Exhibit No. SPC-6

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

PREPARED DIRECT TESTIMONY OF
STEPHEN J. NEYLAND
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
STEPHEN J. NEYLAND
ON BEHALF OF
STINGRAY PIPELINE COMPANY, L.L.C.

Mr. Neyland is Controller for Enbridge Energy Company, Inc. and the Treasurer for Stingray Pipeline Company, L.L.C. ("Stingray"). In his Prepared Direct Testimony, Exhibit No. SPC-6, Mr. Neyland verifies that the Statements and Schedules reflecting the cost of service underlying this rate filing reflect the results shown in Stingray's books and records and comply with the FERC's Uniform System of Accounts, provides an overview of Stingray's management structure, describes the increased costs and risks associated with the insurance obtained for Stingray, supports specific cost-of-service and rate base statements and schedules, discusses various test period adjustments made to amounts reflected in those statements and schedules, discusses the correcting entry to the accumulated reserve for depreciation, depletion and amortization for negative salvage, and supports the asset retirement obligation amounts reflected in this rate filing.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

PREPARED DIRECT TESTIMONY OF
STEPHEN J. NEYLAND
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 Stephen J. Neyland. I am employed by Enbridge Employee Services, Inc. I am the Controller for Enbridge Energy Company, Inc. and the Treasurer for Stingray Pipeline Company, L.L.C. ("Stingray"), both subsidiaries of Enbridge Inc. ("Enbridge"). Enbridge's US headquarters are 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 received a Bachelor of Business Administration in Accounting with honors from Texas A&M University College of Business Administration in May of 1989. I have been an active Certified Public Accountant in Texas since March of 1993. From 1989 to 1991, I was employed by Arthur Anderson & Company as a staff accountant. From 1991 to 1994, I was a Senior Accountant for KCS Energy, Inc. with responsibilities for financial reporting and gas accounting associated with KCS' gas marketing functions. From 1994 to October of 1999, I was employed by Koch Gateway Pipeline and Koch Energy Trading. My duties during that period included various managerial accounting positions and management of scheduling for Koch Gateway Pipeline. From November of 1999 to December of 2001, I served as the Controller for Koch Midstream Services. From December of 2001 to May of 2004, I held various managerial positions associated with gas and revenue accounting for Enbridge Energy Company, Inc. I served as Assistant Controller for Enbridge Energy Company, Inc. from May of 2004 to January of 2005, and as Controller, Natural Gas for Enbridge Energy Company, Inc. from January of 2005 to August of 2006. Effective January of 2005, I became the Treasurer for Stingray. Effective September 1, 2006, I was elected to serve as Controller of Enbridge Energy Partners, L.P. and Enbridge Energy Company, Inc. During my time at Enbridge, among other matters, I have been responsible for (1) reporting, controlling and managing accounting functions for natural gas pipelines, natural gas liquids ("NGL"), and certain oil pipelines, and (2) evaluation and development of control systems, including those associated with the Sarbanes-Oxley regulations. My current responsibilities consist of operations accounting and the reporting and monitoring of actual financial results for both internal management and regulatory, shareholder and other compliance purposes.

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

A. I am testifying on behalf of Stingray.

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

A. No.

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

A. The purpose of my testimony is (1) to verify that the Statements and Schedules reflecting the cost of service underlying this rate filing reflect the results shown in Stingray's books and records and comply with the Federal Energy Regulatory Commission's ("Commission" or "FERC") Uniform System of Accounts for Natural Gas Companies, 18 C.F.R. Pt. 201, (2) to provide an overview of Stingray's management structure, (3) to describe the increased costs and risks associated with the insurance obtained for Stingray, (4) to support specific cost-of-service and rate base statements and schedules, (5) to discuss various test period adjustments made to amounts reflected in those statements and schedules, (6) to discuss the correcting entry to the accumulated reserve for depreciation, depletion and amortization for negative salvage, and (7) to support the asset retirement obligation amounts reflected in this rate filing.

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

A. I am sponsoring the following statements and schedules: Cost of Plant Summary (Statement C and supporting Schedules); Accumulated Provisions for Depreciation (Statement D); Working Capital (Statement E and supporting Schedules); Other Revenues (Schedule G-5); Miscellaneous Revenues (Schedule G-6); Operation and Maintenance Expenses (Statement H-1 and supporting Schedules); Depreciation, Depletion and Amortization Expense (Statement H-2 and supporting Schedules); Other Taxes (Statement H-4); the Balance Sheet (Statement L); and the Income Statement (Statement M).

Q.7 Were these statements and schedules prepared by you or under your direction or supervision?

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

Q.8 Are you familiar with all of the statements and schedules, including their supporting workpapers, that comprise the cost of service for this rate filing?

A. Yes, I am familiar with the entire cost of service contained in Exhibit No. SPC-4.

Q.9 Were these cost-of-service statements, schedules and workpapers prepared in accordance with FERC's Uniform System of Accounts for Natural Gas Companies?

A. Yes.

Q.10 Do the cost statements, supporting data, and workpapers of this rate filing that purport to reflect the books of Stingray in fact set forth the results shown by such books?

