

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

Stingray Pipeline Company, L.L.C.	§	Docket No. RP08-____-000
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**PREPARED DIRECT TESTIMONY OF
ROBERT W. NEUSTAEDTER
ON BEHALF OF
STINGRAY PIPELINE COMPANY, L.L.C.**

JUNE 30, 2008

Stingray Pipeline Company, L.L.C.

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Docket No. RP08-____-000

Mr. Neustaedter is the Vice President of Pace Global Energy Services, LLC, an international energy consulting company. In his Prepared Direct Testimony, Exhibit No. SPC-2, Mr. Neustaedter supports the statements and schedules that summarize Stingray Pipeline Company, L.L.C.'s ("Stingray") overall cost of service, the derivation of its rates under Rate Schedules FTS, FTS-2, ITS, PAL, and the calculation of the Event Surcharge, a surcharge design to recover costs associated with the prevention and remediation of damages from natural disasters, especially hurricanes. In addition, Mr. Neustaedter supports the use of new gas price indices in the provisions of Stingray's FERC Gas Tariff regarding cash-outs for monthly transportation imbalances.

As Mr. Neustaedter explains, consistent with general Commission practice, Stingray developed the rates proposed in this rate filing based on the costs incurred by Stingray to provide service, as derived from a “test period,” and a reasonable return on capital investment. The rates supported by Mr. Neustaedter and proposed by Stingray reflect a rate base of \$35,760,356, a total net cost of service of \$19,924,183, and a proposed overall rate of return of 9.87%, and are derived from a total test period throughput of 142,366,726 dekatherms, adjusted to take into account the level of

discounting on the system in accordance with the Commission's iterative method of discounting.

In addition to his testimony, Mr. Neustaedter sponsors Exhibit Nos. SPC-3 through SPC-5.

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**PREPARED DIRECT TESTIMONY
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STINGRAY PIPELINE COMPANY, L.L.C.**

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

2 A. Robert W. Neustaedter, 808 Travis Street, Suite 1107, Houston, Texas 77002.

QUALIFICATIONS

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

5 A. I am employed by Pace Global Energy Services, LLC (“Pace”) as Vice President,
6 Energy Markets, Assets and Regulatory Strategies. Pace is an international
7 energy consulting company with its corporate headquarters located in Fairfax,
8 Virginia. Pace has over 25 years experience providing energy consulting services
9 to natural gas companies, electric utilities, independent power producers, financial
10 institutions and industrial customers engaged in businesses in the energy sector.
11 Pace has been specifically engaged to assist Stingray Pipeline Company, L.L.C.
12 (“Stingray”) in the preparation of this rate case.

13 **Q.3 Would you briefly describe your educational background and work**
14 **experience?**

15 A. In 1978 I graduated cum laude from Texas A&M University with a BBA degree
16 in Finance. That same year I began my career with Tennessee Gas Pipeline

1 Company ("Tennessee") as an analyst in its rate department. Between 1978 and
2 1993, I held various positions within the rate department with increasing levels of
3 responsibility including Manager of Rates. In that position I was responsible for
4 all rate, tariff and certificate matters for Tennessee including the preparation of
5 major rate case filings for Tennessee and its pipeline affiliates regulated by the
6 Federal Energy Regulatory Commission ("FERC"). In 1994 I became Manager
7 of Strategy Development for Tennessee, with responsibilities for coordinating the
8 development of the company's 5-year strategic plans; providing economic
9 analyses of pipeline capital projects; and supporting the analysis and recovery of
10 Tennessee's take-or-pay costs. In 1997 I joined Reliant Energy, now CenterPoint
11 Energy ("CenterPoint"), as Manager of Regulatory and Policy Development. At
12 CenterPoint I was responsible for supporting the company's retail marketing
13 efforts and strategies and coordinating the consistent implementation of corporate
14 regulatory and business policies across CenterPoint's strategic business units. In
15 1998 I joined Enron Corp. as Manager of Regulatory and Government Affairs
16 where I managed the regulatory and government affairs activity for Enron's
17 international and domestic business units. I supported the company's business
18 origination efforts by performing regulatory due diligence and risk management
19 activities and promoted wholesale and retail market opportunities through
20 analysis of existing utility tariffs and regulations. In addition, I supported the
21 company's international efforts, providing regulatory due diligence of the rules
22 and regulations governing the energy sector in countries where Enron had
23 business interests.

