Exhibit No. SPC-1

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Stingray Pipeline Company, L.L.C.	§	Docket No. RP08-___-000

PREPARED DIRECT TESTIMONY OF DOUGLAS V. KRENZ ON BEHALF OF STINGRAY PIPELINE COMPANY, L.L.C.

JUNE 30, 2008

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Stingray Pipeline Company, L.L.C.	§	Docket No. RP08-___-000

SUMMARY OF THE
PREPARED DIRECT TESTIMONY OF
DOUGLAS V. KRENZ
ON BEHALF OF
STINGRAY PIPELINE COMPANY, L.L.C.

In his Prepared Direct Testimony, Exhibit No. SPC-1, Mr. Krenz, the President of Stingray Pipeline Company, L.L.C. ("Stingray"), provides an overview of Stingray's operations, describes the reasons why Stingray is filing for a rate increase at this time, and why the amount of the increase is necessary, identifies the various Stingray witnesses and describes how they support this rate filing, provides an overview of how Stingray developed the cost of service and rate of return that underlie its proposed rates, and explains why Stingray proposes to add to its tariff the "Event Surcharge" to recover costs associated with the prevention and remediation of damages from natural disasters, especially hurricanes. As Mr. Krenz explains, this rate filing is required to recover the increases in the operating costs experienced by Stingray since its last rate increase and an increase in return reflective of the risks associated with Stingray's offshore operations, to reflect in Stingray's rates the significantly decreased level of volumes flowing on its system, and to implement the Event Surcharge mechanism. The cost of service calculations described by Mr. Krenz reflect a revenue requirement of $19,924,183, which, as shown on Schedule J-2, yields maximum recourse rates for transportation service as follows:

Rate Schedule	Reservation Rate	Commodity Rate
FTS	$7.76	$0.0025
FTS Overrun		$0.2576
FTS-2		$0.2576
FTS-2 Overrun		$0.2576
Conditional Reservation Rate	$0.2551	
ITS		$0.2576
ITS Overrun		$0.2576
PAL		$0.2576

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PREPARED DIRECT TESTIMONY OF
DOUGLAS V. KRENZ
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STINGRAY PIPELINE COMPANY, L.L.C.

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

A. My name is Douglas V. Krenz. I am the Vice President of Gas Transmission & Development for Enbridge Inc. ("Enbridge"), the President of Enbridge Offshore (Gas Transmission) L.L.C. ("Enbridge Offshore"), and the President of Stingray Pipeline Company, L.L.C. ("Stingray"). The United States headquarters of Enbridge, Enbridge Offshore, and Stingray is located at 1100 Louisiana, Suite 3300, Houston, Texas 77002, which is where my office is located.

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

A. I received a B.S. in Mechanical Engineering from the University of Nebraska in December, 1973 and an MBA from the University of Nebraska in May, 1981. From 1974 through 1995, I held positions of increasing responsibility with various gas pipeline companies. During this period, I was involved with the development, acquisition and management of a number of major capital investments and businesses related to natural gas pipelines, storage fields, and gas processing. I joined Shell Gas Transmission ("SGT") in 1996 as the President of SGT. In that leadership role, I was responsible for the development of SGT's

natural gas pipeline business. I became President of Stingray in 2001 concurrent with the purchase of this asset by SGT from El Paso. On December 31, 2004, Enbridge purchased the SGT assets and I transitioned to Enbridge and continued to serve as President of Stingray and assumed the role of President of Enbridge Offshore. I assumed my position as Vice President of Gas Transmission and Development for Enbridge in August, 2006.

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

A. I am testifying on behalf of Stingray.

Q.4 What is the relationship between Enbridge and Stingray?

A. Enbridge Offshore, a wholly-owned subsidiary of Enbridge, owns a fifty percent interest in Starfish Pipeline Company, LLC ("Starfish"). Starfish owns Stingray. MarkWest Energy Partners LP ("MarkWest Energy") owns the other fifty percent interest in Starfish.

