Exhibit No. SPC-39

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

PREPARED DIRECT TESTIMONY OF
KEN C. LANIK
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
KEN C. LANIK
ON BEHALF OF
STINGRAY PIPELINE COMPANY, L.L.C.

Stingray Pipeline Company, L.L.C. ("Stingray") is owned fifty percent by a subsidiary of Enbridge, Inc., and fifty percent by MarkWest Energy Partners, L.P. In his Prepared Direct Testimony, Exhibit No. SPC-39, Mr. Lanik explains the flow of income earned by Stingray to Enbridge Holdings (Offshore) L.L.C., a subsidiary of Enbridge Inc., and how federal and state income taxes are ultimately paid on that Stingray income at the level of Enbridge Holdings (Offshore) L.L.C, which is taxed as a corporation. Mr. Lanik also supports and explains the accumulated deferred income taxes claimed by Stingray in this rate filing.

In addition to his testimony, Mr. Lanik sponsors Statement B-1 (ADIT), Schedule H-3(2) (Reconciliation of Book and Tax Depreciable Plant), and Exhibit Nos. SPC-40 through SPC-45.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

PREPARED DIRECT TESTIMONY OF KEN C. LANIK ON BEHALF OF STINGRAY PIPELINE COMPANY, L.L.C.

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

A. My name is Ken C. Lanik. I am the Director, U.S. Tax Services for Enbridge Employee Services, Inc. and the Tax Officer for Enbridge Holdings (Offshore) L.L.C. ("Enbridge Holdings"), both subsidiaries of Enbridge Inc. ("Enbridge"). The United States headquarters of Enbridge and Enbridge Holdings is located at 1100 Louisiana, Suite 3300, Houston, Texas 77002, which is also where my office is located.

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

A. I graduated from the University of Houston with a Bachelor of Science degree in 1986 and a Master of Science in Accounting in 1989. After graduation, I was employed by Bossin & Company in a public accounting practice until 1992. I became a licensed Certified Public Accountant in 1993. From 1992 until 2001, I was employed by American General Corporation in positions of increasing responsibility ranging from Tax Accountant to Tax Manager. In December 2001, I joined Enbridge Employee Services, Inc. as a Tax Manager and became the Director, U.S. Tax Services in February 2008. As the Director, I am responsible for calculating and reporting the overall U.S. federal and state income, franchise, sales and use tax of Enbridge's U.S. affiliates. One of those affiliates, Enbridge Offshore Gas Gathering, L.L.C., is the operator of Stingray, and through its affiliate, Enbridge Employee Services, Inc., provides federal and state income tax reporting and compliance services for Stingray. I also serve as the Tax Officer of Enbridge Holdings, which is the Tax Matters Partner of Stingray Pipeline Company, L.L.C. ("Stingray"). As the Tax Officer of the Tax Matters Partner, I am responsible for calculating and reporting to taxing authorities, the Federal Energy Regulatory Commission ("FERC"), and Stingray's owners the income tax consequences of Stingray's business.

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

A. I am testifying on behalf of Stingray.

Q.4 What interest does Enbridge Holdings have in Stingray?

A. Enbridge Offshore (Gas Transmission) L.L.C. ("Enbridge Offshore"), a wholly-owned, indirect subsidiary of Enbridge Holdings, owns a fifty percent interest in Starfish Pipeline Company, LLC ("Starfish"). Starfish owns Stingray. I have attached a chart showing Enbridge's ownership of Stingray in Exhibit No. SPC-40. 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?

A. No.

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

A. The purpose of my testimony is to (1) explain the flow of income earned by Stingray to Enbridge Holdings, (2) explain the consolidation of Enbridge Holdings' taxable income into that of Enbridge (US) Inc. ("EUS") for federal income tax reporting purposes, (3) identify the federal income tax rate applied to Enbridge Holdings as a member of the EUS federal consolidated group, (4) identify the state income tax rates applied to Enbridge Holdings' income, including the portion of that income received from Stingray, and (5) sponsor and explain Schedules B-1 and H-3(2).

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

A. I am sponsoring Schedule B-1 (ADIT), Schedule H-3(2) (Reconciliation of Book and Tax Depreciable Plant), and Exhibit Nos. SPC-40 to SPC-45.

Q.8 Were these schedules and exhibits prepared by you or under your direction or supervision?

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

<u>Flow of Stingray Taxable Income to Enbridge Holdings</u>

Q.9 Does Stingray generate income?