1 After Enron's financial collapse in December 2001, I took the position of
2 Project Manager, Regulatory Affairs for Panhandle Energy ("Panhandle"). In this
3 capacity, I managed the regulatory affairs for Panhandle Energy pipeline
4 companies. I directed the preparation and filing of all pipeline fuel retention
5 applications with the FERC, performed cost and revenue studies and provided
6 financial forecasts. In addition, I ensured compliance with FERC regulations and
7 tariff requirements and monitored and analyzed the impact of FERC orders,
8 industry initiatives and competitor filings. In November 2005, I assumed my
9 current position with Pace in its Houston office with responsibilities for
10 supporting the company's service offerings in the natural gas regulatory arena for
11 pipeline, storage and local distribution companies, including preparing,
12 supporting, and defending testimony in natural gas pipeline proceedings regarding
13 cost of service and rate design issues.

14 **Q.4 Have you previously testified in regulatory proceedings before this**
15 **Commission?**

16 A. Yes I have. I have presented testimony before the FERC in the following
17 dockets:

18 Docket No. RP07-39 for Black Marlin Pipeline Company;

19 Docket No. RP92-132 for Tennessee Gas Pipeline Company ("Tennessee");

20 Docket No. RP91-203 & RP92-132 (Phase III) for Tennessee;

21 Docket No. RP88-228 for Tennessee;

22 Docket No. RP86-33 for Midwestern Gas Transmission;

1 Docket No. RP87-70 for East Tennessee Natural Gas Company (“ETNG”); and
2 Docket No. RP87-17 for ETNG.

3 EXHIBITS SPONSORED

4 **Q.5 Would you please describe your responsibilities in this case?**

5 A. I am responsible for development of the following statements and schedules
6 which support Stingray's Overall Cost of Service and the derivation of its rates
7 under Rate Schedules FTS, FTS-2, ITS, PAL and the calculation of the Event
8 Surcharge. In addition, I am supporting the use of the revised Gas Index Price
9 locations proposed by Stingray.

10 **Q.6 Are you sponsoring any statements, schedules, or exhibits?**

11 A. Yes, I am sponsoring the following statements, schedules and workpapers in
12 Exhibit No. SPC-4: Statement A (Cost of Service Overview); Statement B (Rate
13 Base and Return Summary); Schedule H-3 (Income Taxes); Statement I and
14 Schedules I-1, I-2 and I-3 (Functionalization of Cost of Service); and Statement J
15 (Comparison and Reconciliation of Estimated Operating Revenues with Cost of
16 Service) and Schedules J-1 (Summary of Billing Determinants) and J-2
17 (Derivation of Rates). The remaining statements, schedules and workpapers in
18 Exhibit No. SPC-4 are sponsored by other Stingray witnesses, as described in the
19 Transmittal Letter filed with this rate filing. I am also sponsoring Exhibit No.
20 SPC-5 (Liquidity of Price Index Points).

1 **Q.7 Were these statements, schedules, workpapers, and exhibits prepared by you**
2 **or under your supervision?**

3 A. Yes, they were.

4 COST OF SERVICE

5 **Q.8** By way of overview, please generally explain how Stingray developed the
6 cost-of-service that underlies its proposed rates.

7 A. Consistent with general FERC practice, Stingray developed the rates proposed in
8 this rate filing based on the costs incurred by Stingray to provide service,
9 including a reasonable return on capital investment.

10 **Q.9 How were the cost levels for Stingray’s cost-of-service derived?**

11 A. Cost levels for the components of Stingray’s cost-of-service were derived from a
12 “test period,” consistent with the Commission’s regulations. To develop the test
13 period costs, it is first necessary to establish “base period” costs, which consist of
14 12 consecutive months of recently available, actual cost experience. To derive the
15 test period cost-of-service, Stingray adjusted the base period costs for known and
16 measurable changes that are expected to become effective within nine months
17 after the end of the base period.

18 **Q.10 What base period and adjustment period (or test period) did Stingray use for**
19 **this rate filing?**

20 A. For this rate filing, Stingray used a base period consisting of the 12 months
21 ending February 29, 2008, as adjusted for known and measurable changes through
22 an adjustment period that extends from March 1, 2008 through November 30,
23 2008.

1 **Q.11 Please explain Statement A and the individual components of the cost-of-**
2 **service shown on Statement A.**

3 A. Statement A reflects the overall test period cost of service of \$19,924,183 which
4 is used to derive Stingray's jurisdictional transportation rates as shown on
5 Statements I and J, to be discussed later in my testimony.

6 The operating and maintenance expense component allows Stingray to
7 recover costs related to the operation and maintenance of its jurisdictional
8 facilities and costs of administrative and general expense, such as labor costs,
9 benefits, materials and supplies, and other expenses.

