

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

ANR Pipeline Company

)

Docket No. RP16 - \_\_\_\_-000

**Summary of the Prepared Direct Testimony of John A. Roscher**

Mr. Roscher is the Director of Rates, Tariffs, and Certificates for TransCanada, U.S. Pipelines. His testimony supports ANR's proposal to change its rate design from the current 7-zone structure to a 4-zone structure based on changes in markets, supplies, and system operations since ANR's last rate case. Mr. Roscher also discusses certain rate design modifications, explains why ANR is seeking a discount-type adjustment for certain negotiated rate contracts and describes the methodologies ANR has used to adjust billing determinants to reflect discounted and below-max negotiated rate contracts. Mr. Roscher also details ANR's proposal to implement term-differentiated rates for firm storage services, discusses ANR's proposal to establish a generic roll-down mechanism for incremental transportation and storage reservation rates, describes a proposed modification to the manner in which Rate Schedule ETS rates are designed.

Mr. Roscher's testimony is divided into eight sections. The first section discusses ANR's primary case rate design, which proposes to initially continue ANR's current seven-zone rate structure. Mr. Roscher explains that this rate design attempts to replicate, to the extent practicable, the rate design underlying the current rates. The second section discusses ANR's preferred case rate design, which proposes a 4-zone rate structure, and explains why recent market and operational changes render the proposed 4-zone structure just and reasonable. Mr.

Roscher also explains why the proposed rate structure would help to maximize utilization of ANR system capacity and why the proposal is consistent with Commission policy and precedent.

The third section discusses ANR's proposed discount-type adjustment for negotiated rate contracts that are priced below ANR's otherwise-applicable maximum recourse rates and he provides an overview of Commission policy and ANR's tariff related to such discount-type adjustments. The fourth section discusses ANR's discount adjustment methods used for its discounted and below maximum tariff rate negotiated rate contracts. Mr. Roscher describes how ANR utilized the revenue crediting method in the design of ANR's transportation rates and the iterative method in the design of ANR's storage rates.

The fifth section discusses ANR's proposal to implement term-differentiated rates for firm storage services. Mr. Roscher provides a brief recitation of Commission policy related to term-differentiated rates and then discusses details related to ANR's proposal. Specifically, Mr. Roscher explains that ANR proposes to differentiate storage rates based upon contract terms for (1) under 4 years; (2) under 10 years to and including 4 years; and (3) 10 years or more. Mr. Roscher then describes the cost shifts of the proposal on each group and the benefits ANR expects will be realized from implementing the proposal.

The sixth section discusses ANR's proposal to establish an incremental rate for its Cold Springs 1 storage facility. The seventh section details ANR's proposal to establish a generic roll-down mechanism for incremental transportation and storage reservation rates that will allow incremental rates to be rolled down over time, consistent with past Commission precedent. Lastly, the eighth section discusses several other rate design changes related to ANR's ETS, DDS, and PTS rate schedules.

Docket No. RP16-\_\_\_\_-000

Exhibit No. ANR-002

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**PREPARED DIRECT TESTIMONY  
OF JOHN A. ROSCHER ON BEHALF OF  
ANR PIPELINE COMPANY**

January 29, 2016

**Glossary of Terms**

ANR	ANR Pipeline Company
Commission	Federal Energy Regulatory Commission
CS1	Cold Springs 1
Dth	Dekatherms
Dth/d	Dekatherms per day
Dth-mile	Dekatherm-mile
ETS	Rate Schedule ETS
FERC	Federal Energy Regulatory Commission
FTS-1	Rate Schedule FTS-1
GT&C	General Terms and Conditions
GTN	Gas Transmission Northwest Corporation
Lebanon Lateral	The jointly-owned lateral extending from Glen Karn, Indiana to Lebanon, Ohio
Mainline Area	ANR's SE Mainline, SW Mainline, and Northern Area zones
NGA	Natural Gas Act
PTS-2	Rate Schedule PTS-2
PTS-3	Rate Schedule PTS-3
REX	Rockies Express Pipeline LLC
ROFR	Right of first refusal
RP94-43 Settlement	Stipulation and Agreement dated October 17, 1997 in <u>ANR Pipeline Company</u> , Docket No. RP94-43-016
SE Area	Southeast Area
SE Mainline	Southeast Mainline

