportation services.

<u>Proposed Tariff Changes</u>

Q. Has Transwestern proposed any tariff changes in this rate case filing?

A. Yes, Transwestern is proposing a number of tariff changes. These involve: (1) elimination of Rate Schedules EFBH and FTS-3, and the associated Forms of Service Agreement, (2) gas quality specifications, (3) modification of provisions related to providing reservation charge credits under specific conditions consistent with the commitment made by Transwestern in Docket No. RP04-214, (4) modification for the awarding of unsubscribed capacity, (5) updating and clarifying the operational procedures and Alert Day provisions, (6) simplification of scheduling of alternate receipt and delivery points, and (7) revisions to Transwestern's creditworthiness provisions. These proposed tariff revisions are shown on the tariff sheets included in Exhibit No. TW-11.

Q. Why is Transwestern proposing to eliminate services under Rate Schedules EFBH and FTS-3?

A. Rate Schedule EFBH provided an Enhanced Firm Backhaul service under which customers would commit on a firm basis to nominate backhaul volumes and receive a rate related to the value of newly-created incremental firm forwardhaul service arising from the backhaul nominations. No customers have ever utilized this service and with the change in system flows, Transwestern does not expect future demand for the service. Rate Schedule FTS-3 provides a Firm Transport Service tied to the EFBH service and, as noted, no customers have utilized these services. To effectuate this change the proposed tariff sheets reflect the cancellation of the Rate Schedules EFBH and FTS-3 and the related rate sheets and service agreements. Various conforming changes are also made to delete provisions and references regarding these services throughout the tariff.

Q. What are the gas quality specifications proposed by Transwestern and why are these changes being proposed?

A. Transwestern proposes the following gas quality specifications:

(1) An Oxygen ("O2") specification of 0.01%, which is a reduction from the current limit of 0.20%. This change results from pipeline integrity issues, and follows a report issued by the Pipeline Research Council International ("PRCI"), a copy of which is attached as Exhibit No. TW-3. As indicated in the Executive Summary of the report,

the conclusion is; "Internal corrosion studies indicated that the O2 content has to be controlled to be less than 100 ppmv (preferably 10 ppmv) to ensure that severe localized corrosion does not occur". This specification is consistent with other interconnected pipelines.

(2) A Hydrocarbon Dew Point ("HDP") safe harbor provision with a standard of 15 degrees. Consistent with the Commission's Policy Statement issued in PL04-3-000, attached as Exhibit No. TW-4, Transwestern is proposing this standard to address the problems of liquid fallout on its system, while simultaneously providing flexibility to accept gas supplies that may be subject to blending on the Transwestern system. This provision also is consistent with the recommendations in the NGC+ White Paper on Liquid Hydrocarbon Drop Out in Natural Gas Infrastructure, dated February 28, 2005, a copy of which is included as Exhibit No. TW-5. In addition, by structuring this provision on a safe harbor basis, Transwestern is providing the maximum flexibility to utilize the blending capabilities on its system, as well as on those downstream pipelines with which it interconnects. Therefore, Transwestern is proposing a fixed HDP limit at specific points if needed to ensure gas can flow at major interconnect points, but such posting cannot be below 15 degrees. A schedule listing the actual HDP at various points on the system over the last two years is attached as Exhibit No. TW-6.

(3) A new maximum BTU limit at receipt points of 1200 Btu/cf. This change will limit the maximum Btu level of the gas that can be delivered into the system. In conjunction with the HDP standard discussed above, the Btu limit addresses the potential for liquid hydrocarbon fallout on the Transwestern system, as well as

downstream in customer facilities. The proposed Btu limit balances the need to accommodate producer gas volumes, while recognizing the blending that occurs on the system. A schedule setting forth the average Btu levels at selected points by quarter for the last two years is attached as Exhibit No. TW-7.

(4) A receipt point Wobbe range of 1250-1400. This range is consistent with the NGC+ White Paper on Natural Gas Interchangeability and Non-Combustion End Use dated February 28, 2005, a copy of which is attached as Exhibit No. TW-8. Transwestern has reviewed the historic range of Wobbe values for the gas transported on its system. Attached as Exhibit No. TW-9 is a two-year history of the Wobbe levels as well as minimum and maximum days for each year, at various points on the Transwestern system. After reviewing the variations with respect to gas received for transportation on its system historically, as adjusted for the NGC+ recommendations, Transwestern established the proposed levels.

(5) Delivery standards are established pursuant to the Commission's Policy Statement on Gas Quality. The gas stream delivered by Transwestern at the delivery points will conform to the gas quality specifications applicable to Transwestern's system.