A. Yes.

Q.10 How much taxable income did Stingray generate in 2007?

A. $2,155,622.

Q.11 How much of this Stingray income flows through to Enbridge Holdings for federal and state income tax purposes?

A. Fifty percent.

Q.12 Please explain why fifty percent of Stingray's income flows through to Enbridge Holdings for federal and state income tax purposes.

A. Because Stingray is a disregarded entity for income tax purposes, all of Stingray's income flows through to its sole owner, Starfish. Starfish is treated as a U.S. partnership for income tax purposes. As the organization chart in Exhibit No. SPC-40 shows, Starfish is owned fifty percent by Enbridge Offshore, and fifty percent by MarkWest Energy. Because Enbridge Offshore and its parent, Enbridge Offshore Pipelines, L.L.C., are both disregarded entities for income tax purposes, all of Enbridge Offshore's income, including the fifty percent of income earned by Stingray that Enbridge Offshore receives from Starfish, flows through to Enbridge Holdings. Each year Starfish sends a Schedule K-1 to each of its fifty percent owners, Enbridge Holdings and MarkWest Energy, identifying the amount of Starfish income attributed to the owner for income tax purposes. In accordance with Articles 3 and 5 of the Amended and Restated Limited Liability Company Agreement of Starfish Pipeline Company, LLC, taxable income or loss is allocated among its members based upon their respective membership interest. Enbridge Holdings' membership interest in Starfish is fifty percent. This fifty percent allocation of Starfish income is shown in Item J on the Schedule K-1 that Enbridge Holdings receives from Starfish. I have attached the draft 2007 Schedule K-1 that Enbridge Holdings received from Starfish as Exhibit No.

SPC-41. Note that this allocation does not include the special depreciation deductions the members of Starfish are entitled to pursuant to Internal Revenue Code Section 743(b).

<u>Enbridge Holdings' 2007 Federal and State Income Tax Rates</u>

Q.13 Is the income from Stingray subject to federal income tax when reported by Enbridge Holdings?

A. Yes.

Q.14 What federal rate is applied to Enbridge Holdings' taxable income for 2007?

A. 35 percent.

Q.15 Please explain why Enbridge Holdings' federal income tax rate is 35 percent.

A. Enbridge Holdings is a member of the EUS consolidated return along with twelve other members. The EUS consolidated group is in turn a member of an Enbridge control group for federal income tax purposes. Under Temporary Treasury Regulation Section 1.1561-3T, the Enbridge control group can apportion the federal income tax rates under 35 percent to the members of the control group in accordance with an apportionment plan. This apportionment plan remains in effect until changed. The apportionment plan for the Enbridge control group is attached as Exhibit No SPC-42. As shown in the plan, the EUS consolidated group has not been apportioned any of the lower federal income tax rates, and is therefore subject to the maximum federal rate of 35 percent.

Q.16 Is the income from Stingray subject to state income tax when reported by Enbridge Holdings?

A. Yes. Taxable income from Stingray is included in Enbridge Holdings' state income tax filings, along with Enbridge Holdings' taxable income from other sources in Louisiana, Illinois, North Dakota and Minnesota.

Q.17 What state rate will be applied to Enbridge Holdings' taxable income for 2007?

A. 2.2987 percent.

Q.18 Please explain why Enbridge Holdings' state income tax rate will be 2.2987 percent.

A. The states that levy income tax on Enbridge Holdings use an apportionment method to determine the percentage of Enbridge Holdings' taxable income subject to an income tax in that state. Generally a state apportions income by applying a percentage to taxable income. This apportionment percentage is developed by looking at factors such as the taxpayer's sales, property and/or payroll within the state. Once taxable income is apportioned to a state using this percentage, the income tax rate for the state set by state law can be applied in order to determine the actual income tax levied by the state. The effective tax rate is determined by multiplying the state income tax rate by the apportionment percentage for that state. As shown in Exhibit No. SPC-43, the 2.2987 percent rate is the sum of the effective state income tax rates for the states taxing Enbridge Holdings' taxable income.

<u>ADIT for Stingray</u>

Q.19 Please describe Statement B-1.

A. Statement B-1 provides support for the determination of the reserve for the accumulated deferred income taxes ("ADIT") reflected in Stingray's rate base. The ADIT balance reflects the temporary differences between the FERC basis of accounting and the computed tax basis for deferred federal and state income taxes.