SW Area

Southwest Area

SW Mainline

Southwest Mainline

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ANR Pipeline Company ) Docket No. RP16 - \_\_\_-000

**Prepared Direct Testimony of John A. Roscher**

1 **Q: What is your name and business address?**

2 A: My name is John A. Roscher. My business address is TransCanada Corporation, 700  
3 Louisiana Street, Houston, Texas 77002.

4 **Q: What is your occupation?**

5 A: I am the Director, Rates, Tariffs and Certificates for TransCanada, U.S. Pipelines. I am  
6 filing testimony on behalf of ANR Pipeline Company (“ANR”).

7 **Q: Please describe your educational background and your occupational experience as**  
8 **they are related to your testimony in this proceeding.**

9 A: I graduated from the Pennsylvania State University in December 1985, with a Bachelor  
10 of Science degree in Mineral Economics. In December 1999, I received my Master of  
11 Business Administration from Portland State University.

12 From January 1986 through December 1991, I was employed by the Federal  
13 Energy Regulatory Commission (“FERC” or “Commission”) as an Industry Economist.  
14 From August 1986 until my departure from FERC, I was a member of the Allocation and  
15 Rate Design Branch of the Division of Gas Pipeline Rates. From January 1992 through  
16 December 1992, I was employed by Western Gas Resources, Inc. in Denver, Colorado as  
17 a Regulatory Specialist. From January 1993 through June 1995, I was employed by  
18 Consolidated Natural Gas Company in Pittsburgh, Pennsylvania as a Rate Engineer.

1           In August 1995 I joined Gas Transmission Northwest LLC (formerly known as  
2 Pacific Gas Transmission Company), which was subsequently acquired by TransCanada  
3 in 2004. I have held various regulatory-related positions since 1995, most recently  
4 Director, Rates, Tariffs, and Certificates.

5 **Q: Have you ever testified before FERC or any other energy regulatory commission?**

6 A: Yes. I filed testimony and testified before this Commission in Williams Natural Gas  
7 Company, Docket No. RP87-33-000; El Paso Natural Gas Company, Docket No. RP88-  
8 44-000; Paiute Pipeline Company, Docket No. RP88-227-000; and Chandeleur Pipe Line  
9 Company, Docket No. RP89-86-000. In addition, I filed testimony in Texas Gas  
10 Transmission Corporation, Docket Nos. RP88-115-000, et al.; Southern Natural Gas  
11 Company, Docket Nos. RP90-139-000, et al.; Questar Pipeline Company, Docket No.  
12 RP91-140-000; PG&E Gas Transmission, Northwest Corporation, Docket Nos. RP99-  
13 518-019, et al.; and in Gas Transmission Northwest Corporation, Docket No. RP06-407-  
14 000. I have submitted written comments and testified before a FERC Staff Panel in  
15 PG&E Texas Pipeline, L.P., Docket No. PR00-9-000. I have additionally filed testimony  
16 and testified before the California Public Utilities Commission in Pacific Gas and Electric  
17 Company, Application in No. 07-12-021, and most recently in Pacific Gas and Electric  
18 Company, Application No. 13-06-011.