A. Yes.

Q.11 What base period and test period does Stingray utilize for this filing?

A. The base period utilized in this filing is the twelve-month period ending February 29, 2008. The base period data can be adjusted for known and measurable changes during the test period. The test period used for this filing is the period ending November 30, 2008.

Q.12 When are adjustments to the base period data appropriate?

A. Adjustments to the base period data are appropriate when Stingray knows that certain known and measurable changes will occur during the test period that are not reflected in the base period data from Stingray's books and records. In addition, it is appropriate to normalize and/or annualize certain costs incurred during the base period to reflect an appropriate annual level of costs and to revise amounts recorded on the books during the base period that the company knows need to be corrected.

OVERVIEW OF STINGRAY'S MANAGEMENT STRUCTURE

Q.13 Who currently owns Stingray?

A. As explained in more detail by Mr. Ken C. Lanik in his Prepared Direct Testimony, Exhibit No. SPC-39, and by Mr. Stephen L. Merritt in his Prepared Direct Testimony, Exhibit No. SPC-7, Stingray is currently owned by Starfish Pipeline Company, LLC, which is owned fifty percent by Enbridge Offshore (Gas Transmission) L.L.C. ("Enbridge Offshore") and fifty percent by MarkWest Energy Partners, L.P. ("MarkWest Energy").

Q.14 Who operates Stingray's pipeline?

A. Pursuant to the terms of the operating agreement dated April 1, 2002 between Stingray and Shell Gas Gathering, LLC, as amended. Shell Gas Gathering, LLC changed its name to Enbridge Offshore (Gas Gathering) L.L.C. at the time it was indirectly acquired by Enbridge (U.S.) Inc. Enbridge Offshore (Gas Gathering) L.L.C. manages the day-to-day operation, activation, maintenance, reports, budgeting, accounting, administrative services, ministerial filings, modification, deactivation, removal, restoration, and remediation of Stingray's pipeline using employees of Enbridge Employee Services, Inc. dedicated to Stingray. Stingray does not have any employees of its own.

Q.15 How are costs recorded by Stingray?

A. There are two types of charges that are recorded by Stingray: (1) those operational and administrative costs directly charged to Stingray, and (2) a management fee reflective of Stingray's general administrative costs that are not directly charged to Stingray. An immaterial amount of the administrative costs and operating costs directly charged to Stingray relate to costs that have been divided between Stingray and other systems owned by Enbridge. Stingray's operational and administrative costs in this rate filing, therefore, reflect a combination of the costs directly charged to Stingray and the management fee.

Q.16 What is the purpose of the management fee?

A. Instead of attempting to allocate to Stingray its portion of Enbridge Offshore's general administrative costs that are not directly charged to Stingray, Enbridge Offshore and MarkWest Energy have negotiated at arm's-length a management fee to be paid by Stingray, which is intended to cover those general administrative costs. Mr. Merritt discusses the details of the change in management fee in his Prepared Direct Testimony, Exhibit No. SPC-7.

INSURANCE PREMIUMS FOR COVERAGE OF STINGRAY

Q.17 Did Enbridge maintain any insurance policies in 2007 with respect to its interest in Stingray?

A. Yes, among other policies, Enbridge maintained a single policy for property damage, business interruption, and contingent business interruption insurance, as well as a policy for workers' compensation insurance, and an automobile liability insurance policy, all of which included coverage for Stingray.

Q.18 Do these policies cover facilities other than those owned by Stingray?

A. Yes.

Q.19 Have the portions of the premiums for those policies related to Stingray been included in the cost of service for this rate filing?

A. Yes. The portion of the premiums for the business interruption, contingent business interruption, workers' compensation, and automobile liability insurance related to Stingray has been included in Stingray's costs of service, as shown in Adjustment No. 8 on page 2 of Schedule H-1.1. The portion of the premium for the property damage insurance related to Stingray has not been included in the cost of service because Stingray is proposing to recover those costs through a separate surcharge, the Event Surcharge.

Q.20 Does Stingray recognize in its cost of service any of the insurance claims that Enbridge has filed under its property damage insurance policy with respect to damage to Stingray's facilities?

A. Yes. As I will explain later in my testimony, a reduction to the base period balance for Stingray's cost of plant has been made to account for the property damage insurance claims for capital expenditures, less the insurance deductibles, made in connection with Stingray's investments to rebuild its facilities damaged by Hurricane Rita. Expenses have also been reduced by property damage claims for expenses, less the insurance deductibles. Going forward, any property damage insurance claims, less deductibles and/or proceeds ("Insurance Recoveries"), for costs and expenses received will be accounted for in accord with the Event Surcharge tariff provisions proposed in this rate filing.

Q.21 Does Enbridge's property damage policy cover both onshore and offshore facilities?

A. Yes. However, the coverages for onshore and offshore facilities are stated separately in the property damage section of the policy.

Q.22 Why does the property damage policy distinguish between onshore and offshore facilities?

A. Because the insurance companies deem offshore operations to be more risky, and therefore more costly to insure, than onshore facilities. In fact, some insurers choose not to offer property damage insurance at all for offshore operations.