10 The depreciation and amortization expense component compensates
11 investors for the loss in value of Stingray's assets and provides for the return of
12 the capital investment. The allowance for negative salvage compensates Stingray
13 for the costs it will incur upon the eventual retirement of its pipeline facility. As
14 Stingray witness Mr. Stephen J. Neyland explains in his Prepared Direct
15 Testimony, Exhibit No. SPC-6, Stingray has not proposed any changes to its
16 existing depreciation rates or negative salvage rate for this rate filing (other than
17 to add a 20 percent depreciation rate for software) because, based on the
18 testimony of Mr. Stephen L. Merritt, Exhibit No. SPC-7, it does not appear
19 appropriate to change the economic life of Stingray's facilities from that
20 underlying the depreciation rates accepted as part of the 2003 rate settlement.

21 As part of this rate filing, and as more fully explained by Mr. Neyland,
22 Exhibit No. SPC-6, Stingray is also including in its cost of service an annual

1 allowance for the amortization of a regulatory asset created by Stingray's
2 implementation of FASB 143.

3 The tax expense component compensates Stingray for taxes, including
4 federal and state income taxes. As Mr. George R. Ganz explains in his Prepared
5 Direct Testimony, Exhibit No. SPC-35, Stingray generates taxable income that
6 results in an actual or potential income tax liability for all of its owners. Since
7 Stingray is owned by Starfish Pipeline Company, LLC, ("Starfish") and Starfish
8 is owned fifty percent by MarkWest Energy Partners, L.P. (a master limited
9 partnership) and fifty percent by Enbridge Offshore (Gas Transmission) L.L.C. (a
10 wholly-owned subsidiary of Enbridge), pursuant to the Commission's current
11 income tax allowance policy, Mr. Ganz calculated a federal and state income tax
12 rate for Stingray. Using those income tax rates calculated by Mr. Ganz and
13 information from schedules sponsored by other Stingray witnesses, I calculated
14 the federal and state income tax allowances shown on Statement H-3. As
15 Stingray witness Mr. Neyland explains in his testimony, Exhibit No. SPC-6, in
16 addition to an allowance for those income taxes, Stingray also incurs certain other
17 non-income related taxes, such as ad valorem taxes and miscellaneous minor
18 other taxes.

19 In addition to the recovery of the above described costs, Stingray is
20 allowed to recover a reasonable amount of return on its capital investment by
21 applying an overall rate of return to its rate base. The rate of return is calculated
22 by applying a cost of equity and cost of debt to the respective percentages of
23 equity and debt that make up the capital structure of Stingray. Stingray uses a

1 capital structure of 46.71 percent common equity, 0.47 percent preferred equity
2 and 52.82 percent debt, a cost of debt of 6.93 percent, a cost of preferred equity of
3 5.50 percent, and a cost of common equity of 13.23 percent. Professor J. Peter
4 Williamson provides support in his Prepared Direct Testimony, Exhibit No. SPC-
5 20, for the Stingray capital structure used in this rate filing and Stingray's cost of
6 equity and cost of debt.

7 Finally, the other revenues credit component reduces the cost-of-service
8 for non-jurisdictional services other than natural gas transportation services that
9 Stingray provides for the benefit of its customers. As explained by Mr. Neyland,
10 Exhibit No. SPC-6, this rate filing reflects revenue credits for non-jurisdictional
11 liquids and water transportation services and non-jurisdictional measurement
12 services provided by Stingray.

13 **Q.12 Please explain Statement B.**

14 A. Statement B is a summary of the Rate Base and reflects the annual Return on that
15 Rate Base computed at 9.87 percent. The Rate Base in this filing reflects the
16 facilities and assets that Stingray expects to be in service as of the end of the test
17 period as supported by the testimonies of Mr. Neyland (Exhibit No. SPC-6) and
18 Mr. Ken C. Lanik (Exhibit No. SPC-39). The test period Rate Base in the amount
19 of \$35,760,356, includes Gas Plant in Service, a deduction for the Accumulated
20 Provision for Depreciation and Amortization of Gas Utility Plant, Negative
21 Salvage and Accumulated Deferred Income Taxes, plus an allowance for
22 Working Capital. The Return on Rate Base of \$3,528,120 is a function of the

1 overall rate of return claimed by Stingray which is reflected in Statement F-2 and
2 is supported in the testimonies of Professor Williamson (Exhibit No. SPC-20) and
3 Mr. Douglas V. Krenz (Exhibit No. SPC-1).