Q.5 Have you previously testified before the Federal Energy Regulatory Commission ("FERC" or "Commission")?

A. No. Although I have not testified at the FERC before, I have participated in a number of FERC technical conferences throughout my career.

Q.6 What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is (1) to provide an overview of Stingray's operations; (2) to describe the reasons why Stingray is filing for a rate increase at this time, and why the amount of the increase is necessary; (3) to identify the various Stingray witnesses and describe how they support this rate filing; (4) to

provide an overview of how Stingray developed the cost of service and rate of return that underlie its proposed rates; and (5) to explain why Stingray proposes to add to its tariff a surcharge for costs associated with the prevention and remediation of damages from natural disasters, especially hurricanes, which is referred to as the "Event Surcharge."

Q.7 Are you sponsoring any statements, schedules, or exhibits in conjunction with your testimony?

A. No.

Overview of Stingray's System

Q.8 What is the purpose of the Stingray system?

A. Stingray operates a dual-phase pipeline that transports a blended stream of undehydrated natural gas and injected condensate from offshore production platforms primarily in the shallow waters of the central Gulf of Mexico to onshore locations in Louisiana. The Stingray system is effectively a large supply aggregation system that collects offshore production from producers' platforms and delivers that production to onshore gas treatment and gas processing plants owned by other parties. Following receipt of the gas from these plants, Stingray can deliver the processed gas to ANR Pipeline Company, Bridgeline Pipeline, L.P., Natural Gas Pipeline Company of America, and Tennessee Gas Pipeline Company. Stingray's throughput is entirely dependent upon continuing exploration success and development of new production supplies from offshore reserves located near its pipeline facilities to offset the continuing rapid decline rates of connected sources.

Q.9 Why does Stingray transport a blended stream of injected condensate and undehydrated natural gas?

A. Because of the offshore location of the production attached to Stingray, it is not economically efficient for each producer to provide dehydration and liquid separation facilities in the limited space available on its respective offshore production platform. Stingray therefore permits shippers to transport unprocessed natural gas and injected condensate on its system to dehydration and liquid separation facilities onshore, where the natural gas can be processed at a lower cost to the producers. The transportation of liquids and unprocessed natural gas, however, has operational consequences for Stingray that cause it to incur increased operating expenses in order to maintain system integrity.

Q.10 What types of transportation services does Stingray provide?

A. Stingray primarily provides interruptible service (Rate Schedule ITS) and a usage-based firm service related to reserve dedications (Rate Schedule FTS-2). Stingray also provides parking and lending services (Rate Schedule PAL), and, though there is only one such active agreement in the test period, offers traditional firm transportation service (Rate Schedule FTS) and firm transportation overrun service (Rate Schedule FTS Overrun).

Q.11 Why does Stingray primarily provide interruptible and FTS-2 service?

A. Because of the declining production experienced by the producers connected to Stingray, Stingray has more available capacity than demand. I expect this will continue to be the case even if the Commission approves Stingray's proposed abandonment of capacity in Docket No. CP08-151-000, which will have the effect

of reducing the capacity of Stingray's system to approximately 650,000 dekatherms per day. As a result, Stingray's customers have little incentive or need to pay a reservation charge for capacity.

Overview of Rate Filing

Q.12 Why has Stingray filed this Section 4 rate case with the Commission?

A. There are three primary reasons. The first reason is to recover through its transportation rates the dramatic increases in the operating costs experienced by Stingray since its last rate increase, which became effective in 2003, and an increase in return reflective of the risks associated with Stingray's offshore operations. The second reason is to reflect in Stingray's rates the significantly decreased level of volumes flowing on its system. This decrease is due to normal production declines, which have been exacerbated by the damage caused during the 2005 hurricane season to production facilities in the Gulf of Mexico, as well as other, less dramatic production problems. It also results from less active drilling and development in the shallow waters of the Gulf of Mexico. The third reason is to implement a tariff mechanism that will enable Stingray to better manage prospectively the cost impacts of natural disasters such as hurricanes.