Q.20 What is the total amount of ADIT to be included in rate base?

A. As shown on Statement B-1, $1,834,395.

Q.21 Please explain how you determined this level of ADIT.

A. As shown on Statement B-1, first I determined the ADIT balance on the books and records for Stingray as of February 29, 2008, which is shown on Line 14. Second, as shown on Line 16, I restated the ADIT balance using the 35.32 percent blended federal and state test period income tax rates calculated by Mr. George R. Ganz in Exhibit No. SPC-38. As explained by Mr. Stephen J. Neyland in his Prepared Direct Testimony, Exhibit No. SPC-6, certain entries are being reclassified from Account 254 (amounts related to an ARO) to Account 108 (negative salvage). As shown on Line 17, I have therefore adjusted the balances in Accounts 190, 282, and 283 to reflect this reclassification. Fourth, as shown on Line 18, I adjusted the ADIT balances to reflect the purchase and sale of Stingray assets as of December 31, 2004 and April 1, 2005. As shown on Line 19, I carried the ADIT balance forward from February 29, 2008 to the end of the test period. Finally, as shown on Line 21, I adjusted the ADIT balance to eliminate the deferred tax attributable to ARO's removed from the rate base calculation in compliance with the Commission's regulations, 18 CFR § 154.315, and I adjusted the ADIT for the deferred tax associated with the ACA charges because it is not associated with property, plant, and equipment.

Q.22 Why does the ADIT balance change for the sale of assets on December 31, 2004 and April 1, 2005?

A. On December 31, 2004, Enbridge Holdings purchased its fifty percent ownership interest in Starfish in a transaction that was treated for tax purposes as a purchase and sale of fifty percent of Stingray's assets. Attached as Exhibit No. SPC-44 is the election made by Starfish to treat Enbridge Holdings' purchase of its interest in Starfish as a purchase of assets. By applying Section 734 of the Internal Revenue Code ("IRC"), fifty percent of Stingray's deferred income tax liability can be eliminated as of December 31, 2004.

On March 31, 2005, MarkWest Energy purchased the other fifty percent ownership interest in Starfish from a third party in a transaction that was also treated for tax purposes as a purchase/sale of fifty percent of Stingray's assets. Attached as Exhibit No. SPC-45 is the election made by Starfish to treat MarkWest Energy's purchase of its interest in Starfish as a purchase of assets. By applying Section 734 of the IRC, the deferred income tax liability associated with this fifty percent of Stingray can be eliminated as of March 31, 2005.

Since both sales were treated as a taxable purchase of assets under the IRC, consistent with the Commission's policy, as set forth in *Enbridge Pipelines*

(KPC), 100 FERC ¶ 61,260 (2002), *order on reh'g*, 102 FERC 61,310 (2003), fifty percent of Stingray's ADIT balances can be treated as having been reduced to zero as of December 31, 2004, the date of the sale of that fifty percent interest to Enbridge Holdings, and the remaining fifty percent of Stingray's ADIT balances can be treated as having been reduced to zero as of March 31, 2005, the date of the sale of the remaining fifty percent interest to MarkWest Energy. Those reductions to ADIT are not reflected in the FERC Form 2s filed for 2005 – 2007, but are being reflected in the ADIT balance for this rate filing.

Q.23 Please explain why you used the test period blended federal and state income tax rate to calculate ADIT for the test period?

A. That is the best information available to project a future federal and state income tax rate to be borne by Stingray's owners. It reflects the current statutory state and federal rates applicable to Stingray's owners, the known ownership percentages, and the current apportionment percentages.

<u>Reconciliation of Depreciable Plant Balances</u>

Q.24 Please describe Schedule H-3(2).

A. Schedule H-3(2) shows the reconciliation between book depreciable plant and tax depreciable plant and the resulting accumulated deferred income taxes for the base period ending February 29, 2008, as adjusted.

Q.25 Does this conclude your prepared direct testimony?

A. Yes, it does.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

AFFIDAVIT OF KEN C. LANIK

Ken C. Lanik, 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.

Ken C. Lanik

Ken C. Lanik

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Texas, County of Harris, this 25th day of June, 2008.