(6) Separate gas quality specifications for the La Plata facilities are being removed.

Q. Please explain the operation of the hydrocarbon dew point limitation?

A. Transwestern will post a hydrocarbon dew point limitation to prevent liquid fallout from occurring, to maintain safe and reliable system operations and to ensure that gas received for transportation on its system will be accepted for delivery at points of interconnection with interstate and intrastate pipelines, end-users, and local distribution companies. Any limitation on the HDP will be kept to the minimum amount of time needed to bring the gas quality back into conformance with the tariff.

Q. How will Transwestern provide the HDP notice to its shippers?

A. Transwestern will establish and post on its internet website a limit on HDP for receipts on specified segments or other specified locations on its system as needed to prevent hydrocarbon liquid fallout at interconnects with interstate pipelines, intrastate pipelines, end-users, and directly-connected local distribution companies. Transwestern will provide as much notice as reasonably possible and will attempt to provide at least two days notice before implementing a limitation on HDP on its system. When there is an operational necessity to post a hydrocarbon dew point limit, Transwestern will post on its internet website the actual hydrocarbon dew point for the affected area. Such posting will be provided within twenty-four hours after calculation. Transwestern will also provide shippers with the methodology used for this calculation.

Q. Are these quality specifications consistent with the specifications of other pipelines interconnected to the Transwestern system?

A. Yes. Attached as Exhibit No. TW-10 is a table showing the gas quality specifications proposed by Transwestern as well as the quality specifications of the major interstate pipelines to which Transwestern is connected.

Q. Is Transwestern's proposal for gas quality specifications consistent with the Commission's Policy Statement in PL04-3-000?

A. Yes. In the Policy Statement, the Commission outlined 5 primary guidelines for such standards. These are:

(1) Gas standards should be based upon sound technical, engineering and scientific considerations.

(2) Tariffs should contain provisions that govern the quality of gas received for transportation when necessary to manage hydrocarbon dropout within acceptable levels.

(3) Pipelines filing to revise their gas quality standards are to include a comparison, in equivalent terms, of their proposed gas quality specifications to those of interconnecting pipelines.

(4) The pipeline tariff should state the natural gas quality specifications for gas that the pipeline will deliver to its customers.

(5) The policy statement encourages the use of blending, pairing, or other strategies to combine rich gas supplies with lean gas supplies in order to accommodate more production, when such actions can be taken on a nondiscriminatory basis and consistent with safe and reliable operations.

Q. How has Transwestern complied with these guidelines?

A. There is strong support for each change proposed by Transwestern. As outlined, the standards are structured to accommodate blending occurring on the system. For example, as shown on Exhibit TW-9, Wobbe levels vary significantly on the east end of the Transwestern system, while the Wobbe levels of gas flowing on the west end of the system do not vary as significantly, due to processing and blending. The receipt point standards will continue to allow Transwestern the flexibility to accept producer supplies with different hydrocarbon constituents. Similarly, Transwestern's proposed standards ensure ongoing transportation to delivery point interconnects.

Q. What provisions are being changed with regard to reservation charge credits?

A. Consistent with the commitments made by Transwestern in the resolution of a complaint filed in Docket No. RP04-214-000 (Order Dismissing Complaint issued August 27, 2004), Transwestern will provide partial reservation charge crediting due to planned maintenance activities.

Q. Which tariff provision is affected by this change?

A. Section 3.2 (b) of Rate Schedule FTS-1 is being modified. In the event Transwestern provided advance notice of the scheduled maintenance which result in an inability of Transwestern to deliver all scheduled volumes after 10 days in any calendar quarter, and when deliveries to a shipper falls below seventy-five percent in any month, an affected shipper's reservation charges will be credited.

Q. Does Transwestern have any other provisions in its tariff regarding the scheduling of maintenance activities?

A. Yes. Transwestern has agreed with its customers that it will attempt to schedule pipeline maintenance in the months other than critical periods when gas is most needed to meet their requirements. Section 3.2 (a) of Rate Schedule FTS-1 provides that Transwestern will credit shippers reservation charges if scheduled volumes are not delivered during three of the winter months, December, January and February, and in two summer months, July and August. These are obviously the months when shippers have the least flexibility to accommodate a disruption.

Q. When is pipeline maintenance scheduled?

A. Transwestern has a unique arrangement with operators of other interconnected pipelines, gathering systems, processing plants, and production infrastructure, primarily in the San Juan production area. All of these facilities must have periodic maintenance for safe, reliable operations and to meet other governing agency operating requirements. Thus, Transwestern has found that it is beneficial for its maintenance activities to be coordinated to minimize disruptions to gas supply and shipper deliveries.