19 **Q: What is the purpose of your testimony in this proceeding?**

20 A: In my testimony, I support a proposal to change ANR's rate design from the current  
21 seven-zone structure to a four-zone structure based on changes in markets, supplies, and  
22 system operations since ANR's last rate case. I additionally explain certain rate design

1 modifications affecting the allocation of costs to the Southeast Area (“SE Area”) and  
2 Southwest Area (“SW Area”) under the current seven-zone rate structure, including the  
3 allocation of mileage-related costs and Account No. 858 costs to these zones. I explain  
4 why ANR is seeking a discount-type adjustment for certain negotiated rate contracts, and  
5 describe the methodologies ANR has used to adjust billing determinants to reflect  
6 discounted and below-maximum rate negotiated rate agreements. I discuss ANR’s  
7 proposal to implement term-differentiated rates for storage services. I describe ANR’s  
8 proposed interruptible rate design for incrementally-priced ANR facilities, particularly  
9 the Cold Springs 1 (“CS1”) storage facility. I also explain ANR’s proposed roll-down  
10 mechanism for reservation charges for incrementally-priced storage and transportation  
11 facilities, and the related roll-down mechanism for commodity and fuel rates. Finally, I  
12 discuss a proposed modification to the manner in which Rate Schedule ETS rates are  
13 designed.

14 **Q: Are you sponsoring any exhibits in addition to your testimony?**

15 A: I am sponsoring Statement O (Exhibit No. ANR-187), which lists each major expansion  
16 and abandonment since ANR’s last general rate case.

17 **ANR Rate Design – Primary Case**

18 **Q: Please describe the basis for ANR’s current seven-zone rate structure.**

19 A: ANR’s current seven-zone rate structure was implemented in accordance with  
20 Commission determinations in ANR’s restructuring proceeding in Docket No. RS92-1.  
21 As such, the seven-zone rate design was found by the Commission to be just and  
22 reasonable in the Docket No. RS92-1 proceeding.



1 **Q: Please describe the basis for ANR's currently effective rates.**

2 A: On November 1, 1993, the effective date of restructured service for ANR under Order  
3 No. 636, ANR filed an application for a general rate increase pursuant to section 4 of the  
4 Natural Gas Act ("NGA") in Docket No. RP94-43-000. With the exception of certain  
5 incremental project rates and/or rates for services which were implemented after  
6 November 1, 1997, ANR's current rates are the result of a settlement that was filed in  
7 October 1997 in Docket No. RP94-43-016 ("RP94-43 Settlement"). The Explanatory  
8 Statement to the RP94-43 Settlement, which employed the seven-zone rate structure  
9 adopted in the restructuring proceeding, describes the rates as based upon a negotiated  
10 settlement subject to an overall cost-of-service ("only an overall rate base, cost of service,  
11 including a pre-tax return of 15.60%, and certain other cost items as described [therein]").  
12 The RP94-43 Settlement rates became effective November 1, 1997. Because of the non-  
13 precedential nature of that negotiated settlement and the fact that contested rate design  
14 issues were not formally resolved by Commission decision, the RP94-43 Settlement rates  
15 are not instructive on how the various issues would have been resolved by the  
16 Commission, and in some cases, whether the rates were actually designed based upon a  
17 specific methodology or just agreed upon at certain levels.

18 **Q: Are there elements to the Docket No. RP94-43 proceeding that are instructive?**

19 A: Yes. Although the proceeding ultimately was resolved by a settlement, the RP94-43  
20 Settlement was reached after the Presiding Administrative Law Judge issued an Initial  
21 Decision. ANR Pipeline Co., 78 FERC ¶ 63,003 (1997). The Initial Decision provides a  
22 discussion of various rate design proposals that were addressed in the rate case

1 proceeding, and although it is not controlling as precedent, this discussion is useful in  
2 understanding issues relevant to the design of ANR's rates.

3 **Q: Please describe the seven-zone rate design which is the basis of ANR's current rates.**

4 A: The current seven-zone rate structure, as I understand it, uses a zone-gate approach  
5 (whereby costs are segregated by zone as if each zone were a separate entity) to assign  
6 costs directly to the SW Area and SE Area supply/production zones. The costs  
7 associated with the Mainline Area were allocated among the remaining five mainline  
8 zones. The way in which the Mainline Area costs were allocated to the five mainline  
9 zones was at issue in Docket No. RP94-43, and the Initial Decision indicated that the ALJ  
10 was in favor of a dekatherm-mile ("Dth-mile") allocation of these costs among the  
11 Mainline Area zones. Under a Dth-mile rate design, costs are allocated in uniform  
12 fashion to various zones based upon receipt and delivery quantities multiplied by the  
13 associated miles of haul.