4 **Q.13 Please turn to Statement H-3 of the filing.**

5 A. Statement H-3 shows the calculation of Stingray's federal and state income tax
6 allowance of \$1,100,441 and \$49,223, respectively. Starting with Stingray's rate
7 base, as reflected in Statement B and as discussed above, I calculated the overall
8 return on rate base using the overall rate of return claimed by Stingray of 9.87
9 percent, as determined by Professor Williamson. The overall return on rate base
10 is shown on Line 3. Because interest is a deduction for income tax calculation
11 purposes, I then reduced the overall return by debt expense. Debt expense is
12 calculated by multiplying the rate of return on debt, again, as determined by
13 Professor Williamson, by rate base, the result of which is shown on Line 5. The
14 resultant taxable portion of return is shown on Line 6. Stingray's federal income
15 tax rate is shown on Line 7 and is supported by the testimony of Mr. Ganz. In
16 order to be completely reimbursed so that it receives its approved equity return,
17 Stingray must also receive an amount to pay the income taxes on the income tax
18 allowance included in rates. This is accomplished by a tax on tax formula which
19 is the tax rate divided by one minus the tax rate. This formula is shown in
20 Column 1, Line 8 of Statement H-3. Multiplying the federal income tax rate
21 formula by the taxable portion of return results in the allowance for federal
22 income tax shown in Column 2, Line 8. Using the same methodology, and using

1 the state income tax rate, also determined by Mr. Ganz, I calculated state income
2 taxes shown on Line 14.

RATE DESIGN

4 **Q.14 Please provide an overview of the rate design process generally used by**
5 **FERC-regulated natural gas pipelines.**

6 A. After the cost of service is determined there are basically four steps in designing
7 rates. The first step involves separating the cost of service by “function” such as
8 transmission, gathering and storage. This step is necessary because the function
9 of the cost can dictate how those costs are allocated among services and
10 customers. Once the costs are functionalized, the second step, which is actually a
11 two-part step, is to classify the functionalized cost of service between fixed costs
12 and variable costs. Fixed costs are those costs that do not vary with throughput.
13 Because the natural gas pipeline industry is very capital intensive, the majority of
14 natural gas pipeline costs are fixed. Non-fixed costs, or those costs that do vary
15 with throughput, are classified as variable. The second part of this two-part step
16 involves the assignment of fixed and variable costs to either the reservation or
17 commodity component. All variable costs are assigned to the commodity
18 component. However, the level of fixed costs assigned between the reservation
19 and commodity component is dependent upon the FERC’s ratemaking goals. The
20 Commission uses the cost classification aspect of the ratemaking process to
21 achieve policy goals that are pertinent to current conditions. Because conditions
22 change over time, the FERC’s goals change and the weight given to various goals
23 also changes. The FERC’s current ratemaking goal is to promote the

development of a national competitive natural gas market and to ensure the movement of gas to markets on even terms. To promote that goal, as established in Order 636, the FERC has adopted the Straight Fixed-Variable (“SFV”) method of rate design which assigns all fixed costs to the reservation component. The third step in the rate design process is to allocate reservation and commodity costs among services and customers. Reservation costs are typically allocated among services and customers based on customer capacity requirements, while commodity costs are allocated on a volumetric basis. Part of the allocation process may or may not involve the distance the gas travels. The final step of the rate design process is the determination of unit rates. Unit rates are developed by dividing the allocated reservation and commodity costs by the billing determinants for the respective services. Rates can be designed to incorporate a one- or two-part rate structure for billing. A one-part rate is designed to recover reservation and commodity costs in a single volumetric charge – the customer is billed based on the quantity of gas it transports. Under a two-part rate structure under SFV, reservation rates are designed to recover fixed costs, typically applied to the customer’s Maximum Contract Quantity, while commodity rates recover variable costs.

Q.15 Are the rates in this rate filing designed using the same methodology used to design the settlement rates approved in Docket No. RP99-166?

A. Yes, they are with on exception. Rate Schedule PAL was not established until after the settlement in Docket No. RP99-166. Rate Schedule PAL was established

1 in Docket No. RP04-169. I am continuing the methodology established in that
2 docket, as approved by the Commission, for Rate Schedule PAL.

3 **Q.16 Please describe Statement I and supporting Schedules I-1 through I-4 of the**
4 **filing.**

5 A. Statement I, Functionalization, Classification and Allocation of Overall Cost of
6 Service, summarizes the procedures underlying the functionalization,
7 classification, and allocation of the Net Cost of Service between services offered
8 by Stingray. Schedule I-1 shows the functionalization of Stingray's total Net Cost
9 of Service as reflected on Statement A. Schedule I-1, which reflects the first step
10 in the rate design process described above, shows that all of Stingray's facilities
11 perform the same function, which is Transmission.

12 **Q.17 Please explain Schedule I-2.**

13 A. Schedule I-2, which reflects the second step in the rate design process, shows the
14 classification of the cost of service between fixed and variable costs by FERC
15 account and by major cost of service components. Schedule I-2 also shows the
16 assignment of fixed costs between the reservation and commodity components
17 using the SFV principles of rate design. As discussed above, under SFV all fixed
18 costs are assigned to the reservation component of the rate and all variable costs
19 are assigned to the commodity component.