Q. Do these overall maintenance limitations and reservation charge credit provisions reflect a fair balance between the pipeline's need to perform maintenance and the provision of service to shippers?

A. Yes. Transwestern has provided flexibility in its maintenance activities to minimize the economic disruptions to shippers and their suppliers caused by required maintenance activities, yet provide Transwestern a reasonable opportunity to comply with regulatory and operational requirements.

Q. What changes are being proposed for scheduling of transportation service?

A. Section 22.2 of the General Terms and Conditions of the tariff has been modified to provide the appropriate scheduling priority for firm alternate receipt and/or delivery point scheduling according to in-the-path or out-of-path firm rights for shippers. In addition, the changes accord proper recognition of highest value transport for scheduling interruptible service and authorized overruns under firm service. These changes properly reflect firm, primary, alternate, and interruptible priorities.

Q. What changes are being proposed for the Alert Day provisions of the tariff?

A. Section 22.4 of the General Terms and Conditions of the tariff has been modified to provide a reduction in the minimum notice for an Alert Day from twenty-four hours to two hours. The previous twenty-four hours provision was established prior to the implementation of the current four nomination periods available to shippers each day. If a shipper underdelivers or overdelivers, and such action threatens system integrity or safe operational conditions, Transwestern must act quickly to bring system operations into balance. While Transwestern intends to provide as much advance notice as possible of an Alert Day declaration, the pipeline system cannot tolerate twenty-four hours before shippers must bring their receipts and deliveries into balance during a critical period. Transwestern has no system storage and only limited levels of line pack to accommodate differences between receipts and deliveries. The penalty for violating the Alert Day limit is proposed to be changed from $5.00 per Dth to the greater of $5.00 per Dth or two times the average price of gas in the affected area of the system for variances in excess of 4% but less than 6%. The penalty for variances in excess of 6% is proposed to be changed from $ 10.00 per Dth to the greater of $ 10.00 per Dth or three times the average price of gas in the affected area. Currently, if the price of gas is greater than $5.00 per Dth, shippers will not have the proper incentive to cooperate with the Alert Day notification. Since the price of gas in Transwestern's market has often exceeded $5.00 per Dth, the penalty for disregarding the Alert Day notice must be greater to ensure compliance. Accordingly, Transwestern believes that the penalty must be modified in order for the Alert Day process to work properly.

Q. Is Transwestern proposing any changes that simplify the awarding of unsubscribed system capacity?

A. Yes. Transwestern is providing for pre-arranged contracting for capacity, subject to third-party bidding and a right to match. Such provisions are reflected in the proposed tariff sheets shown in Exhibit No. TW-11. This mechanism is consistent with the current Transwestern tariff for sale of posted capacity and ROFR capacity and eliminates uncertainty regarding the mechanical process of selling capacity on a prearranged basis.

Q. What changes has Transwestern made regarding its creditworthiness requirements?

A. Transwestern has updated its tariff to simplify the references and to provide that shippers that otherwise fail to establish acceptable creditworthiness may still receive service by providing collateral in an amount equal to the highest three months of expected usage. In addition, language has been added regarding the credit standards for those shippers entering into contracts which are the basis of system expansions. This language ensures that the economic responsibility for such expansion is supported by the expansion shipper contracts and associated commitments. The creditworthiness standards previously a part of Appendix B of Rate Schedule FTS-4 is eliminated and the updated standards in the General Terms and Conditions will now apply.

Fuel Charges

Q. Has Transwestern made adjustments to the fuel rates on the system?

A. Yes. Transwestern reviewed the fuel usage experienced on the system and changes in system flow characteristics, and expected flows based on contract volumes and capacity, and made adjustments to the fuel rates. Transwestern's system has three transportation rate areas: East of Thoreau, San Juan and West of Thoreau. A fuel retention percentage has been determined for each of these three areas. The fuel rates for gas moving from the San Juan Basin to points of delivery West of Thoreau have been substantially reduced. For example, the fuel retention for volumes moving from the Blanco area to the California border will be reduced from 4.75% to 3.14%. However, the fuel rates for gas moving from the San Juan Basin to points of delivery East of Thoreau have increased, due to the actual system flow characteristics. For example, the fuel retention for volumes moving from the Blanco area to the East of Thoreau area will increase from 1.56% to 2.98%. These fuel rates are shown on the attached Exhibit No. TW-12.