Q.23 What is the term of Enbridge's current policy for the property damage, business interruption, and contingent business interruption insurance that includes coverage for Stingray?

A. The current policy year for that coverage is May 1, 2008, to May 1, 2009.

Q.24 What are the Enbridge property damage, business interruption, and contingent business interruption premiums attributable to Stingray for that policy year?

A. For the policy year ending 11:59 p.m. April 30, 2009, the Enbridge property damage premium attributable to Stingray is $1,307,583 and the Enbridge business interruption and contingent business interruption premium attributable to Stingray is $211,864.

Q.25 Please explain how you determined the amount of those premiums attributable to Stingray.

A. The amount of those Stingray premiums was determined by taking the total replacement value of Stingray's offshore assets as a percentage of the total replacement value of all of Enbridge's offshore assets, and then applying that percentage against the total premium specified in Enbridge's policy for offshore facilities.

Q.26 What are the terms for the current workers' compensation and automobile liability policies that include coverage for Stingray?

A. The current policy year for the respective workers' compensation and automobile liability coverages is December 31, 2007, to December 31, 2008.

Q.27 What are the workers' compensation and automobile liability premiums attributable to Stingray for that policy year?

A. For the policy year ended December 31, 2008, the workers' compensation premium attributable to Stingray is $36,606, and the automobile liability premium attributable to Stingray is $1,846.

Q.28 Please explain how you determined the amount of those premiums attributable to Stingray.

A. The Stingray premium for the workers' compensation insurance was determined by taking the total number of Stingray's dedicated offshore employees divided by the total number of Enbridge's offshore employees, and then multiplying that amount by the premium rate specified in Enbridge's policy for its offshore operations. The Stingray premium for the automobile liability insurance was determined by applying the automobile policy's composite rate per unit to the number of automobiles owned by Stingray.

RATE BASE

COST OF PLANT

Q.29 Please describe Statement C.

A. Statement C of the cost of service reflects Stingray's gas plant expected to be in service at the end of the test period. This statement shows the base period beginning balances by account, additions and reductions during the base period, base period ending balances, test period adjustments and the gas plant in-service reflected in the rate base. As reflected in Statement C, Stingray's test period gas plant in-service is $306,065,557.

Q.30 Please explain the test period adjustment of $36,280,190 made to the cost of plant.

A. As shown in Schedule C-1.1, Stingray made five adjustments to the base period cost of plant that had the net effect of reducing Stingray's gas plant balance by $36,280,190. Adjustment No. 1, as shown in Column (3) on Schedule C-1.1, increases gas plant in-service for those costs associated with plant additions expected to be in service by the end of the test period. The identification and dollar amounts for the individual plant additions are shown on Schedule C-2. Adjustment No. 2, as shown in Column (4) on Schedule C-1.1, reduces gas plant in-service by the plant amounts associated with the old and inefficient compressor facilities that Stingray has proposed to abandon in Docket No. CP08-151. Adjustment No. 3, as shown in Column (5) on Schedule C-1.1, reduces gas plant in-service by asset retirement costs ("ARC") capitalized as plant property and equipment as a result of Stingray's implementation of the Financial and

Accounting Standards Board Statement No. 143, Accounting for Asset Retirement Obligations ("FASB 143"), which I discuss in more detail later in my testimony. I understand that Section 154.315(a) of the Commission's regulations requires the removal from rate base of such costs, to the extent that they affect the calculation of rate base. Adjustment No. 4, as shown in Column (6) on Schedule C-1.1, reduces Account 107 (Construction Work in Progress) for those projects that will be placed in service by the end of the test period and which are reflected in Account 101 (Gas Plant in Service) pursuant to Adjustment No. 1. Finally, as shown in Column (7) on Schedule C-1.1, Adjustment No. 5 reduces Stingray's gas plant balance by the amount of property damage insurance claims for capital expenditures, less the insurance deductibles, made in connection with Stingray's investments to rebuild the Stingray facilities damaged by Hurricane Rita.

Q.31 Does Stingray have any gas plant on its books related to gas storage?

A. No, as indicated in Schedule C-3.

Q.32 Have there been any changes in the methods and procedures Stingray follows in capitalizing its allowance for funds used during construction and other construction overheads since Stingray filed its last FERC Form 2?

A. No, as indicated in Schedule C-4.

Q.33 Has there been a significant change of $500,000 or more in the cost of gas plant not being used in rendering gas service since Stingray filed its last FERC Form 2?

A. No, as indicated in Schedule C-5. However, as discussed in Schedule C-5, in Docket No. CP08-151, a request to abandon compression is pending.

ACCUMULATED DEPRECIATION, DEPLETION, AND AMORITIZATION

Q.34 Please describe the contents of Statement D.

A. Statement D of the cost of service sets out the accumulated depreciation, depletion, and amortization ("DD&A") that Stingray is reflecting in its rate base in this proceeding, as adjusted for changes during the test period. Statement D shows the balance for FERC Account Nos. 108 and 111 at the beginning of the base period, additions and reductions during the base period, base period ending balances, test period adjustments, and the base period balances as adjusted for the test period.

