

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

Iroquois Gas Transmission System, L.P.) Docket No. RP04-____

**PREPARED DIRECT TESTIMONY OF
SCOTT E. RUPFF
ON BEHALF OF
IROQUOIS GAS TRANSMISSION SYSTEM, L.P.**

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

2 A.1 My name is Scott E. Rupff. My business address is One Corporate Drive, Suite
3 600, Shelton, Connecticut.

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

5 A.2 I am employed by Iroquois Pipeline Operating Company, a subsidiary of Iroquois
6 Gas Transmission System, L.P. (“Iroquois” or the “Company”), as Manager of
7 Marketing.

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

9 A.3 I received a Bachelor of Science degree in Chemical Engineering from Bucknell
10 University in May, 1986. Prior to joining Iroquois, I was employed by the Long
11 Island Lighting Company from June, 1986 to August, 1994, holding various
12 positions in the Gas Supply and Planning Department. My last position there was
13 Engineer, Gas Supply and I was responsible for purchasing approximately \$150
14 million natural gas annually within economic, regulatory, and pipeline/utility
15 operational constraints while adhering to generally accepted standards of

1 prudency. In August, 1994, I joined Iroquois Pipeline Operating Company as
2 Supervisor of Marketing, responsible for the development and marketing of
3 transportation services offered by the pipeline, as well as the contract
4 administration/financial review functions associated with providing such services.
5 In November, 1998, I was promoted to my current position of Manager of
6 Marketing.

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

8 A.4 My testimony will supplement and further support the business risk testimony of
9 Iroquois witness Dr. Gaske. My testimony will also project the test-year estimate
10 of sales of unsubscribed Eastchester capacity, in further support of the testimony
11 of Iroquois witness Mr. Rakebrand.

12 **Q.5 What exhibits are you sponsoring?**

13 A.5 I am sponsoring the following exhibit:

14 Exhibit ____ (SER-1): Prepared Direct Testimony of Scott E. Rupff

15

16 Additionally, I am co-sponsoring with Mr. Rakebrand:

17

18 Exhibit ____ (IGT-1): Statement G – Revenues and Billing
19 Determinants

20

21 **Q.6 Were these exhibits prepared by you or under your direction or**
22 **supervision?**

23 A.6 Yes, they were.

24 **Q.7 Before more broadly addressing the business risks you see facing Iroquois'**
25 **Eastchester Extension Project, please identify the shippers (and their**
26 **contracts) currently subscribing to the project, as well as that portion of the**
27 **project capacity that is unsubscribed.**

28 A.7 The current Eastchester Shippers and their contracts are as follows:

Shipper	Contract No.	Volume (Dt/d)	Start Date	End Date
KeySpan Ravenswood, Inc.	R-2840-02	60,000	2/1/2004	2/1/2013
Consolidated Edison Energy, Inc.	R-2275-01	30,000	2/1/2004	2/1/2013
Reliant Energy Services, Inc.	R-2130-02	50,000	2/1/2004	2/1/2013
Reliant Energy Services, Inc.	R-2130-03	10,000	2/1/2004	2/1/2013
Consolidated Edison /Virginia Power	R-560-04	20,000	11/1/2002	2/1/2012
Sub-total – > 2 Years		170,000		
Consolidated Edison Co. of New York, Inc.	R-560-05	5,000	11/1/2003	4/1/2004
Sempra Energy Trading, Corp.	R-1710-06	30,000	11/1/2003	11/1/2004
Amerada Hess Corp.	R-1365-04	5,000	11/1/2003	4/1/2004
Sub-total – < 2 Years		40,000		
Open Position		20,000		
TOTAL		230,000		

By way of background, it should be recalled that, at the time the Commission issued its “Preliminary Determination” on June 1, 2001, Iroquois had executed precedent agreements with five shippers for ten-year contracts covering the full 230,000 Dt/d of capacity. As recognized in the Commission’s March 13, 2002 order on rehearing, however, by early 2002, the economic recession, as exacerbated by the events of September 11, 2001, together with the Enron bankruptcy, had brought about a significant dampening effect on the energy sector. The resulting uncertainty had caused energy market participants to review their investment strategies and to postpone or defer projects in some cases, including certain Eastchester Shippers, who had indicated that they might not execute their service agreements. Consequently, Iroquois requested waiver of the condition requiring executed service agreements covering the full 230,000 Dt/d represented by the precedent agreements, so as to allow Iroquois to move forward with the construction based on executed service agreements covering 65 percent of the project capacity, and the Commission granted said waiver in its March 13, 2002 order on rehearing.