Q. Has Transwestern made any other adjustments to its fuel rates?

A. Yes. First, Transwestern is proposing that, for the San Juan lateral, separate fuel retention percentages be established for the Ignacio to Blanco and Blanco to Thoreau segments. Second, Transwestern has specified a fuel rate for deliveries West of Thoreau, but east of the California border, which reflects the fact that such gas volumes do not utilize all of the compression necessary to move gas volumes to the California border area. Third, Transwestern is proposing a separate fuel rate in the East of

Thoreau area for volumes received and delivered East of Thoreau. In each of these three cases, Transwestern's proposal matches fuel retention with fuel usage and avoids subsidization. Attached, as Exhibit No. TW-11, are tariff sheets that contain the revised fuel rates. Attached, as Exhibit No. TW-12, is a table outlining fuel usage and the basis for the updated fuel calculations.

Q. Please discuss the roll-in of fuel quantities associated with the Red Rock expansion.

A. In the Red Rock expansion, new compression horsepower was installed at mainline stations 1, 2, and 3 that replaced older, less efficient units. Additional horsepower was also necessary to affect the expansion. These units are utilized in an integral operation for the flow of westbound mainline volumes and, as shown in Mr. Grygar's testimony, the related revenues and expenses support rolling-in those costs.

Q. What type of increased fuel efficiencies were gained in this project?

A. The older units were replaced at Compressor Stations Nos. 1, 2, and 3 had fuel consumption, at an efficient load, of approximately 6,800 to 7,100 Btu/BHP-Hr (HHV), while the new units had consumption, at an efficient load, of approximately 6,300 Btu/BHP-Hr (HHV). This represents a significant improvement in fuel utilization, and benefited both the existing system as well as Red Rock shippers. Accordingly, all of the fuel use of these units is included as part of the West of Thoreau fuel usage calculations.

Q. Are there any other adjustments in the fuel rate calculations?

A. Yes. Transwestern operates electric drive compression units at several compressor stations, including Bloomfield, Bisti, Gallup, Station 9, and WT-1. For Bloomfield, Bisti, and Gallup, the current contracts provide for the exchange of gas volumes for the electric usage at the stations. As such, the actual contracted gas volume exchange is included in the fuel calculations. At Station 9 and WT-1, the cost of the electricity utilized in these units is converted to an equivalent gas amount and included in the fuel use calculations.

Capitalization and Return

Q. What capitalization is included in this filing?

A. Transwestern utilized its actual debt/equity levels of 41.45% debt and 58.55% equity, as shown in Statement F-2, contained in my Exhibit No. TW-13.

Q. What Return on Equity is Transwestern requesting in this filing?

A. Transwestern has proposed a Return on Equity of 13.50%. This level is consistent with the analysis in the testimony of Mr. Hevert, and the business risks outlined by Mr. Reed and Ms. Corman. This level is also consistent with recent FERC authorized rates for pipeline expansion projects as well as the range of rates authorized by the Commission over a long history in pipeline rate filings.

Q. Does Transwestern consider this Return on Equity to be reasonable?

A. Yes. Transwestern operates in a very competitive environment, and is subject to substantial risk that it would be unable to earn its allowed return. Such factors are discussed at length in Mr. Reed's and Ms. Corman's testimony. In addition, much of

Transwestern's rate base reflects recent capital investment. The rate base filed in Transwestern's 1993 Rate Case was $465 million. The rate base reflected in this filing, as shown on Exhibit No. TW-18, is $792.2 million. This 70% increase in rate base reflects Transwestern's substantial investment in infrastructure since the last rate case. Transwestern has proposed to roll-in all of the capital investment and expansion projects completed on its system since the last rate case. Detailed discussion of the major expansion projects, and associated economics, is contained in the testimony of Mr. Grygar.

Q. Why has Transwestern made investments that have increased its rate base?

A. Transwestern operates in an area where markets have changed substantially over the last 10 years. While deliveries to California constituted the historic market for production received into the Transwestern system, there are now substantial volumes moving east on the system. Transwestern essentially operates in a wholesale position within the natural gas market. The majority of the gas on its system moves from producing basins to interconnects with other pipeline systems as opposed to direct end-use markets. Due to these changes in the overall competitive marketplace, Transwestern needed to make investments to restructure its system in order to access new markets or expand its ability to access existing markets.

Q. Does Transwestern anticipate a need to continue to make such infrastructure investments to access new markets and/or expand its ability to serve existing markets?

A. Yes. On September 15, 2006, Transwestern filed a certificate application, Docket No. CP06-459-000, to expand its system to receive more gas production in the San Juan Basin, as well as to construct a new mainline lateral into the Phoenix market. This investment further reflects the dynamic, changing gas market on the Transwestern system. Transwestern will continue to address changes in the historic California market which, as discussed by Ms. Corman, continues to turn back capacity on the Transwestern system. Over the long-term, Transwestern must continue to "reinvent" itself and its ability to serve non-traditional market needs.