14 **Q: Do you propose that ANR retain a seven-zone rate structure?**

15 A: I am proposing, as reflected in ANR's Primary Case, to initially restate ANR's rates  
16 reflecting a seven-zone rate structure, similar to what is currently in place. I am  
17 additionally proposing, as ANR's Preferred Case, a *pro-forma* four-zone rate structure  
18 that ANR would implement prospectively upon Commission approval, subsequent to  
19 ANR making all business system modifications necessary for the implementation of a  
20 four-zone rate structure.

21 **Q: What are the noteworthy aspects of ANR's seven-zone rate design proposal?**

1 A: ANR's seven-zone rate design generally attempts to replicate, to the extent practicable,  
2 the rate design underlying the current rates as it is understood by ANR. There are,  
3 however, two aspects of ANR's transportation rate design proposal that are noteworthy  
4 because they entail aspects of rate design which figured prominently in the Docket No.  
5 RP94-43 proceeding. First, I have instructed ANR witness Barry to allocate ANR's  
6 mileage-related transmission costs among all seven zones using a Dth-mile allocation  
7 methodology. By doing so, ANR will be transitioning away from its previous use of a  
8 bifurcated allocation process whereby costs were directly assigned to each of the supply  
9 areas while the remaining Mainline Area costs were allocated to the mainline zones in a  
10 different manner. Application of the Dth-mile allocation method across all zones brings  
11 consistency to the allocation of mileage-related transmission costs and eliminates the  
12 potential for claims of partiality or discrimination.

13 **Q: Please continue.**

14 A: Second, I have instructed ANR witness Barry to allocate transmission function Account  
15 No. 858 costs to all of ANR's seven rate zones, including the SW and SE Areas. The  
16 allocation of transmission function Account No. 858 costs to all rate zones, and the  
17 inclusion of transmission function Account No. 858 costs in the access fee applicable to  
18 all rate zones, is consistent with my understanding of Commission policy regarding cost  
19 responsibility for non-mileage, access-related costs generally, and for Account No. 858  
20 costs specifically.

21 **Q: What is your understanding of Commission policy regarding the classification of**  
22 **costs as non-mileage?**

1 A: It is my understanding that the Commission has found that Administrative & General,  
2 Supervisory & Engineering, Account No. 858, and storage balancing costs do not vary  
3 materially with distance and that such costs are properly classified as non-mileage, to be  
4 collected through an access charge. Furthermore, it is my understanding that the  
5 Commission does not limit the costs that may be classified as non-mileage to only these  
6 specific costs, and that pipelines are permitted to demonstrate that other costs are also not  
7 distance sensitive.

8 **ANR Rate Design – Preferred Case**

9 **Q: Please describe the circumstances under which ANR operated when its rates were**  
10 **last set in Docket No. RP94-43.**

11 A: In Docket No. RP94-43, ANR indicated that its system design had not changed as a result  
12 of ANR's post-Order No. 636 operations. As ANR witness Towne explains in greater  
13 detail in his testimony, ANR's system was designed and constructed to serve base load  
14 markets and temperature sensitive loads in the Great Lakes region that were characterized  
15 by high winter demand and low summer demand. ANR's mainlines operated primarily as  
16 unidirectional pipelines which flowed gas from the SE and SW supply areas to the market  
17 area. ANR operated the mainlines at base load conditions throughout the year. ANR  
18 delivered gas in excess of market requirements into storage and when there were  
19 deficiencies, gas was withdrawn from storage. In addition to the SE and SW Areas,  
20 which comprised two separate production zones, ANR divided its Mainline Area into five  
21 zones. Two long stretches or "legs" of pipeline accounted for four of the five Mainline  
22 Area zones: the Southeast Mainline ("SE Mainline"), which consisted of zones ML-2 and