1 Listed first in the above table are five long-term contracts with KeySpan
2 Ravenswood, Inc. (“KeySpan Ravenswood”), Consolidated Edison Energy, Inc.
3 (“ConEd Energy”), Reliant Energy Services, Inc. (“Reliant”), and Consolidated
4 Edison Company of New York, Inc. (“Consolidated Edison”) totaling 170,000
5 Dt/d, which more than satisfied the 65 percent commitment noted above. I should
6 note that the latter Consolidated Edison contract for 20,000 Dt/d is a 3-year
7 release under a longer-term contract (ending 2/1/2012) for that capacity with
8 Virginia Power Energy Marketing, Inc. (“Virginia Power”). As also shown on the
9 above table, of the remaining 60,000 Dt/d of Eastchester capacity, there are
10 contracts totaling 40,000 Dt/d for relatively short terms (all expiring in 2004) with
11 Consolidated Edison, Sempra Energy Trading Corp. (“Sempra”), and Amerada
12 Hess Corp. (“Amerada Hess”), while the other 20,000 Dt/d of capacity (shown as
13 Open Position) remains wholly unsubscribed.

14 **Q.8 What revenues do you project for any test-year sales of unsubscribed**
15 **capacity.**

16 A.8 As to the 20,000 Dt/d of currently unsubscribed capacity, as well as the 10,000
17 Dt/d of capacity that will become unsubscribed during the test year when the 5-
18 month Amerada Hess and Consolidated Edison contracts expire, I have projected
19 the sale of such capacity through short-term transactions at an average rate of 25
20 cents per Dt, as shown on Statement G. Similarly, for the Sempra contract, which
21 employs a market-determined rate, I estimated an average rate for the test year of
22 25 cents per Dt. Given the competitive challenges facing Eastchester (which I
23 will discuss later), these estimates are reasonable – indeed optimistic.

1 In any event, as discussed by Iroquois witnesses Mr. Rakebrand and Mr.
2 Johnston, Iroquois has designed the maximum rate for Eastchester firm service to
3 assume the risk of marketing the full 230,000 Dt/d of capacity at such maximum
4 rates. As Statement G demonstrates, Iroquois indeed will suffer that risk by
5 significantly undercollecting its test-year revenue requirements.

6 **Q.9 Please now turn to more broadly identify the business risks that you see**
7 **facing the Eastchester Extension Project.**

8 A.9 As illustrated above, Iroquois faces significant risks that it will not be able to fully
9 recover its Eastchester costs over the life of the facilities. Such risks are
10 particularly heightened for Eastchester as the result of:

- 11 • Competition from other pipelines.
- 12 • Competition from electric transmission.
- 13 • Risk of default, particularly by shippers tied to specific electric generating
14 projects.
- 15 • Declining basis differentials.

16 **Q.10 Please elaborate on the first point outlined above, competition from other**
17 **pipelines.**

18 A.10 The New York City area market served by Eastchester is served by numerous
19 other pipelines that also tie into the New York Facilities System, including in
20 particular, Tennessee Gas Pipeline Co. (“Tennessee”), Texas Eastern
21 Transmission Corp. (“Texas Eastern”), and Transcontinental Gas Pipe Line Corp.
22 (“Transco”). Given Iroquois’ portfolio of Eastchester contracts with terms of 10
23 years or less and with significant capacity unsubscribed both currently and in the
24 near future, these pipelines pose significant competition to both the near-term and
25 long-term marketability of Eastchester capacity. Specifically, the “Index of

1 Customers” (FERC Form No. 549-B) for each of the above referenced pipelines
2 as reflected on the Federal Energy Regulatory Commission’s web site indicates
3 that approximately 2.02 Bcf/d of contracts (Tennessee = 0.45 Bcf/d , Texas
4 Eastern = 0.48 Bcf/d, Transco = 1.09 Bcf/d) having a primary delivery point that
5 interconnects with the New York Facilities System are due to expire between
6 2003 and 2013

7 Additionally, there are several new projects which have received their
8 FERC certificates. In particular, the Millennium Project is designed to deliver
9 350,000 Dt/d to New York City, and the Islander East Project, which has market
10 support as demonstrated by the Precedent Agreements that were included in its
11 original application (FERC Docket No. CP-01-384), is designed to deliver
12 285,000 Dt/d to Long Island. Moreover, several other interstate pipelines are
13 proposing expansions into New York City in the 2005-06 timeframe, as for
14 example Tennessee’s Northeast ConneXion Project which proposes to add an
15 additional 300,000 Dt/d to this region.