Q.35 What level of accumulated depreciation is reflected in Statement D?

A. As shown on Line 10 of Column 7 of Statement D, Stingray is reflecting accumulated depreciation of $268,652,746 for the base period, as adjusted for known and measurable changes during the test period.

Q.36 What test period adjustments were made to the base period balances of Accounts 108 and 111?

A. As shown in the Statement D Workpapers, a total of five adjustments were made to the base period DD&A amounts.

Q.37 Please explain Adjustment No. 1.

A. Adjustment No. 1 increases the base period DD&A to reflect the additional depreciation that will occur on Stingray's existing facilities through the end of the test period, as shown in the Statement D.1 Workpapers.

Q.38 Please explain Adjustment No. 2.

A. Adjustment No. 2 reflects the proposed entry to DD&A associated with Stingray's pending request in Docket No. CP08-151 to retire certain of its compressor facilities.

Q.39 Please explain Adjustment No. 3.

A. Related to Adjustment No. 2, Stingray is expecting to incur certain abandonment costs associated with the retirement of its compressor facilities in Docket No. CP08-151. Consistent with the Commission's accounting instructions, Adjustment No. 3 reduces Stingray's DD&A reserve for the costs of the abandonment.

Q.40 Please explain Adjustment No. 4.

A. Similar to the adjustment to plant as described previously in my testimony, and in accord with Section 154.315(a) of the Commission's regulations, Stingray is removing from DD&A all cost components related to asset retirement obligations ("ARO") that would affect the calculation of rate base. Adjustment No. 4 eliminates ARC depreciation expense accumulated on the ARC capitalized as a result of the implementation of FASB 143.

Q.41 Please explain Adjustment No. 5.

A. Adjustment No. 5 reclassifies certain negative salvage costs previously booked to Account 254 as a result of implementation of FASB 143 to Account 108. The previous owners of Stingray implemented FASB 143 on January 1, 2003, in accordance with Order 631, *Accounting, Financial Reporting, and Rate Filing*

Requirements for Asset Retirement Obligations, FERC Stats. & Regs., Regulations Preambles 2001-2005 ¶ 31,142 (April 9, 2003). Upon implementation of FASB 143, Stingray's previous owners reclassified all negative salvage costs accumulated in Account 108 to Account 254 as part of its "transition adjustment." In review of its accounts in preparation for this rate case filing, Stingray has determined that the reclassification of all negative salvage costs to Account 254 was inappropriate. Only those negative salvage costs directly related to the facilities with a recognized ARO should have been transferred to Account 254 upon implementation of FASB 143. I will discuss Stingray's implementation of FASB 143 later in my testimony.

Q.42 Have there been any changes in the methods and procedures that Stingray follows in depreciating, depleting and amortizing plant and recording abandonments since Stingray filed its last FERC Form No. 2?

A. No, as indicated in Schedule D-2.

<u>WORKING CAPITAL</u>

Q.43 Please describe Statement E.

A. Statement E of the cost of service summarizes the level of working capital that Stingray is including in rate base. The detail as to how the total working capital of $181,940 was calculated is found on Schedule E-2, which consists of the average monthly balance for the thirteen-month period ending February 29, 2008 for Accounts 154 and 165.

Q.44 Is Stingray claiming a cash working capital amount in its rate base?

A. No, as indicated in Schedule E-1.

Q.45 Does Stingray provide any natural gas storage services?

A. No, as indicated in Schedule E-3.

COST OF SERVICE

OPERATION AND MAINTENANCE

Q.46 Have you provided a schedule that shows Stingray's operation and maintenance expenses for the base period?

A. Yes. Base period operation and maintenance expenses, including test period adjustments made to those base period amounts, are shown in Statement H-1 of this rate filing.

Q.47 What level of operation and maintenance expense is Stingray reflecting in its cost of service?

A. As shown in Line 36 of Column 17 of Statement H-1, Stingray's total operation and maintenance expense for the test period is $12,775,457. This operation and maintenance expense can be broken down into a transmission component of $9,000,003, and an administrative and general ("A&G") component of $3,775,454. The $12,775,457 represents a total increase of $1,971,937 from the base period operation and maintenance expense.

Q.48 Please explain the test period adjustments that were made to the base period operation and maintenance expenses?

A. As shown on Schedule H-1.1, there were ten test period adjustments made to the base period total operation and maintenance expense. Adjustment No. 1 reflects the removal of gas cost from the cost of service because such costs are recovered separately through the Company Use Gas provisions of Stingray's tariff. This adjustment is comprised of the adjustments shown in Lines 1, 3, and 9 of Column 4 on Schedule H-1.1 to Accounts 810 (Gas Used for Compressor Station Fuel), 813 (Other Gas Supply Expense), and 854 (Gas for Compressor Station Fuel). As a result of this test period adjustment, Stingray's cost of service does not contain any gas costs.

Q.49 Please describe Adjustment No. 2.