1 ML-3, extended from the SE Area originating in Eunice, Louisiana, and the Southwest  
2 Mainline (“SW Mainline”), which consisted of zones ML-5 and ML-6, extended from the  
3 SW Area starting in Greensburg, Kansas. These long segments were referred to as  
4 “Supply Segments,” in recognition of the role they played in connecting ANR’s natural  
5 gas suppliers in the separate SE and SW Areas with the large consumer markets located  
6 in the Great Lakes area. The Great Lakes area markets comprised the Northern Area  
7 zone (zone ML-7), the fifth Mainline Area zone. The Northern Area zone, unlike the  
8 unidirectional SE and SW Mainlines, contained a more concentrated network of pipelines  
9 with multiple sources of input and managed multidirectional flows of natural gas.

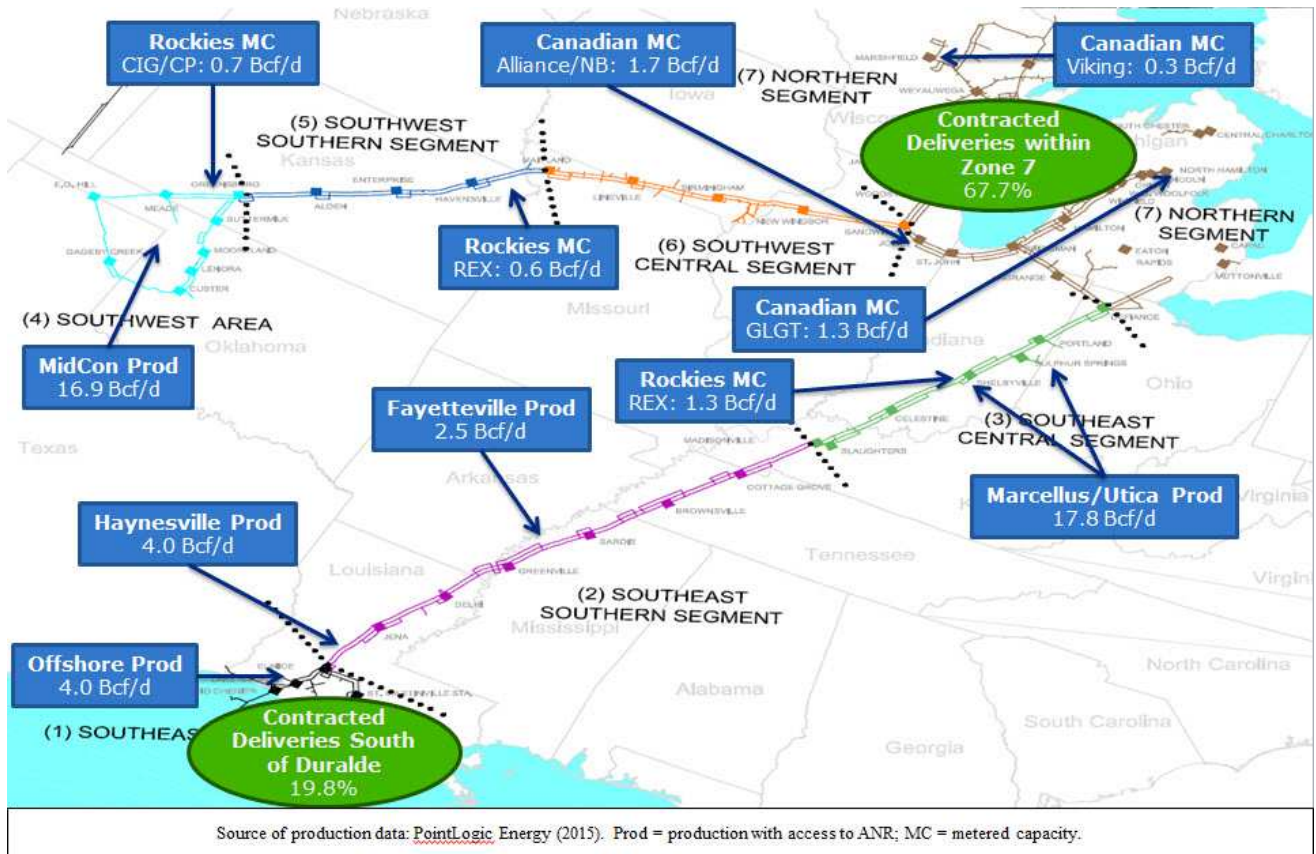
10 **Q: Was a seven-zone rate structure appropriate when ANR’s rates were last set in the**  
11 **Docket No. RP94-43 proceeding?**