20 **Q.18 Please define fixed and variable costs.**

21 A. Fixed costs are those costs which are unaffected by changes in the level of
22 throughput on the system, whereas variable costs fluctuate with changes in

1 transportation throughput. For purposes of identifying variable costs, I reviewed
2 the detail of Stingray's accounts, including FERC Account 853 (Transmission
3 Operating), and FERC Account 864 (Transmission Maintenance), both
4 Compressor Station Labor and Expenses accounts. Based upon a general review
5 of the costs in these Stingray accounts, I identified those costs (e.g., lube oil and
6 grease used for compressors and compressor materials and supplies) that would
7 be expected to vary with throughput and classified such costs as variable. All
8 other costs were classified as fixed. For the purpose of assigning Other Revenues
9 between fixed and variable costs, I determined the percentage of total fixed costs
10 and total variable costs, shown on Line 26, Columns 4 and 5 of Schedule I-2,
11 respectively, to the total cost of service shown on Line 26, Column 3. I then
12 applied the respective percentages to the Other Revenues shown on Line 27 of
13 Schedule I-2 to apportion the Other Revenues credit between fixed and variable
14 costs.

15 **Q.19 Please explain Schedule I-3.**

16 A. Schedule I-3, reflecting the third step in the rate design process, explains that
17 Stingray does not directly allocate costs to rate schedules per se, but instead,
18 derives rates based upon a system average cost. As Stingray is a relatively short
19 pipeline with all of its deliveries occurring principally at the onshore terminus of
20 its system, I have continued this method of allocating costs.

1 **Q.20 Please explain Schedule I-4.**

2 A. Schedule I-4 is not applicable to Stingray as it does not have any costs included in
3 Account 858 Transmission and Compression by Others.

4 **Q.21 Please describe Statement J and Schedules J-1 and J-2 which support the**
5 **derivation of rates.**

6 A. Statement J is a comparison of operating revenues, exclusive of the ACA
7 surcharge and the Event Surcharge, by rate schedule, as shown on Schedule G-2,
8 which is supported by Mr. Merritt, with the allocated cost of service as shown in
9 Schedule I-2. This schedule shows that the rates are designed properly because
10 they recover the net cost of service upon which they were based.

11 **Q.22 Please explain Schedule J-1.**

12 A. Schedule J-1 is a summary of billing determinants used to derive the transportation
13 rates shown on Schedule J-2. Columns 2 and 7 of Schedule J-1 set out the
14 unadjusted test period reservation and commodity billing determinants,
15 respectively, for each rate schedule as reflected in Schedule G-2. Columns 3 and
16 7 show the discount adjustment to reflect quantities flowing at less than maximum
17 rates while Columns 4 and 7 show the discount-adjusted Schedule G-2 billing
18 determinants. Columns 5 and 9 show the billing determinants used to derive rates
19 which tie to the customers' total billing determinants as shown on Schedule J-2.
20 The reservation billing determinants shown in Column 5 of Schedule J-1 include
21 reservation billing determinants for Rate Schedules FTS-2 and ITS imputed at a
22 100 percent load factor.

1 **Q.23 Why did you impute reservation billing determinants for Rate Schedules**
2 **FTS-2 and ITS?**

3 A. Service under Rate Schedules FTS-2 and ITS is provided under one-part
4 commodity rates. In order for an appropriate level of fixed costs to be allocated to
5 the FTS-2 and ITS services, reservation units are imputed for allocation and rate
6 design purposes. As no test period billing determinants under the PAL rate
7 schedule are contemplated, I have not imputed a level of reservation units for
8 PAL service.

9 **Q.24 What is the Commission's policy with respect to discounts?**

10 A. The Commission allows a pipeline to adjust its billing determinants in a rate case
11 proceeding to reflect the effects of rate discounting on its revenue stream. The
12 Commission allows this adjustment in order to not cause an economic barrier or
13 disincentive to the pipeline in discounting its services to meet competition. The
14 goal of the discount adjustment is to arrive at a set of adjusted rate design
15 determinants which take into account the level of discounting on the system. *See*
16 *Interstate Natural Gas Pipeline Rate Design*, 47 FERC ¶ 61,295 and *Order*
17 *Affirming Discount Policy and Terminating Rulemaking Proceeding*, 111 FERC
18 ¶ 61,309. As discussed by Mr. Merritt, all the discounts granted by Stingray were
19 to capture throughput for Stingray in light of competition from other pipelines.
20 One of the Commission's accepted methods of reflecting the effects of
21 discounting is the so-called iterative method of discounting.