A. Adjustment No. 2 reduces Account No. 928 (Regulatory Commission Expense) in the amount of $256,385 to reflect the removal of the FERC Annual Charge Adjustment ("ACA") costs recovered separately through the ACA charge in Stingray's Commission-approved tariff, and therefore should not be included in Stingray's cost of service.

Q.50 Please describe Adjustment No. 3.

A. Adjustment No. 3 reflects an increase in the management fee that Stingray pays to Enbridge Offshore (Gas Gathering) L.L.C. to manage Stingray's administrative functions. This A&G expense adjustment of $1,073,535, as shown on Line 28, Column (6) of Statement H-1.1, represents the increase in the management fee, effective October 1, 2008, that, as described in the Prepared Direct Testimony of Mr. Merritt, Exhibit No. SPC-7, has been negotiated at arm's-length.

Q.51 Please describe Adjustment No. 4.

A. Adjustment No. 4, in the amount of $850,000, increases Account No. 928 (Regulatory Commission Expense) to reflect the inclusion of costs related to outsides services necessary for the preparation, filing and prosecution of this rate filing, amortized over a three year period.

Q.52 Please describe Adjustment No. 5.

A. Adjustment No. 5, in the amount of $128,858 is a normalizing adjustment made to Account No. 856 (Mains Expense) to reflect an increase in labor and benefits costs due to salary merit increases that became effective on April 1, 2008 for the employees of Enbridge Employee Services, Inc. whose time is charged directly to Stingray.

Q.53 Please describe Adjustment No. 6.

A. Adjustment No. 6, in the amount of $181,416, is made to Account 856 (Mains Expense) to eliminate the effect of certain prior period adjustments for inter-company operating fees attributable to Stingray. Specifically, the prior period adjustments reduced Stingray's Account 856 for costs that should have been charged to other pipelines. A portion of those prior period adjustments, however, covered a period prior to Stingray's base period in this rate filing. Adjustment No. 6 normalizes the prior period adjustments made in the base period for this rate filing.

Q.54 Please describe Adjustment No. 7.

A. Adjustment No. 7, as shown on Schedule H-1.1, in the amount of $363,170, reflects a 5.35 percent increase in material and supplies costs. This transmission expense adjustment is made to account for the effects of general inflation at a rate equal to the average of the U.S. Department of Labor, Bureau of Labor Statistics'

Producer Price Index for Finished Goods for a "basket" of products and equipment over the last five years, consisting of 1) Chemicals and Allied Products, 2) Pulp, paper, and allied products, 3) Metals and metal products, 4) Machinery and equipment, and 5) Transportation equipment.

Q.55 Please describe Adjustment No. 8.

A. Adjustment No. 8, in the amount of $352,961, reflects an adjustment to Account No. 924 to include the respective business interruption and contingent business interruption, workers' compensation, and automobile insurance premium costs incurred by Stingray's individual owners on behalf of Stingray that I previously described for Enbridge. Included in the premium costs for business interruption and contingent business interruption is a level of premium costs incurred by MarkWest Energy, which is described by Mr. Andrew L. Schroeder in his Prepared Direct Testimony, Exhibit No. SPC-46. This adjustment, which is shown on Line 29 of Column 11 of Statement H-1.1, reflects Stingray's portion of those insurance premium costs. As I previously explained, Stingray's portion of the premiums for property damage insurance is not included in this adjustment because such charges are to be recovered through the proposed Event Surcharge. I will describe the proposed Event Surcharge later in my testimony.

Q.56 Please describe Adjustment No. 9.

A. Adjustment No. 9, in the amount of $89,403, reflects an adjustment to Account 860 to remove from the base period the write off of an aged, prior debit balance in FERC Account 242 (Miscellaneous Current and Accrued Liabilities).

Q.57 Please describe Adjustment No. 10.

A. Adjustment No. 10, in the amount of $632,215, reflects an adjustment to remove from the base period balances costs incurred as a result of Hurricane Rita that have been reimbursed through insurance recoveries.

Q.58 Has Stingray included any advertising expenses in its cost of service?

A. No, as indicated in Schedule H-1(2)(b).

Q.59 Does Stingray's cost of service include any amounts from Account 922 (Administrative Expenses Transferred Credit)?

A. No, as indicated in Schedule H-1(2)(d).

Q.60 Does Stingray's cost of service include any amounts from Account 926 (Employee Pensions and Benefits)?

A. No, since Stingray does not have any employees of its own, as indicated in Schedule H-1(2)(f).

Q.61 Does Stingray's cost of service include any amounts from Account 929 (Duplicate Charges Credit)?

A. No, as indicated in Schedule H-1(2)(h).

DEPRECIATION RATES

Q.62 Please describe Statement H-2 of the cost of service.

A. Statement H-2 shows the computation of the depreciation and amortization expense and ARC included in the test period cost of service. Specifically, Statement H-2 shows the balance of depreciable plant anticipated to be in service as of the end of the test period, the annual depreciation rates and negative salvage rate used by Stingray to calculate depreciation expense, base period depreciation expense, ARC depreciation and ARO accretion expense, and the total test period depreciation and amortization expense included in Stingray's overall cost of service reflected on Statement A.