12 A: At the time of the Docket No. RP94-43 proceeding, the Commission had just required  
13 implementation of the seven-zone rate structure determining it to be just and reasonable.  
14 As such, the seven-zone structure was carried forward to the Docket No. RP94-43  
15 proceeding. ANR’s seven-zone rate structure reasonably reflected the flow of natural gas  
16 across the long lines of the ANR system, where gas supply was typically sourced from  
17 southern Gulf Coast and Midcontinent supply areas, transported primarily in a  
18 unidirectional fashion from south to north, and delivered to ANR’s primary market area  
19 in the Great Lakes region. Thus, the historical zone structure reasonably reflected the  
20 distance over which transportation was provided from south to north and from supply to  
21 market.

22 **Q: Have the circumstances under which ANR operates changed since the filing of**  
23 **ANR’s last rate case in 1993?**

1 A: Yes, as explained in detail by ANR witness Towne and illustrated in the chart below  
 2 (Figure 1), gas supplies accessing the ANR system have diversified beyond the  
 3 traditional Gulf of Mexico and Midcontinent supply regions that were the primary  
 4 sources of supply in the early 1990s. Gas is now supplied to the ANR system from a  
 5 variety of different sources that did not exist in 1993/1994. These sources include shale  
 6 gas that can enter ANR's system on the southern end of its SE Mainline, Marcellus/Utica  
 7 shale gas that can enter ANR's system in the middle and on the northern end of its SE  
 8 Mainline, and Rockies supplies that can enter ANR's system near the midpoints of  
 9 ANR's SW and SE Mainlines.

**Figure 1**



1           Furthermore, as explained by ANR witness Towne, markets are evolving on the  
2 ANR system such that market demand for natural gas is no longer expected to reside  
3 primarily in the Northern Area of ANR's system. ANR is experiencing increased  
4 demand in the SE Area, driven by growth in industrial applications and liquefied natural  
5 gas export facilities. Industrial growth is also driving increasing demand in ANR's  
6 current rate zone ML-6, immediately to the south of the Northern Area. To sum up,  
7 supplies of gas are entering the ANR system from many different locations relative to  
8 1993/1994, and these supplies are no longer primarily destined for the Northern Area  
9 market, which was *the* traditional market on ANR at the time of ANR's last rate case.

10 **Q: Have operational changes occurred on the ANR system in response to these market**  
11 **dynamics?**

12 A: Yes, as discussed by ANR witness Towne, since ANR's last rate case the addition of  
13 pipeline interconnections and the diversity of new supply sources across the ANR system  
14 have had an impact on the operation of the ANR system. For example, ANR has  
15 reversed and expanded its Lebanon Lateral facilities to accommodate east-to-west flows,  
16 thereby allowing Marcellus/Utica supplies to access the ANR system through the  
17 Lebanon Lateral for further delivery across ANR's system to the north, west, and south.  
18 In addition, ANR recently completed its Southeast Mainline System Reversal Project,  
19 which created an additional 600,000 dekatherms per day ("Dth/d") of firm north-to-south  
20 transport capacity along ANR's SE Mainline. With these changes, ANR's SE Mainline  
21 is capable of functioning as a large header system, allowing diverse supplies to enter the  
22 ANR system from various locations across the SE Mainline for delivery to both northern  
23 and southern markets. In addition, the interconnection of the Rockies Express Pipeline

1 LLC (“REX”) with both the SW and SE Mainline segments has, and will continue to  
2 have, operational implications for ANR, with REX capable of delivering both Rockies  
3 and Marcellus/Utica supplies to ANR.