1 **Q.25 Please describe the iterative method of discounting used to arrive at the test**
2 **period billing determinants shown on Schedule J-1.**

3 A. For each discounted agreement, the actual billed rate was compared to the
4 maximum rate derived in Schedule J-2 to determine a percentage of the maximum
5 rate. This percentage was then applied to the billing units for each of the
6 respective discounted agreements. This level of adjusted billing units, or full rate
7 equivalent quantities (“FRE”), was then used to recalculate Stingray’s maximum
8 rates. The resulting maximum rates were then again compared to the billed rates
9 for each discounted rate agreement to derive a new percentage of the maximum
10 rate to be applied to each discounted agreement’s billing units. This, in turn,
11 produced a new set of FRE quantities. This iterative process was continued until
12 both the FRE quantities and the resulting maximum rates ceased to change.

13 **Q.26 What does the reservation discount adjustment shown in Columns 3 and 7 on**
14 **Schedule J-1 represent?**

15 A. The adjustment represents the amount of the discount adjustment determined after
16 all the iterations were completed.

17 **Q.27 Please explain Schedule J-2.**

18 A. Schedule J-2, Page 1 of 2, which represents the fourth and final step in the rate
19 design process, reflects the derivation of rates for Rate Schedules FTS, FTS-2,
20 ITS and PAL. As mentioned previously, I have continued the use of the rate
21 design methodology used to design the settlement rates approved in Docket No.
22 RP99-166. The rates for these services are derived from the reservation and usage
23 costs as set forth on Schedule I-2, and the rate design billing determinants as

1 shown on Schedule J-1. The reservation and commodity costs and system design
2 billing determinants are used to develop the system average unit transportation
3 rates as shown on Schedule J-2, Line 3, which is also the basis of the rates under
4 Rate Schedule FTS. The FTS Overrun rate, the FTS-2 rate and the PAL rate are
5 100 percent load factor derivatives of the FTS rate. The Daily Conditional
6 Reservation rate under Rate Schedule FTS-2 is the 100 percent load factor
7 derivative of just the system average reservation rate exclusive of the commodity
8 rate. The minimum reservation rate under Rate Schedule FTS is zero while the
9 minimum commodity rate under Rate Schedules FTS, FTS-2 and ITS is the
10 system average commodity rate. The minimum commodity rate under Rate
11 Schedule PAL is zero. The resultant Rate Schedule FTS, FTS-2, ITS and PAL
12 rates are reflected on Eighteenth Revised Sheet No. 5 in the tariff sheets attached
13 to the Transmittal Letter for this filing.

EVENT SURCHARGE CALCULATION

Q.28 Has Stingray proposed a new surcharge to be included in its tariff?

A. Yes. As more fully described by Mr. Neyland (Exhibit No. SPC-6) and Mr.
Krenz (Exhibit No. SPC-1), Stingray is proposing a new surcharge, the Event
Surcharge, designed to recover capital and operation and maintenance
expenditures in connection with efforts to maintain service during, and to prevent
or repair damage to its facilities caused by an "Event", such as a hurricane,
tropical storm or depression. The Event Surcharge shall also include the recovery

1 of property damage insurance coverage costs actually incurred by or in respect of
2 Stingray or its system facilities.

3 **Q.29 What rate is Stingray proposing for this surcharge?**

4 A. Proposed Section 36.3 of the Event Cost Surcharge, as shown in the tariff sheets
5 attached to the Transmittal Letter filed with this rate filing, provides that the first
6 Event Surcharge shall be established in this rate proceeding. As shown on
7 Schedule J-2, Page 2 of 2, the Event Surcharge rate is \$0.0145 per Dth. The
8 Event Surcharge is calculated by dividing the premium costs for property damage
9 coverage held by Enbridge Inc. and MarkWest Energy Partners, L.P. on behalf of
10 Stingray, as supported by Mr. Neyland, Exhibit No. SPC-6, and Mr. Andrew L.
11 Schroeder, Exhibit No. SPC-46, respectively, shown on Lines 1 and 2, divided by
12 the projected test period commodity billing determinants shown in Column 6 on
13 Statement J-1.

14 **REVISED GAS PRICE INDEX POINTS**

15 **Q.30 Please explain Exhibit No. SPC-5.**

16 A. As part of this rate case, Stingray is proposing certain revisions to its FERC Gas
17 Tariff. One such revision is changing the gas price indices used for monthly
18 transportation imbalance cash out purposes. As indicated in Mr. Merritt's
19 testimony, Exhibit No. SPC-7, Stingray is proposing to revise the current
20 reference to the index prices for "South Louisiana," "NGPL" and "South
21 Louisiana, LRC via Stingray" as reported in 'Spot Gas Prices Delivered to
22 Pipelines' as issued by *Natural Gas Intelligence* to the index prices reported for

1 “Columbia Gulf Onshore,” “ANR LA,” and “Tennessee Line 800” of the same
2 source publication. Exhibit No. SPC-5 shows that the new pricing points
3 proposed by Stingray satisfy the Commission’s criteria for reflecting adequate
4 liquidity at reference points.