Q. Is Transwestern's requested Return on Equity consistent with its long-term need for investment capital?

A. Yes. Transwestern's proposed Return on Equity is in line with the Commission's approval of expansion projects on other pipelines, which generally have been approved at Return on Equity levels of 14.00%. Attached as Exhibit No. TW-14 is a listing of certificate filings for pipeline expansions and the associated returns approved for those projects.

Q. Why is this significant for Transwestern?

A. When any pipeline undertakes a major capital expansion, whether priced on a rolled-in or incremental basis, such project is generally financed in part with equity infused by the pipeline's owners. Owners will only make such an investment if they are assured of a chance to earn a reasonable return, which as shown above has been around 14.00%. The Commission actively encourages the development of infrastructure, and the returns authorized have been in furtherance of that policy. If in a later rate case, the Commission reduces these previously authorized return levels upon which investment decisions were based, the underlying premise and justification are undercut. The industry would be left in doubt as to the Commission's real long-term policy with regard to capital investments. Transwestern believes strongly that the Commission's policy of encouraging infrastructure development is the right one for the national energy market and for consumers. The Commission knows the age of the pipeline industry's existing infrastructure. Where companies have shown that they are reinvesting, or expanding their investments in infrastructure, such companies should be granted appropriate levels of return. On this basis, Transwestern's proposed return, given its risk profile, infrastructure investments, proposed additional capital commitments, and expense levels, is more than reasonable.

Q. Has Transwestern complied with the commitments made in the resolution of Docket No. IN02-6-000?

A. Yes. In the Stipulation and Agreement filed in Docket No. IN02-6-000, Transwestern agreed not to seek recovery of interest costs or fees associated with the debt financing entered into immediately prior to the Enron bankruptcy filing.

Q. Are any of such costs included in Transwestern's capitalization and/or cost of service?

A. No. Such debt was extinguished through subsequent refinancings. All Enron-related debt financing has been eliminated and all interest costs associated with this previous debt, and any associated financing costs, are not in Transwestern's cost of service. Transwestern's current capitalization reflects debt that was issued after the Stipulation and Agreement in Docket No. IN02-6-000, as shown on Statement F-3, which is attached as Exhibit No. TW-15. Transwestern's current debt/equity ratio is consistent with the ratios approved in other pipeline rate cases and reflects a reasonable debt and equity level.

Q. Has Transwestern made any changes in its basic rate design underlying its current rates?

A. No. Transwestern has maintained its current Straight Fixed Variable ("SFV") rate design, and updated the rates for the cost of service levels, with appropriate allocations between transportation rate areas to reflect changes in system utilization. Transwestern has maintained its current area rate structure consisting of the East of Thoreau, San Juan and West of Thoreau areas.

Q. Is Transwestern recovering its cost of service at the proposed rates?

A. No. As shown on Exhibit No. TW-41, Transwestern's projected revenues are approximately $182 million, which results in an approximate $28 million undercollection of Transwestern's $210 million cost of service. This revenue level reflects the uncertainty and risk that affect Transwestern's current and projected operations. Transwestern in particular is experiencing an upheaval in the markets in which it operates due in large part to overcapacity, which has manifested itself in intense competition among service providers, deep discounting of transportation rates, and an unwillingness by customers to commit to long-term contracts.

Q. Are there any other matters related to this rate case filing?

A. Yes. On September 15, 2006, there was an announcement of a series of proposed transactions whereby the 50 percent interest in CCEH currently owned by a subsidiary of General Electric Company and four others entities will be sold to Energy Transfer Partners ("ETP"). ETP and Southern Union Company have entered into an agreement whereby ETP will transfer its interest in CCEH to Southern Union in exchange for full ownership of Transwestern.

Q. Will these transactions occur prior to the end of the Test Period?

A. These transactions may occur prior to the end of the Test Period, but that cannot be assured at this time, due to the federal and state regulatory approvals that must be obtained, and other contingencies. As such, Transwestern's filing does not reflect this proposed transaction.

Q. Does this complete your prepared direct testimony?

A. Yes, it does.

The State of Texas}
} SS.
County of Harris }

BEFORE ME, the undersigned authority, on this day personally appeared Michael T. Langston, who being by me first duly sworn, on oath deposes and says:

That he is the Michael T. Langston, offering the foregoing prepared direct testimony and that all statements of fact contained therein are true and correct to the best of his knowledge, information and belief.

/s/ Michael T. Langston
Michael T. Langston

Subscribed and sworn to before me this 28th day of September, 2006.

/s/ Suzanne Samano
Notary Public

My Commission Expires:

April 6, 2010