Q.13 Please explain why Stingray is facing decreasing throughput.

A. Demand for capacity on Stingray is dictated entirely by the level of production from the offshore production platforms directly or indirectly attached to Stingray. As happens over time with any producing field, the existing wells attached to Stingray are experiencing natural declines in production. Such natural production

declines would normally be offset with production from new sources. However, new production in the shallow waters of the central Gulf of Mexico is limited. In addition, Stingray faces stiff competition in attracting new production to its pipeline. Coupled with this natural decline in production is the loss of production from facilities damaged during the 2005 hurricane season, some of which has not been brought back online, as well as other production problems. As explained by Mr. Stephen L. Merritt in his Prepared Direct Testimony, Exhibit No. SPC-7, which discusses the reasons for declining throughput in more detail, Stingray has experienced a 17.7 percent decline in throughput when May 2007 throughput is compared with May 2008 throughput, even when May 2008 actual throughput is adjusted upward to reflect a full month of deliveries from production that actually flowed during only a portion of May 2008. We anticipate this decline will increase going forward.

Q.14 Please explain the costs increases that have occurred since Stingray's last rate increase.

A. This Section 4 rate filing ("Rate Filing") is Stingray's first rate proceeding since the Commission's acceptance in 2003 of the rate settlement in Docket No. RP99-166-000, which underlies Stingray's existing rates. That settlement required that the settlement rates remain in effect for a period of not less than three years from the date the rates were placed in effect pursuant to a final Commission order and until the settlement terminates on the earlier of (1) the date a rate change filing made by Stingray under Section 4 of the Natural Gas Act ("NGA") becomes effective or (2) the effective date of any rate change order from a proceeding

conducted pursuant Section 5 of the NGA. *See Stingray Pipeline Company, L.L.C.*, 101 FERC ¶ 61,365, at P 10 (2002). Since entering into that settlement, Stingray has experienced significant cost increases in connection with its operations. These are attributable to many factors, including general inflation, the highly competitive labor market in the Gulf Coast, and the limited availability of the skilled and specialized resources required to operate in the offshore environment. Stingray's cost increases also are attributable in part to cost escalations that occurred in the wake of Hurricanes Rita and Katrina, as many offshore operators sought access to limited equipment and personnel available for offshore operations, and in part to costs associated with increased regulatory burdens imposed by the Minerals Management Service for offshore operators. In addition, Stingray had to undertake extensive repairs of its system due to damage caused by Hurricane Rita in 2005. The rate increase in this Rate Filing reflects the inclusion in plant of only a portion of Stingray's capital investment in the repair of its system due to hurricane-related damage, as is more fully explained in the Prepared Direct Testimony of Mr. Stephen J. Neyland, Exhibit No. SPC-6.

Q.15 Please provide an overview of Stingray's proposed tariff mechanism to better address the cost effects of natural disasters.

A. Stingray has no way to predict when major natural disasters, such as Hurricane Rita, will affect its operations, but when they do, the impact can be significant. Because repair costs associated with such events are not necessarily regularly recurring and Stingray's then-existing shippers receive the immediate benefit of such repairs, Stingray is proposing, among other tariff changes, to add the Event

Surcharge to its tariff to recover actual costs incurred in connection with preparing for and repairing damage caused by major storms and other significant natural disasters that affect its system. The Event Surcharge is intended to recover only actual costs incurred and to provide Stingray with the revenue certainty it needs to justify rebuilding its system in the event of significant damage caused by a natural disaster.

Q.16 Please describe the damage Hurricane Rita caused to Stingray's pipeline system.