Q.63 What depreciation rates has Stingray used in this rate filing?

A. Stingray has used the depreciation rates the Commission authorized for Stingray in Docket No. RP99-166 and a proposed rate for General Plant — Software Systems.

Q.64 What are the depreciation rates that were authorized in Docket No. RP99-166?

A. The depreciation rates adopted by the Commission in the settlement of that proceeding were 4.5 percent for intangible plant, 0.25 percent for negative salvage, 1.00 percent for transmission plant, and 4.5 percent for general plant.

Q.65 Why is Stingray using those existing depreciation rates for this rate filing?

A. As Mr. Merritt explains in his Prepared Direct Testimony, Exhibit No. SPC-7, based upon the declines in throughput Stingray has experienced over the last several years and with little expectation of significant additional volumes being connected to its system, it does not appear appropriate to change the economic life of Stingray's facilities from that underlying the depreciation rates accepted as part of the 2002 rate settlement. Consequently, I believe it is appropriate for Stingray to continue to reflect those same depreciation rates in calculating depreciation expense in this rate filing.

Q.66 What depreciation rate does Stingray use for General Plant — Software Systems in this rate filing?

A. Stingray uses 20 percent, which provides for the recovery of these costs over a five-year period. Such a depreciation rate is reasonable because (1) given the pace of changing computer technologies, it is likely that any given computer software, including accounting software, will be used five years or less, (2) such software costs directly support the transportation services received by Stingray's shippers, (3) it is in the best interests of Stingray's shippers for Stingray to have current software systems in place to support its provision of transportation services, and (4) a five-year life for this type of plant is consistent with the economic life I understand has previously been permitted by the Commission for such plant. *See Kern River Gas Transmission Co.*, 117 FERC ¶ 61,077, at PP 489-491, n.735 (2006).

Q.67 How does Stingray compute the test period depreciation expense?

A. Stingray applies the depreciation rates I have identified, which are shown in Column 3 of Statement H-2, to the test period depreciable plant balances in Column 2 to compute the test period depreciation expense reflected in Column 6.

The adjustments shown in Column 5 are the differences between the test period depreciation expense and the base period depreciation expense reflected in Columns 6 and 4, respectively. In addition, on Lines 14 and 15 of Statement H-2, Stingray shows the ARC depreciation and ARO accretion expense to be included in rates as supported by Schedule H-2.1.

Q.68 How is the allowance for negative salvage calculated?

A. The rate used for negative salvage, reflected in Column 3 of Statement H-2, is the same rate as approved in Stingray's last rate case in Docket No. RP99-166, as discussed above. The negative salvage rate of .25 percent is applied to Stingray's total transmission depreciable plant balance less those offshore facilities with a recognized ARO.

Q.69 What is an ARO?

A. I understand an ARO to be a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a utility is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. The Commission's Order 631 established new accounting and reporting requirements for AROs consistent with FASB 143. The statement requires that the fair value of a liability for an ARO be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The effective date for the new accounting and reporting requirements was January 1, 2003.

Q.70 Did Stingray adopt these new accounting and reporting obligations?

A. Yes. Stingray adopted FASB 143 on January 1, 2003, and adopted FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligation ("FIN No. 47") on January 1, 2005. FIN No. 47 clarified that an ARO should be recorded for all assets with legal retirement obligations, even if the enforcement of the obligation is contingent upon the occurrence of events beyond the company's control.

Q.71 Why is Stingray adjusting its transmission depreciable plant balance for those offshore facilities associated with a recognized ARO for purposes of calculating negative salvage?

A. Consistent with Order 631, FASB 143 and FIN No. 47, Stingray has recognized certain offshore facilities that have an associated ARO. As discussed above, I understand the accounting and reporting for removal costs that arise from a regulatory or contractual obligation to be governed by Order 631. Consequently, for purposes of calculating negative salvage, Stingray is applying the Commission approved negative salvage rate to only those transmission facilities that do not have an associated recognized ARO.

Q.72 Is Stingray proposing the recovery of recognized ARO-related expenses in its cost of service?

A. Yes. Stingray proposes to recover $932,306 of recognized ARO-related expenses in its cost of service, which is made up of three components: (1) an annual amortization of an ARO-implemented Regulatory Asset; (2) annual depreciation expense on Stingray's ARC assets; and (3) annual accretion expense on

Stingray's ARO liabilities. The determination of these three components is shown in Schedule H-2.1.

Q.73 Please explain your understanding of the impact of Order 631 and Stingray's adoption of FASB 143.