4 **Q: Are these operational changes anticipated to continue?**

5 A: Yes, as discussed by ANR witness Towne, the natural gas market along the ANR system  
6 will continue to evolve, while contracting practices and contract flow patterns are  
7 anticipated to evolve as well.

8 **Q: Is ANR’s historic rate design compatible with the current environment in which**  
9 **ANR operates?**

10 A: No, the historic seven-zone rate design reflects the underlying assumption that ANR  
11 predominantly transports supplies over long distances from south to north along ANR’s  
12 two mainline segments, serving various downstream markets along the way to ANR’s  
13 primary Northern Area market. As ANR witness Towne describes in his testimony,  
14 however, ANR’s markets and supplies are situated quite differently today than they were  
15 at the time of ANR’s last rate case, and ANR’s pipeline is operated differently today as  
16 well. In ANR’s case, markets have developed in traditional supply areas, new supplies  
17 have become available in traditional market areas, and the pipeline has begun to  
18 experience operational impacts such as bidirectional flows.

19 **Q: In your opinion, is a four-zone rate structure just and reasonable?**

20 A: Yes, movement to a four-zone structure allows ANR to effectively separate its system  
21 into supply and market zones, thereby appropriately reflecting the overall market and  
22 operational realities of ANR’s system as they exist today. ANR’s proposal creates two  
23 distinct header systems or zones along components of the traditional SE and SW



1 Mainlines that will allow supplies within those zones to compete on equal footing to  
2 serve adjoining markets. The creation of larger, header-type zones will allow supplies  
3 that access these larger zones to compete on the basis of production costs, without regard  
4 to transportation rate barriers that are unrelated to the cost of production and that give  
5 supplies that are closer to a market a competitive advantage. Movement to a four-zone  
6 structure, therefore, will enhance supply competition on the ANR system. A schematic  
7 of this four-zone structure is provided below (Figure 2). The schematic illustrates the  
8 various locations of supplies that access ANR's system in addition to the location of the  
9 major markets that ANR expects to serve under the new four-zone rate structure. The  
10 location of supply relative to markets along ANR's system provides ANR and its  
11 shippers with a unique opportunity, through implementation of the four-zone rate  
12 structure, to maximize the use of ANR system capacity by facilitating market access to  
13 the diverse supplies that are now accessible on ANR.

Figure 2



1 Q: Please briefly describe the location of the zone boundaries in your proposed four-  
2 zone rate design.

3 A: It is important to note that ANR is not proposing to move any existing zone boundaries; it  
4 is simply removing three of the existing zone boundaries. The zone boundary that  
5 remains on the SW Mainline is the pre-existing boundary between former zones ML-5  
6 and ML-6. The zone boundary separating the SW Area and zone ML-5, and the zone

1 boundary separating zone ML-6 from zone ML-7, are both eliminated in the proposed  
2 zone structure. Along the SW Mainline, combining the former SW Area and zone ML-5  
3 effectively creates a supply header. Thus, Midcontinent and Rockies supplies will have  
4 access to a single supply header that can feed an expanded market area that combines  
5 Midwestern industrial demand with traditional demand in Wisconsin and Michigan.

6 The zone boundary at the north end of the SE Mainline is the pre-existing  
7 boundary between former zones ML-3 and ML-7. The zone boundary at the south end of  
8 the SE Mainline is the pre-existing boundary between the SE Area zone and former zone  
9 ML-2. The zone boundary separating former zones ML-2 and ML-3 that was in the  
10 middle of the proposed southeast header is eliminated.