A. Stingray suffered serious damage to its facilities both onshore and offshore. This damage is described in more detail in the prepared direct testimony of Mr. Allan M. Schneider, Exhibit No. SPC-10. To briefly describe some of the major examples, Stingray's offices and control center onshore were badly damaged by storm surge, and all electrical equipment below the approximate 8-foot storm surge had to be replaced completely, in addition to the necessary major clean up and repairs done to the structures. Offshore, one Stingray line segment was caught by an anchor from a mobile drilling facility that broke its mooring, and the line was badly kinked and dragged approximately 2,000 feet off-center from its previous right of way. Another offshore line was also dislodged, to a lesser degree. Finally, a producer's offshore platform, on which Stingray had located equipment for an interconnect with another pipeline, was badly damaged and Stingray had to build sub-sea pipeline facilities to divert gas around the damaged platform.

Q.17 How has the damage caused by Hurricane Rita affected Stingray?

A. In addition to the immediate cost impact that Hurricane Rita had on Stingray, Hurricane Rita, in conjunction with Hurricane Katrina, caused shortages in materials, supplies and equipment in the Gulf of Mexico that, although they have moderated since 2005-2006, cause Stingray to experience significant cost increases in connection with its offshore operations. Furthermore, the premiums for property damage coverage related to Stingray's facilities, which are primarily offshore, have drastically increased since 2005; however, the level of Stingray's coverage has decreased and remains lower than the coverage level in 2005. Currently, the rate is approximately 150 percent higher for MarkWest Energy, as described in the Prepared Direct Testimony of Mr. Andrew L. Schroeder, Exhibit No. SPC-36, and approximately 100 percent higher for Enbridge, as described in the Prepared Direct Testimony of Mr. Neyland, Exhibit No. SPC-6, than it was in 2005. Finally, production previously attached to Stingray has never returned to pre-Hurricane Rita levels, due in part to damage to wells and platforms associated with Hurricane Rita and its aftermath. Thus, the 2005 hurricane season has significantly impaired Stingray's ability to recover, under current rates, its higher cost of doing business.

<u>Stingray's Witnesses</u>

Q.18 Who are the Stingray witnesses and what parts of the rate case are they supporting?

A. The witnesses and their general area of testimony are as follows:

Douglas V. Krenz	Overview of Rate Filing and the Event Surcharge;
Robert W. Neustaedter	Overview of cost of service and certain test period adjustments;
Stephen J. Neyland	Support for Stingray's base period account balances and test period adjustments thereto, verification that this Rate Filing reflects Stingray's FERC books and records, description of the costs and risks associated with Stingray's insurance coverage, and description of the Event Surcharge;
Stephen L. Merritt	Support for throughput, overview of Stingray's management structure, overview of production-related and commercial-related business risks, description of certain proposed tariff changes, description of certain third-party arrangements regarding gas processing and system operations, and description of change in management fee;
Allan M. Schneider	Overview of Stingray's system operations and operational business risks;
J. Peter Williamson	Support for rate of return, debt cost, and capital structure;
George R. Ganz	Calculation of Stingray's rates for federal and state income taxes and calculation of MarkWest Energy's 2007 state income tax rate;
Ken C. Lanik	Support for the federal and state income tax rates applicable to Enbridge Offshore's interest in Stingray and the balance of Stingray's accumulated deferred income taxes (ADIT) account; and
Andrew L. Schroeder	Support for the federal and state income tax rates applicable to MarkWest Energy's interest in Stingray, description of Mark West Energy's insurance premiums.

Overview of Cost of Service and Rate of Return

Q.19 By way of overview, please generally explain how Stingray developed the cost of service that underlies its proposed rates.