5 **Q.31 What are the Commission’s criteria with respect to the use of weekly price**
6 **indices in pipelines’ tariffs?**

7 A. In *Price Discovery in Natural Gas and Electric Market*, 109 FERC ¶ 61,184
8 (2004) (“*Price Index Order*”), the Commission addressed issues concerning price
9 indices in natural gas and electricity markets. Specifically, ordering paragraph
10 (E) of the *Price Index Order* stated that “[a]ny tariff filing made by a pipeline or
11 utility after the date of this order must meet the criteria in Ordering Paragraphs
12 (C) and (D) prospectively...”

13 **Q.32 What does Ordering Paragraph (C) of the *Price Index Order* state?**

14 A. Ordering Paragraph (C) of the *Price Index Order* states that “[i]n order for a price
15 index to be used in a jurisdictional tariff, the index must be published or provided
16 by an index developer that has met all or substantially all of the standards of
17 Policy Statement Paragraph 33 [*Policy Statement on Natural Gas and Electric*
18 *Price Indices*], 104 FERC ¶ 61,121 (2003) (“*Price Indices Policy Statement*”), and
19 must provide the volume and number of transactions upon which the index value
20 is based, or indicate when no such data is available.” Paragraph 33 of the *Price*
21 *Indices Policy Statement* establishes minimum standards for the creation and
22 publication of energy price indices by price index publishers addressing 1) Code

1 of conduct and confidentiality; 2) Completeness; 3) Data verification, error
2 correction, and monitoring; 4) Verifiability; and 5) Accessibility.

3 **Q.33 Does the publication “Spot Gas Prices Delivered to Pipelines” as issued by**
4 ***Natural Gas Intelligence* meet those standards laid out in Paragraph 33 of the**
5 ***Price Indices Policy Statement and the Price Index Order*?**

6 A. Yes it does. As a matter of fact, Natural Gas Intelligence is specifically listed in
7 Paragraph (B) of the *Price Index Order* as an index developer that has adopted all
8 or substantially all of the standards of the *Price Indices Policy Statement*
9 Paragraph 33.

10 **Q.34 What does Paragraph (D) of the *Price Index Order* state?**

11 A. Paragraph (D) provides that in order for an index of a price at a particular location
12 to be used in a jurisdictional tariff, the index location must meet one or more
13 criteria established for daily/ hourly, weekly or monthly price indices,
14 respectively. Stingray is proposing the use of weekly indices and must meet at
15 least one of the following conditions on average for all weeks within a 90 day
16 review period: 1) average daily volume traded of at least 25,000 MMBtus per day;
17 2) average daily number of transactions of eight or more per week; and 3) average
18 daily number of counterparties of eight or more per week.

19 **Q.35 Do the pricing locations proposed by Stingray meet at least one of the above**
20 **conditions to be used as a pricing location in its tariff?**

21 A. Yes. As reflected in Exhibit No. SPC-5, the pricing locations proposed by
22 Stingray meet both criteria 1 and 2. *Natural Gas Intelligence* does not post the
23 average daily number of counterparties.

1 **Q.36** **Does this conclude your testimony?**

2 A. Yes it does.

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

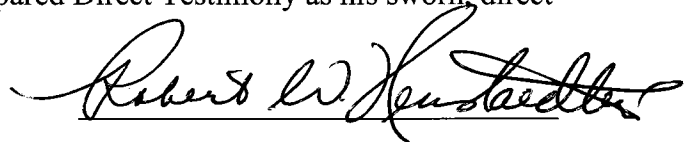
Stingray Pipeline Company, L.L.C.

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Docket No. RP08-____-000

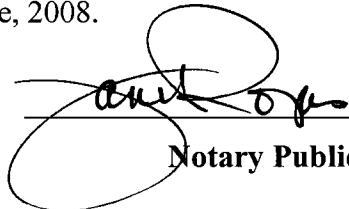
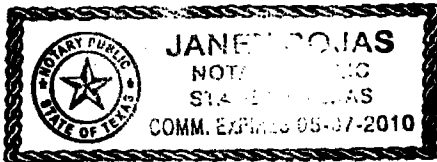
AFFIDAVIT OF ROBERT W. NEUSTAEDTER

Robert W. Neustaedter, 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.



Robert W. Neustaedter

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Texas, County of Harris, this 26th day of June, 2008.



