

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
JOHN E. SMITH
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 John E. Smith. I am the Director of Rates & Economic Analysis for
3 Spectra Energy Transmission, LLC (“Spectra”). Spectra’s home office is located
4 at 5400 Westheimer Court, Houston, Texas 77056. Employees of Spectra
5 perform administrative functions for Saltville Gas Storage Company L.L.C.
6 (“Saltville”). In that capacity, I oversee the allocation and rate design, regulatory
7 accounting and rate-related economic issues for Spectra’s FERC-regulated
8 entities, such as Saltville.

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

10 A. I earned a Bachelor of Science Degree in Civil Engineering in 1980 from
11 Oklahoma State University in Stillwater, Oklahoma. I earned a Master of
12 Business Administration degree in 1983, from the University of Houston in
13 Houston, Texas.

14 I began my career in 1981 with Texas Eastern Transmission Corporation
15 which, through a series of mergers and acquisitions, is now a wholly-owned
16 subsidiary of Spectra.

17 I held various Engineering positions with the company until I joined the
18 Rates and Regulatory Affairs Department as a Senior Rate Analyst in 1985.

1 In 1988 I was promoted to the position of Supervisor of Rate Case
2 Administration. Since that time I have held positions of increasing responsibility
3 in the Rates and Regulatory Affairs area. I assumed my current position of
4 Director of Rates and Economic Analysis in 1999.

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

6 A. I am testifying on behalf of Saltville.

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

9 A. Yes, I have provided testimony in various rate proceedings before the Federal
10 Energy Regulatory Commission (“Commission”).

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

12 A. The purpose of my testimony is to explain and support the cost allocation and rate
13 design methodologies utilized to develop the rates proposed by Saltville in this
14 proceeding, as shown in Statements I and J (and supporting schedules), and as set
15 forth on the revised sheets filed herein, as part of Saltville’s FERC Gas Tariff,
16 Original Volume No. 1 (“Tariff”).

17 **Q. 6 What statements, schedules, or exhibits are you sponsoring in conjunction**
18 **with your direct testimony?**

19 A. I am sponsoring the following statements and schedules: Functionalization of
20 Cost of Service (Schedule I-1); Classification of Cost of Service (Schedule I-2);
21 Comparison and Reconciliation of Estimated Operating Revenues with Cost of
22 Service (Statement J); Summary of Billing Determinants (Schedule J-1); and
23 Derivation of Rates (Schedule J-2).

1 **Q. 7 Were these exhibits prepared by you or under your direction or supervision?**

2 A. Yes, all of these statements and schedules were prepared under my direction and
3 supervision.

4 **COST FUNCTIONALIZATION AND CLASSIFICATION**

5 **Q. 8 Please explain generally the overall process utilized by Saltville to**
6 **functionalize and classify its costs.**

7 A. Generally, the cost of service amounts are functionalized and these storage
8 function costs are then classified as fixed or variable using the Commission's
9 Straight Fixed-Variable cost classification methodology, which assigns 100% of
10 the fixed cost of service items to reservation rates and 100% of the variable cost
11 of service items to usage rates. The fixed and variable storage function costs are
12 then assigned to individual services.

13 In this proceeding, all the cost of service amounts, provided by Ms. Lisa
14 A. Moore as set forth in her Prepared Direct Testimony, were functionalized to
15 the storage function. The storage function costs assigned to firm services were in
16 turn assigned as follows: 100% of the fixed cost of service items were assigned to
17 reservation rates and 100% of the variable cost of service items to the storage
18 injection and withdrawal charges. A portion of fixed costs was then assigned to
19 interruptible services, as explained below, and the remainder of such costs was
20 assigned to firm services.

21 **RATE DESIGN**

22 **Q. 9 Please identify the rate design methodology utilized by Saltville in this**
23 **proceeding.**

24 A. I utilized the *Saltville* rate design methodology to functionalize and classify
25 Saltville's cost of service. The *Saltville* methodology, which is a modification of

1 the *Equitable* methodology, was approved in deriving Saltville's rates in its
2 certificate proceeding in Docket Nos. CP04-13, *et al.* in the Commission's Order
3 on Compliance Filing and Amending Certificate issued in that proceeding.¹

4 After costs are removed from the total fixed cost of service for allocation
5 to interruptible services, as discussed more fully below, the remaining fixed costs
6 are assigned to the firm storage service under Rate Schedule FSS. The Saltville
7 rate design methodology assigns one third of the fixed costs assigned to the firm
8 storage service to each of three Rate Schedule FSS reservation components:
9 capacity, withdrawal, and injection in equal amounts. The reservation rates for
10 the capacity component are then derived by dividing those costs by the total
11 contracted Maximum Storage Quantity ("MSQ") for Rate Schedule FSS
12 customers. The reservation rates for the withdrawal component are derived by
13 dividing that one third of costs by the total contracted Maximum Daily
14 Withdrawal Quantity ("MDWQ"), and the reservation rates for the injection
15 component are derived by dividing those costs by the total contracted Maximum
16 Daily Injection Quantity ("MDIQ").