A. Consistent with general FERC practice, Stingray developed the rates proposed in this Rate Filing based on the costs incurred by Stingray to provide service, including a reasonable return on capital investment, as more fully described in the Prepared Direct Testimony of Mr. Robert W. Neustaedter, Exhibit No. SPC-2. Cost levels for the components of Stingray's cost of service were derived from a "test period," consistent with the Commission's regulations, using a base period consisting of the 12 months ending February 29, 2008, as adjusted for known and measurable changes through a test period that extends from March 1, 2008 through November 30, 2008. The individual components of the cost of service are described in the Prepared Direct Testimony of Mr. Neyland, Exhibit No. SPC-6.

Q.20 How did Stingray determine the return on capital investment used in this Rate Filing?

A. In addition to the recovery of the above described operating costs, Stingray is allowed to recover a reasonable amount of return on its capital investment by applying an overall rate of return to its rate base. Stingray witness Professor J. Peter Williamson provides support in his Prepared Direct Testimony, Exhibit No. SPC-20, for the Stingray capital structure used in this Rate Filing, Stingray's cost of debt, and a median cost of equity for an average risk onshore gas pipeline. As explained by Mr. Merritt (Exhibit No. SPC-7) and Mr. Schneider (Exhibit No.

SPC-10), Stingray, as a primarily offshore gas pipeline located in the shallow waters of the Gulf of Mexico, is riskier than the average onshore gas pipeline. Based on my pipeline experience and the business risk testimony of Mr. Merritt and Mr. Schneider, I have directed Mr. Neustaedter to use a cost of equity of 13.23 percent, which is the approximate midpoint between the median equity return of Professor Williamson's proxy group and the high end of the range of reasonable equity returns for the proxy group reported by Professor Williamson. As shown on Statement F-2, use of this cost of equity yields a rate of return of 9.87 percent. This rate of return constitutes a fair return and is the minimum rate of return required given the present cost of capital and business risks faced by Stingray.

Q.21 Please provide an overview of the results of the cost of service calculations you have described.

A. Statements A and J of this filing reflect a revenue requirement of $19,924,183, which, as shown on Schedule J-2, yields maximum recourse rates for transportation service as follows:

Rate Schedule	Reservation Rate	Commodity Rate
FTS	$7.76	$0.0025
FTS Overrun		$0.2576
FTS-2		$0.2576
FTS-2 Overrun		$0.2576
Conditional Reservation Rate	$0.2551	
ITS		$0.2576
ITS Overrun		$0.2576
PAL		$0.2576

Q.22 How does the revenue requirement associated with this Rate Filing compare to the revenue requirement underlying Stingray's existing rates?

A. Stingray's existing rates are settlement rates reached in Docket No. RP99-166-000 and are based on a "black box" cost of service. Therefore, there is no basis upon which to compare the revenue requirement associated with this Rate Filing to the revenue requirement underlying Stingray's existing rates. Given the cost increase experienced by Stingray since 2003, particularly in the wake of Hurricanes Rita and Katrina, and the decline in throughput described above, in addition to the fact that the majority of Stingray's customers contract for interruptible service or FTS-2 service under which they pay only commodity rates that are frequently discounted to meet competition, as explained in Mr. Merritt's Prepared Direct Testimony, Exhibit No. SPC-7, Stingray's ability to collect its cost of service, even under the rates reflected in this Rate Filing, is at significant risk.

Event Surcharge

Q.23 Has Stingray proposed any changes to its tariff as part of this Rate Filing?

A. Yes. The majority of the proposed changes to Stingray's tariff are general clean-up changes, such as standardizing the use of defined terms and updating contact information. Stingray has also proposed to make a number of other changes to its tariff to provide it and its shippers with greater flexibility, to facilitate administrative consistency in implementation of its service agreements, and to address issues that have arisen since Enbridge acquired an interest in Stingray as of December 31, 2004. In addition, Stingray has proposed to revise its interruptible transportation curtailment policies and its monthly imbalance cash-out process, and to permit Stingray to obtain capacity on other interstate pipelines. These changes and other changes are discussed in more detail in the Prepared Direct Testimony of Mr. Merritt, Exhibit No. SPC-7. Finally, the most significant change Stingray proposes to make to its FERC Gas Tariff is to add a surcharge mechanism—the Event Surcharge—to facilitate the recovery of costs related to natural disasters affecting its system. Mr. Neyland provides a detailed explanation of the mechanics of the proposed surcharge mechanism in his Prepared Direct Testimony, Exhibit No. SPC-6. I will discuss the policy reasons for Stingray's proposal.