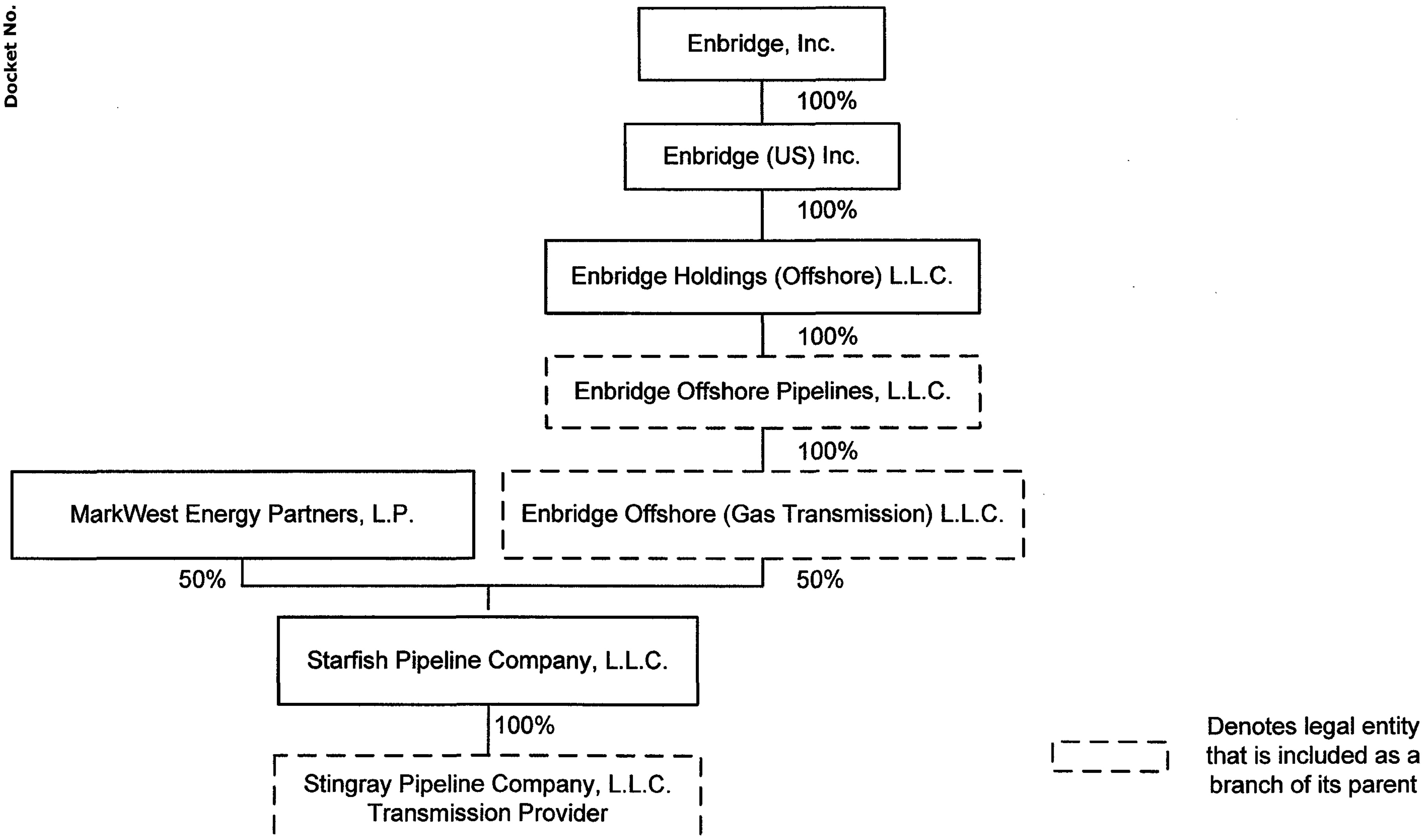
J. Lee

Notary Public

NOTARY PUBLIC STATE OF TEXAS
Jaree Lee
My Commission Expires
08/06/2009

My commission expires: ____

STINGRAY PIPELINE COMPANY, L.L.C.
OWNERSHIP



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Final K-1 | Amended K-1 | OMB No. 1545-0099

Schedule K-1 (Form 1065)

2007

Department of the Treasury
Internal Revenue Service

For calendar year 2007, or tax year beginning ______, 2007 ending ______, 20__

Partner's Share of Income, Deductions, Credits, etc.