A. My understanding is that Order 631, consistent with FASB 143, requires that a jurisdictional entity recognize a liability for the fair value of an ARO (calculated on a net present value basis) at the time the asset is constructed, acquired, or when a change in a law creates a legal obligation to perform the retirement activities, if a reasonable estimate of fair value can be made. Upon initial recognition of that liability, the pipeline is to increase the cost of the asset that must be retired by the amount of the recognized retirement liability. These capitalized asset retirement costs are then depreciated over the life of the asset. Additionally, the asset retirement liability is increased over time to account for the time value of money through charges to operating expenses, otherwise known as accretion expense, until the liability is ultimately extinguished when the actual removal work is performed. Pipelines are required to recognize the liabilities for asset retirement obligations and the related costs as if the new standard had been in effect for all prior periods resulting in a "transition adjustment." The transition adjustment represents the difference between the amounts at the date of adoption and the amounts previously recorded for these items (through negative salvage). Although the initial adoption of FASB 143 by Stingray's previous owner's resulted in the creation of a regulatory liability, as discussed previously in my testimony, a subsequent review of FASB 143 and the Commission's Order 631 requiring the adoption of FASB 143 has resulted in an adjustment to Account 254 to reclassify to Account 108, Accumulated Depreciation and Amortization, amounts associated with negative salvage attributable to facilities for which Stingray has not recognized an ARO. The end-result of this adjustment is the recognition of an ARO regulatory asset.

Q.74 Is this the same ARO regulatory asset as shown on Schedule H-2.1?

A. Yes it is. Stingray is projecting an ARO regulatory asset of $2,770,156 as of the end of the test period, as shown on Line 5, Column (5) of Schedule H-2.1.

Q.75 What rate treatment for ARO is Stingray proposing in this rate filing?

A. As shown on Schedule H-2.1, Stingray is proposing to amortize the ARO regulatory asset shown on Line 5 over the remaining life of the related assets, which gave rise to the ARO, which is reflected on Line 10. In addition, Stingray is proposing to recover in its cost of service an annual amount for ARC depreciation expense on a prospective basis totaling a negative $144,703 on the capitalized ARC assets reflected on Line 12, and an annual allowance for ARO accretion expense on the ARO liabilities as shown on Line 13 to recognize the continued increase in such liabilities.

Q.76 How did you determine the ARC depreciation expense shown on Schedule H-2.1?

A. Upon initial recognition of a liability for an ARO, the carrying amount of the related long-lived asset is increased by the same amount of the liability. The capitalized asset is referred to as an ARC and subsequently depreciated over the useful life of the related long-lived asset on a straight-line basis. To calculate the ARC depreciation expense shown on line 12 of Schedule H-2.1, I divided the ARC carrying amount by the remaining useful life of the related gas plant in service.

Q.77 How did you determine the ARO accretion expense shown on Schedule H-2.1?

A. The fair value of a legal liability for an ARO is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to the initial measurement, period-to-period changes in the liability resulting from the passage of time are recognized. Changes in the liability resulting from the passage of time are referred to as accretion expense on the income statement and measured by applying the interest method of allocation to the amount of the liability at the beginning of the period. To calculate the ARO accretion expense shown on line 13 of Schedule H-2.1, I multiplied the beginning period carrying amount of the ARO by the discount rate used to initially measure the fair value of the ARO liability.

<u>TAXES OTHER THAN INCOME TAXES</u>

Q.78 What is shown in Statement H-4?

A. Statement H-4 of the rate filing details the taxes, other than income taxes, which are included in the cost of service. This statement reflects Stingray's base period level of ad valorem taxes and other taxes assessed by the State of Louisiana. As shown on Line 3 of Column 4 of Statement H-4, the total amount of Stingray's base period taxes other than income taxes is $99,558.

Q.79 Did you make any test period adjustments to that base period amount of taxes other than income taxes?

A. No.

REVENUE CREDITS

Q.80 Does Stingray use its jurisdictional facilities to provide non-jurisdictional services to its shippers other than the transportation of natural gas?

A. Yes, Stingray provides its shippers non-jurisdictional liquids and water transportation services using its jurisdictional facilities.

Q.81 Did Stingray receive any revenues for providing these non-jurisdictional services during the base period?

A. Yes. As shown on Schedule G-5 of the cost of service, Stingray receives revenues from non-jurisdictional liquids and water transportation, which Stingray has credited against its cost of service for this rate filing.

Q.82 How much did Stingray receive for non-jurisdictional liquids transportation services during the base period?

A. Stingray received $1,525,579 for non-jurisdictional liquids transportation as shown on Schedule G-5, Line 13, Column (3).

Q.83 Did Stingray make any test period adjustments to this amount?

A. Yes. Stingray made a normalizing adjustment to reflect the termination of a contract during the base period.

Q.84 How much did Stingray receive for non-jurisdictional water transportation services during the base period?

A. Stingray received $180,093 for non-jurisdictional water transportation, as shown on Schedule G-5, Line 13, Column (5).

Q.85 Did Stingray make any test period adjustments to this amount?

A. Yes. Stingray made a normalizing adjustment to reflect the termination of a contract during the base period.

Q.86 Does Stingray receive revenues from any other non-jurisdictional services it provides?

A. Yes. Stingray owns equipment located on the offshore platforms of producers whose production is delivered to Stingray. Personnel dedicated to Stingray maintain and service that equipment, and when they are on those platforms, those personnel also provide certain non-jurisdictional measurement services to the producers. The revenue Stingray receives for these non-jurisdictional services is treated as other revenue, and has been credited to the cost of service. For the base period Stingray received $746,500 for such non-jurisdictional services, as shown on Schedule G-5, Line 13, Column (6).