Q.24 Why is Stingray proposing a surcharge for costs related to natural disasters?

A. Hurricanes Rita and Katrina inflicted almost paralyzing damage to the Central Gulf of Mexico's gas pipeline infrastructure and triggered a lengthy, expensive

recovery process that is not entirely completed almost three years later. The aftermath of Hurricanes Rita and Katrina spotlighted for Stingray the significant cost burden that can be associated with such events, as well as the delays in recovering normal operations afterward, in light of the integrated nature of Gulf of Mexico operations. In addition, in the aftermath of these storms, the property insurance coverage reasonably available for offshore facilities, such as those owned by Stingray, shifts far greater risk to the facility owner through significantly higher deductibles and less favorable coverage terms than applied to the policies in place in 2005 when Hurricane Rita made landfall. Stingray therefore decided it needed to devise a cost recovery mechanism going forward that would facilitate Stingray's ability to recover, in a timely fashion, the significant costs associated with such natural disasters and to allocate the risk of such cost recovery more appropriately in light of the relative benefits to Stingray and its shippers of the rapid repair of Stingray facilities after such events. If Stingray is assured of recovering its actual costs incurred in connection with returning its system to service after such a catastrophic event, Stingray will be better able to justify from a commercial perspective incurring the investment or financing burden required to undertake such repairs. In addition, it is appropriate to shift some of the risk of cost recovery to Stingray's shippers through a surcharge, because those shippers, who earn an unregulated return on the sale of their valuable product, benefit as much, if not far more, from a rapid return to service as does Stingray. Finally, because a surcharge recovers only actual costs associated with the preparations for and recovery from natural disasters, and such

costs can be extremely volatile depending on whether or not a storm or other natural disaster occurs, a surcharge can more equitably track such costs than more traditional cost of service rate methodologies.

Q.25 Is Stingray proposing to recover through the Event Surcharge its expenditures incurred in connection with the repairs to its system required as the result of the damage sustained in Hurricane Rita?

A. No, Stingray is not proposing to recover those expenditures through the Event Surcharge. As explained in more detail by Mr. Neyland in his Prepared Direct Testimony, Exhibit No. SPC-6, only a portion of the capital expended and operation and maintenance costs incurred to date to repair the 2005 hurricane-related damage to Stingray's system is reflected in the cost of service for this Rate Filing and will not be recovered through the Event Surcharge. Instead, Stingray is proposing to recover through the surcharge the property insurance coverage premiums incurred on behalf of Stingray for such coverage of Stingray's facilities, plus those future actual costs, such as costs of preventive actions or repairs, associated with damage, if any, that is caused by a natural disaster, or preparations for the same, that affects Stingray in the future.

Q.26 Does this conclude your prepared direct testimony?

A. Yes, it does.

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AFFIDAVIT OF DOUGLAS V. KRENZ

Douglas V. Krenz, being first duly sworn, hereby states that he is the witness whose Prepared Direct Testimony is attached hereto; that, if asked the questions which appear in the text of aforesaid Prepared Direct Testimony, affiant would give the answers that are therein set forth; and that affiant adopts the aforesaid Prepared Direct Testimony as his sworn, direct testimony in this proceeding.

Douglas V. Krenz

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Texas, County of Harris, this 24th day of June, 2008.

Notary Public

My commission expires: 08-28-09

CAROLYN OLIVER
Notary Public, State of Texas
My Commission Expires 08-28-09

CAROLYN OLIVER
Notary Public, State of Texas
My Commission Expires 08-28-09