16 **Q.11 You next listed competition from electric transmission. Please elaborate.**

17 A.11 In addition to direct competition from other pipelines, Eastchester indirectly
18 competes with electric transmission projects that are designed to provide non-
19 New York City electric generators, with a presumably lower installation cost,
20 access to the New York City electricity market. For example, the delivered price
21 of electric power transmitted from sources outside of the city will significantly
22 affect the demand for, and value of, Eastchester capacity that provides fuel for
23 electric generation facilities located within the city. As reflected by the New
24 York State Public Service Commission in its summary of Electric Article VII

1 Cases, several transmission projects have been either announced, filed, or
2 certified that may displace Eastchester capacity or force discounts to its rates in
3 the future. These projects include the 2000 MW Empire Connection Project, the
4 600 MW Neptune Project, and the 600 MW Cross Hudson Project.

5 **Q.12 Please turn to the next point, the risk of default by Eastchester Shippers tied**
6 **to electric generating projects.**

7 A.12 In light of Iroquois' recent experience with USGen New England, Inc.
8 ("USGen"), a Non-Eastchester Shipper, Iroquois knows all too well the risks and
9 uncertainties associated with contracts with electric generators in these "post-
10 Enron" times. USGen has filed for bankruptcy, and on September 11, 2003, the
11 bankruptcy court terminated a number of USGen's gas transportation contracts,
12 including two long-term contracts with Iroquois totaling 52,000 Dt/d.

13 As to Eastchester, a number of the contracts listed above are with electric
14 generators and are destined for particular new or repowered generating plants, i.e.,
15 those long-term contracts with Reliant (60,000 Dth/d), ConEd Energy (30,000
16 Dt/d), and KeySpan Ravenswood (60,000 Dt/d). Of particular concern are the
17 Reliant contracts. Reliant entered into these contracts to serve its planned Astoria
18 Repowering Project, representing incremental generation of 562 MW that was
19 planned to come on-line in 2004. That project has since been delayed to at least
20 2007, and there are no indications that it will ultimately be constructed.
21 Accordingly, these contracts are very much "at risk," particularly in light of the
22 financial difficulties facing the Reliant Resources family in general.

23 I should add in this connection that this 60,000 Dt/d of Eastchester
24 capacity under contract with Reliant, for which it has no incremental market, will

1 directly compete as released capacity with Iroquois' ability to market the 60,000
2 Dt/d of capacity that is in part unsubscribed and in part subscribed for short terms
3 that will soon end in 2004.

4 **Q.13 Please now elaborate on the point concerning basis differentials.**

5 A.13 Around the time of certification of the Eastchester project, basis differentials were
6 quite strong, but since that time have moved in a direction that greatly reduces the
7 marketability of unsold Eastchester capacity. In September, 2000 (5 months after
8 Iroquois filed the Eastchester application), the 1-year forward basis at Dawn was
9 \$0.15/Dt lower than the 1-year forward that we currently see in today's
10 marketplace. Likewise, the 1-year forward basis at New York City (Transco Z6
11 NY) was at that time \$0.20/Dt higher than that we see in today's marketplace.
12 Consequently, the value of Eastchester transportation has dropped \$0.35/Dt.
13 Moreover, given FERC's determination that fuel should be charged incrementally
14 to Eastchester Shippers (a significant increase in their cost of transportation), the
15 value of Eastchester transport has been further eroded by approximately \$0.15-
16 \$0.20/Dt. In sum, the value of Eastchester transport has been severely eroded by
17 about \$0.50/Dt or more. Over the period that the rates in this proceeding are
18 likely to be in effect, this erosion renders the 60,000 Dt/d near-term surplus of
19 Eastchester capacity at a market value far below the cost-based maximum rate
20 derived in this proceeding.

21 **Q.14 Does this conclude your prepared direct testimony?**

22 A.14 Yes, it does.