Q.87 Did Stingray make any test period adjustment to this amount?

A. No.

Q.88 Please explain why Schedule G-5 reflects a test period adjustment that eliminates all revenue associated with third party contract revenues?

A. As explained by Mr. Merritt in his Prepared Direct Testimony, Exhibit No. SPC-7, Stingray has the option, pursuant to its FERC Gas Tariff, to offer the natural gas of its customers that have elected not to process their gas to Targa Midstream Services Limited Partnership ("Targa") for processing. If Targa agrees, in its discretion, to receive such gas for processing, it compensates Stingray. In preparing this rate filing, Stingray determined that these revenues received from Targa had erroneously been booked to Account 495, which is an account intended to reflect revenues from the gas operations of Stingray. Commencing in January 2008, Stingray reflected these revenues in the appropriate account – FERC Account 417. Since the revenues associated with this processing activity were received by Stingray pursuant to its contract for the non-utility services of Targa and not in connection with gas operations performed by Stingray, a test period adjustment was made to the base period account balances to remove the revenue associated with the processing of its customer gas from Account 495 to Account 417.

Q.89 What is the total amount of the other non-jurisdictional revenues that Stingray is including in this rate filing?

A. As shown on Schedule G-5, Line 15, Column (8), the total amount of other non-jurisdictional revenues that Stingray is reflecting in this rate filing is $2,408,762, which, as shown on Line 10 of Column 3 of Statement A, is the total amount of other revenues that Stingray has credited against its cost of service.

Q.90 Are there any miscellaneous revenues reflected in Stingray's cost of service for this rate filing?

A. No, as indicated in Schedule G-6.

EVENT SURCHARGE

Q.91 Why is Stingray proposing the Event Surcharge?

A. As explained by Mr. Douglas V. Krenz in his Prepared Direct Testimony, Exhibit No. SPC-1, the purpose of the Event Surcharge is to provide Stingray with the revenue certainty it needs in connection with the costs to prevent damage from, maintain system operation during, and rebuild its system in the event of significant damage caused by a natural disaster.

Q.92 How are the costs underlying the Event Surcharge being treated in this rate filing?

A. Those costs to be recovered through the Event Surcharge are not reflected in Stingray's cost of service, and will only be recovered once from Stingray's customers via the surcharge.

Q.93 Please describe how Stingray's proposed Event Surcharge will work.

A. Under Stingray's surcharge proposal, eligible costs as defined by Stingray's Event Surcharge tariff provisions and receipts from the Event Surcharge will be recorded in a separate account maintained by Stingray. Each year by May 1, Stingray will file the Event Surcharge to be effective June 1 of that same year. The level of the Event Surcharge will be based on the amount of the expected eligible costs over the next 12 months divided by the expected throughput over the same period. Stingray may also file to revise the Event Surcharge within 180 days after a defined event affecting Stingray's system. The level of the Event Surcharge at that point will be based on the amount of the expected eligible costs over the next 12 months divided by the expected throughput over the same period. The Event Surcharge will be comprised of an Insurance Component and an Event Damage Component. Each component will have its own sub-account. Throughout the year, the Event Surcharge accounts will be debited with any eligible costs incurred and credited with the revenue received by Stingray from the surcharge. The Event Damage Component account will also be credited by any Insurance Recoveries pertaining to eligible costs included in the Event Damage Component account. Any positive or negative balance remaining in the Event Surcharge accounts as of March 31 of any year will be used to increase or decrease, as applicable, the Event Surcharge for the following year. To ensure that there is no double recovery of eligible costs, no amount of eligible costs incurred and recovered through the Event Surcharge will be reflected in the determination of Stingray's base rates.

The Event Surcharge will apply to gas transportation service, as well as park and loan service, provided by Stingray pursuant to all its rate schedules. The Event Surcharge will be charged consistent with the ACA charge and be paid in addition to the rates applicable to such services, including service qualifying for any rate discount or provided under any negotiated rate agreement.

If Stingray files to revise its rates pursuant to Section 4 of the Natural Gas Act ("NGA") or new rates go into effect as the result of final Commission order issued in response to an investigation pursuant to Section 5 of the NGA, any capital amounts in the Event Surcharge account that have not yet been recovered may be included in rate base for the determination of new rates. If Stingray decides or is directed at some later point to discontinue the use of the Event Surcharge, Stingray will file to return to or invoice shippers for any remaining balance in the Event Surcharge accounts.

FINANCIAL STATEMENTS

Q.94 Please describe Statement L.

A. Statement L of the rate filing is a balance sheet for Stingray, showing the balances of its FERC accounts at the beginning of the base period (March 1, 2007) and at the end of the base period (February 29, 2008).

Q.95 Please describe Statement M.

A. Statement M of the rate filing is a statement of income for Stingray for the base period.

Q.96 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 STEPHEN J. NEYLAND

Stephen J. Neyland, 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.

Stephen J. Neyland

Stephen J. Neyland

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Texas, County of Harris, this 23RD day of June, 2008.

Carolyn Oliver

Notary Public

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

My commission expires: 08-28-09