See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
76-0663813

B Partnership's name, address, city, state, and ZIP code
Starfish Pipeline Company, LLC
1100 Louisiana, Suite 3300
Houston, TX 77002

C IRS Center where partnership filed return
Ogden

D [ ] Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number 1
76-0771591

F Partner's name, address, city, state, and ZIP code
Enbridge Holdings (Offshore) LLC
1100 Louisiana, Suite 3300
Houston, TX 77002

G [ ] General partner or LLC member-manager [X] Limited partner or other LLC member

H [X] Domestic partner [ ] Foreign partner

I What type of entity is this partner? Corporation

J Partner's share of profit, loss, and capital:

	Beginning	Ending
Profit	50.000000 %	50.000000 %
Loss	50.000000 %	50.000000 %
Capital	50.000000 %	50.000000 %

K Partner's share of liabilities at year end:

Nonrecourse	$ 11,919,905.
Qualified nonrecourse financing	$
Recourse	$

L Partner's capital account analysis:

Beginning capital account	$ 59,719,439.
Capital contributed during the year	$
Current year increase (decrease)	$ 6,058,916.
Withdrawals & distributions	$ (10,839,070.)
Ending capital account	$ 54,939,285.

[ ] Tax basis [X] GAAP [ ] Section 704(b) book
[ ] Other (explain)

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)		3,578,738.
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Guaranteed payments		
5	Interest income	*	91,382.
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)		
11	Other income (loss)		
12	Section 179 deduction		
13	Other deductions		
14	Self-employment earnings (loss)		
15	Credits		
16	Foreign transactions		
17	Alternative minimum tax (AMT) items	A	1,387,583.
18	Tax-exempt income and nondeductible expenses	C*	3,311.
19	Distributions	A	10,839,070.
20	Other information	A	91,382.
		W*	STMT

*See attached statement for additional information.

For IRS Use Only

Starfish Pipeline Company, LLC 76-0663813
Sch K-1 Supporting Schedules Partner # 1 Enbridge Holdings (Offshore) LLC

Item L - Reconciliation of Income

Total Income per Schedule K-1	3,670,120.
Less: Expenses recorded on books, not included on Sch. K-1:	
Depreciation	4,098,545.
Travel and entertainment	3,311.
Amortization	172,027.
Asset Retirement Obligations	252,596.
Plus: Deductions on Sch. K-1, not charged against books:	
Depreciation	7,352,572.
Amortization	26,493.
Other Tax Deductions Not on Books	-463,789.
Less: Other decreases to partner's capital	
Rounding	1.
Total Income per Item L, Current year incr(decr)	6,058,916.

Item L - Withdrawals and Distributions

Cash distributions	10,839,070.
Total Withdrawals and Distributions	10,839,070.

Line 5 - Interest Income

Other Interest Income

Sch K: Other Interest Income	91,382.
Total Interest Income	91,382.

Line 18c - Nondeductible Expenses

Travel and entertainment expense nondeductible	3,311.
Total Nondeductible Expenses	3,311.

Line 20 - Other Information

W Other Information:

Other Items Not Included in Item L, Current Yr Incr (Decr):	
Depr Allocated Pursuant IRC 743(b)	-3,061,340.

Statement #1

PTR # 1 Enbridge Holdings (Offshore) LLC — Starfish Pipeline Company, LLC — 76-0663813

Schedule of Activities

	Type of Activity	Disposed	QUH	PTP	Pass-through
A: Starfish Pipeline Company, LLC	Portfolio	No	No	No	No
B: Starfish Pipeline Company, LLC	Gen. T\B	No	No	No	No
C:					
D:					