Notary Public

My commission expires: 5/7/2010

Robert W. Neustaedter, Vice President
Pace Global Energy Services, LLC

Industry Experience: 25+ years

Qualifications and Experience:

Mr. Neustaedter has over 25 years experience in domestic and international gas and electric energy markets. His career has focused primarily in FERC pipeline regulatory matters with experience in gas supply, economic analysis and strategy development. He has been presented as an expert witness before federal, state and international regulatory authorities, testifying on pipeline cost of service and cost allocation and rate design issues. In addition, Mr. Neustaedter has been a guest lecturer for industry sponsored classes on pipeline rate making at the universities of Wisconsin and Maryland. His international experience includes providing financial, contractual and regulatory affairs support to both gas and power business origination efforts in Southeast Asia, China, India and South America.

Mr. Neustaedter holds a bachelors degree in business administration, majoring in finance.

Examples of project-type work Mr. Neustaedter has been involved in include:

- Project Manager for Natural Gas Act Section 311 filing for Texas intrastate pipeline company. Prepared all cost of service and rate design exhibits supporting FERC filing.
- Provided regulatory guidance and advice and managed the preparation and development of market-power studies and testimony supporting storage companies' successful FERC certificate applications for market-based rates.
- Directed all aspects of major rate case filing for an offshore natural gas pipeline company. Filing addressed complex accounting and regulatory issues, as well as substantial decline in transportation throughput volumes. Provided expert witness testimony on cost of service and rate design.
- Project Manager for study to evaluate feasibility of supplying naturally produced and anthropogenic sources of CO₂ for enhanced oil recovery ("EOR") operations. Study included evaluation of EOR sinks, infrastructure options and viability of sources.
- Led cross-functional effort to re-engineer gas fuel rate determination process for a major FERC-regulated interstate pipeline company. Results included a more accurate projection of fuel rates, a reduction in over/ under recoveries of fuel cost by the pipeline and a corresponding reduction in regulatory review, intervener inquiries and outside legal cost.
- Provided regulatory and analytical support for proposed international LNG receiving terminal and related pipeline project in the state of Maharashtra, India. Incorporating Indian laws and regulations; developed pricing structure for recovery of LNG facility costs and pipeline cost of service. Provided analytical support for overall economic analysis of the combined project.

- Directed preparation and comprehensive analysis of major pipeline competitors' tariffs, sources of supply, customer base, costs and rates projected over 5 years. Analysis supported company development of \$300 million pipeline expansion project.
- As department manager for major interstate pipeline company, planned and directed rate case filings with the FERC for affiliated pipeline companies. Led project team responsible for the determination of pipeline cost of service, rate design and related tariff provisions. Prepared rate sensitivity studies, revenue impact analyses and coordinated rate case filing strategies. Provided expert testimony supporting the filings and related exhibits.
- Provided strategic and economic evaluation of \$130 million budgeted commercial pipeline capital projects. Was responsible for the development of income, cash-flow, internal rate-of-return and net present value analyses. Analysis supported senior management review of capital projects to ensure appropriate allocation of company resources consistent with the company's strategic direction.
- Managed development of 5-year strategic and annual operational plans and budgets for major interstate pipeline company. Identified core competencies of pipeline as well as company and competitor strengths and weaknesses.
- Due to interstate pipelines' exit from the merchant function pursuant to FERC Order 636, developed and administered "reverse auction" of gas supply-related transportation contracts for a major interstate pipeline company. Auction and subsequent assignment of contract liability to third parties resulted in company (and customer) savings of over \$88 million.
- Directed review of interstate pipeline company's internal accounting process related to expensing and recovery of fuel-related gas costs. Analysis resulted in the identification and correction of accounting entries and provided annual savings to the company of over \$1 million.
- Led project team for a major electric and natural gas utility responsible for developing systematic approach to rank order states that were offering natural gas and electric energy retail choice. Rankings were based on defined "value parameters" that took into account ease of market entry, market structure and pricing terms. Resultant analysis helped focus retail marketing efforts and reduced marketing costs.

**Employment
History:**

2008 - Present	Vice President, Pace Global Energy Services, LLC, Houston, TX
2007 - 2008	Director, Pace Global Energy Services, LLC, Houston, TX
2005 - 2007	Project Manager, Pace Global Energy Services, LLC, Houston, TX
2002 - 2005	Project Manager Rates, Panhandle Energy, Houston, TX
1999 - 2002	Manager Government and Regulatory Affairs, Enron Corporation, Houston, TX
1998-1999	Manager Regulatory and Policy Development, CenterPoint Energy, Houston, TX
1994 - 1997	Manager Strategy Development, El Paso Energy, Houston, TX
1978 - 1994	Manager Rates and Regulatory Affairs, El Paso Energy, Houston, TX

Education: BBA Finance, Texas A&M University

Countries of Experience: United States, Canada, China, Taiwan, South Korea, India, Brazil, Bolivia, Indonesia

Languages: English (Native)