17 The variable cost of service is assigned to the usage component and is
18 divided by the total test period injection and withdrawal volumes to derive the
19 injection and withdrawal charge. This charge, which is applied on a usage basis,
20 is the same for both injection and withdrawals of gas from storage by both firm
21 and interruptible customers.

¹ *Saltville Gas Storage Company L.L.C.*, 109 FERC ¶ 61,200 (2004).

1 **Q. 10 How has Saltville assigned costs to interruptible services?**

2 A. Saltville has assigned approximately \$1,000,000 to its interruptible services by
3 removing that amount from the cost of service used to design rates for firm
4 storage service under Rate Schedule FSS. The rationale for the derivation of that
5 assignment is supported by Mr. Patrick T. Gibson in his Prepared Direct
6 Testimony.

7 **Q. 11 Please explain the methodology utilized to design the rates for interruptible**
8 **services?**

9 A. The rate for Rate Schedule ISS, ILS and IPS services is a derivative rate that is
10 developed by adding the following: 1/12th of the FSS MSQ rate, 1/30th of the FSS
11 MDWQ rate, and 1/30th of the FSS MDIQ rate. This rate design methodology for
12 interruptible services was approved for utilization by Saltville in its certificate
13 proceeding in Docket Nos. CP04-13, *et al.* in the Order on Compliance Filing and
14 Amending Certificate issued in that proceeding.²

15 **Q. 12 Have you provided statements and schedules which detail the process**
16 **described above?**

17 A. Yes. The Commission's regulations require that a natural gas pipeline filing to
18 change its rates summarize the classification and allocation of its costs through
19 Schedules I-1, I-1(a), I-1(b), I-1(c), I-1(d), I-2, I-3, I-4, and I-5. I have provided
20 all of these schedules, except for Schedule I-5, which is sponsored by Mr. Joe A.
21 Payne.

22 **Q. 13 Please describe Schedule I-1.**

23 A. Schedule I-1 shows the functionalization of the overall cost of service provided on
24 Statement A which is a statement sponsored by Ms. Lisa A. Moore. Since the

² *Saltville Gas Storage Company L.L.C.*, 109 FERC ¶ 61,200 (2004).

1 Saltville facilities consist solely of storage facilities, the overall cost of service for
2 Saltville is assignable to its storage function.

3 **Q. 14 Please explain Schedule I-2.**

4 A. Schedule I-2 shows the classification of cost of service items utilizing the
5 Commission's SFV methodology. Cost classifications for the overall cost of
6 service are shown as between fixed and variable costs in Columns B and C, and
7 are assigned to reservation and usage in Columns E and F.

8 **Q. 15 Please describe Statement J.**

9 A. Schedule J-1 shows a comparison of the estimated operating revenues, as shown
10 on Schedule G-2 to the cost of service shown on Schedule I-2 and the resulting
11 difference, which demonstrates that the proposed rates collect the cost of service.

12 **Q. 16 Please describe Schedule J-1.**

13 A. Schedule J-1 shows a comparison of the billing determinants used to calculate
14 revenues on Schedule G-2 and the rate design determinants on Schedule J-2.

15 **Q. 17 Please describe the rate design calculations shown on Schedule J-2.**

16 A. Schedule J-2 shows the development of Saltville's three-part reservation rates for
17 firm storage service. As described above, Saltville has divided the Rate Schedule
18 FSS reservation rate cost of service into even thirds and has calculated rates for
19 contracted capacity, contracted maximum daily withdrawal capacity, and
20 contracted maximum daily injection capacity. The calculations for interruptible
21 services are described above.

1 **Q. 18 Does Saltville propose any changes to its rate design methodologies in this**
2 **filing?**

3 A. Yes, Saltville proposes to change the rate design for its Rate Schedule IPS and
4 ILS interruptible park and loan services in this filing. Saltville proposes simply to
5 utilize its Rate Schedule ISS interruptible storage service rate as its rates for
6 service under Rate Schedule IPS and ILS. The injection and withdrawal charges
7 would continue to apply to the Rate Schedule IPS and ILS volumes as they
8 currently do.

9 **Q. 19 What is the basis for Saltville changing its rate design for Rate Schedule IPS**
10 **and ILS service?**

11 A. Interruptible park and loan services under Rate Schedules IPS and ILS,
12 respectively, are similar to the interruptible storage service that is provided under
13 Rate Schedule ISS. As a result, these services should be priced similarly.

14 **Q. 20 Other than the rate design for IPS and ILS services, does Saltville propose**
15 **any other changes to its current FERC approved rate design methodologies?**

16 A. Yes, Saltville is proposing to change the way it recovers company use gas and
17 fuel, as described by Mr. Gregg E. McBride.

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

19 A. Yes, it does.