Category	Line	Item	A	B	C	D
Income (Loss)	1	Ordinary business income (loss)		3,578,738.		
	2	Net rental real estate income (loss)				
	3	Other net rental income (loss)				
	4	Guaranteed payments				
	5	Interest income	91,382.			
	6a	Ordinary dividends				
	6b	Qualified dividends				
	7	Royalties				
	8	Net short-term capital gain (loss)				
	9a	Net long-term capital gain (loss)				
	9b	Collectibles (28%) gain (loss)				
	9c	Unrecaptured section 1250 gain				
	10	Net section 1231 gain (loss)				
	11	Other income (loss)				
Deductions	12	Section 179 deduction				
	13a-f	Contributions				
	13h,j,k	Deductions related to portfolio income				
	13g	Interest expense on investment debts				
	13i	Section 59(e)(2) expenditures				
	13l-v	Other deductions				
Credits	15a	Low-income housing credit (section 42(j)(5))				
	15b	Low-income housing credit (other)				
	15c	Qualified rehabilitation expenditures (rental real estate)				
	15d	Other rental real estate credits				
	15e	Other rental credits				
	15f-p	Other credits				
Foreign Transactions	16b	Gross income from all sources				
	16c	Gross income sourced at partner level				
	16d	Foreign gross income (partnership level): Passive				
	16e	Foreign gross income (partnership level): General categories				
	16f	Foreign gross income (partnership level): Other				
	16g	Deductions allocated and apportioned (partner level): Interest expense				
	16h	Deductions allocated and apportioned (partner level): Other				
	16i	Deductions allocated and apportioned (partnership level): Passive				
	16j	Deductions allocated and apportioned (partnership level): General categories				
	16k	Deductions allocated and apportioned (partnership level): Other				
	16l	Total foreign taxes paid				
	16m	Total foreign taxes accrued				
	16n	Reduction in taxes available for credit				
	16o	Foreign trading gross receipts				
	16p	Extraterritorial income exclusion				
	16q	Other foreign transactions				
Alternative Minimum Tax	17a	Post-1986 depreciation adjustment		1,387,583.		
	17b	Adjusted gain or loss				
	17c	Depletion (other than oil and gas)				
	17d	Gross income from oil, gas, and geothermal				
	17e	Deductions from oil, gas, and geothermal				
	17f	Other AMT items				
Tax-exempt Inc. & Exp.	18a	Tax-exempt interest income				
	18b	Other tax-exempt income				
	18c	Nondeductible expenses		3,311.		
Other	20a	Investment income	91,382.			
	20b	Investment expenses				
	20c-w	Other information				

Starfish Pipeline Company, LLC 76-0663813
Partner Activities Detail Partner # 1 Enbridge Holdings (Offshore) LLC

Activity: Starfish Pipeline Company, LLC

Line 20 - Other Information

Other items not carrying to Item L, current yr incr(decr)	-3,061,340.

Statement of Consent to Apportionment
Plan Under Code Section 1561(a)

Pursuant to Code Section 1561(a) and Regulation 1.1561-3(b), the following members of a controlled group of corporations apportion the tax bracket amounts, alternative minimum tax exemption, and environmental tax exemption among the members of the group as indicated below, for their respective tax years which include December 31, 2000.

The names, addresses, taxpayer identification numbers, and tax years of the consenting members, and the amounts apportioned to each under the plan are:

Controlled Group Member	Tax Brackets 15%	25%	34%	Additional $11,750 Tax	Additional $100,000 Tax	Alternative Minimum Tax Exemption	Environmental Tax Exemption
Lakehead Pipe Line Company, Inc. Consolidated with its U.S. subsidiaries 21 West Superior Street Duluth, Minnesota 55802-2067 39-0793581 Tax Year Ends: December 31	$50,000	$25,000	$9,925,000	$11,750	$100,000	$40,000	$2,00[illegible]0
IPL International USA Inc. 21 West Superior Street Duluth, Minnesota 55802-2067 76-0450136 Tax Year Ends: December 31	0	0	0	0	0	0	
St. Lawrence Gas Company, Inc. Consolidated with its U.S. subsidiaries 56-58 Main Street Massena, New York 13662 15-0598604 Tax Year Ends: September 30	0	0	0	0	0	0	
Enbridge (U.S.) Inc. Consolidated with its U. S. subsidiary 21 West Superior Street Duluth, Minnesota 55802-2067 41-1824246 Tax Year Ends: December 31	0	0	0	0	0	0	0
	$50,000	$25,000	$9,925,000	$11,750	$100,000	$40,000	$2,000,000

The original of this statement is filed at the Internal Revenue Service Center, ~~Kansas City, MO 64999.~~ Ogden, UT 84201-0012

The undersigned duly authorized representatives of Lakehead Pipe Line Company, Inc., IPL International USA Inc., St. Lawrence Gas Company, Inc. and IPL Energy (U. S. A.) Inc., hereby consent for their respective corporations to the above apportionment:

	Signature	Title	Date
Lakehead Pipe Line Company, Inc.	[illegible]	Asst Chief Accountant	2/12/01
IPL International USA Inc.	[illegible]	Asst. Secretary	08/2/2001
St. Lawrence Gas Company, Inc.	[illegible]	Treasurer	2/13/01
Enbridge (U.S.) Inc.	[illegible]	Asst. Chief Accountant	2/12/01