11 To summarize and as depicted on Figure 2, the proposed Supply Zone West is  
12 comprised of former SW Area and ML-5 zones. Proposed Market Zone North is  
13 comprised of former zones ML-6 and ML-7. Proposed Supply Zone East is comprised of  
14 former zones ML-2 and ML-3. Proposed Market Zone South is the former SE Area zone.

15 **Q: How would a four-zone rate structure help to maximize utilization of ANR system**  
16 **capacity?**

17 **A:** The four-zone rate design, as noted above, essentially creates two header systems  
18 connected to markets. The creation of header systems, or distinct long-line zones with  
19 postage stamp rates within each zone, enables supplies that access these headers to  
20 compete on an equal footing, from a rate perspective, to serve connected markets in  
21 reaction to changes in basis differentials and/or market demand. Under ANR's current  
22 rate structure, with additive zones across the SE and SW Mainlines, supplies to the north  
23 have a rate advantage over supplies to the south in competing to serve the Northern Area

1 market, while supplies to the south have a rate advantage over supplies to the north in  
2 competing to serve the SE Area market.

3 In other words, when transportation rate differentials exist between competing  
4 supply basins that serve the same markets, shippers will still seek out the lowest cost  
5 supplies, but the transportation rate differential may penalize the lower-priced basin while  
6 giving an economic boost to the less-competitive basin based upon a cost that has nothing  
7 to do with the cost of the commodity itself. By removing transportation rate price  
8 differences between competing supply basins, basis differentials will dictate which  
9 supplies a market prefers (or which market a supply prefers), and this preference will be  
10 based upon natural gas commodity prices and not transportation rate differentials across  
11 the pipeline.

12 **Q: Please continue.**

13 A: Assuming that production costs of competing supply basins are similar, ANR's current,  
14 additive seven-zone structure would effectively encourage shorter-haul contracting and  
15 potentially strand capacity, with markets generally favoring the closest supplies.  
16 Assuming that production costs of one supply basin were lower than those of a competing  
17 basin, ANR's additive seven-zone structure would effectively lead to the subsidization of  
18 the higher-cost basin with respect to deliveries in close proximity to that basin. The  
19 development of new supply sources in close proximity to historic markets, such as in the  
20 case of Marcellus/Utica supplies, can lead to these inefficiencies, and this new reality  
21 could not have been contemplated at the time ANR's rates were set in either the Docket  
22 No. RS92-1 or Docket No. RP94-43 proceedings. The proposed four-zone rate structure

1 will enable more efficient use of ANR's system by allowing shippers to transport gas to  
2 meet demand without the "economic penalty" that results from stacked zone-based rates  
3 across the supply header systems. The four-zone structure likewise enhances customer  
4 choice because it allows diverse supplies to compete more effectively across a broader  
5 spectrum of markets without economic penalty.

6 **Q: Are there other shipper benefits associated with ANR's proposed four-zone rate**  
7 **structure?**

8 A: Yes, the combining of zones to implement a four-zone rate structure will result in fewer,  
9 generally larger zones, which will provide shippers with broader segmentation and  
10 secondary point rights. Likewise, the use of larger zones may provide shippers with  
11 broader, and therefore more valuable, capacity release rights, since shippers will be able  
12 to access more points within each rate zone for which they are paying.

13 **Q: What is the Commission's current policy on rate design?**

14 A: Section 284.10(b) of the Commission's regulations states that maximum rates for both  
15 peak and off-peak periods must be designed to achieve the following three objectives:  
16 (1) rates for service during peak periods should ration capacity; (2) rates for firm service  
17 during off-peak periods and for interruptible service during all periods should maximize  
18 throughput; and (3) the pipeline's revenue requirement allocated to firm and interruptible  
19 services should be attained by providing the projected units of service in peak and off-  
20 peak periods at the maximum rate for each service. In addition, Section 284(c)(3) of the  
21 regulations states that any rate must reasonably reflect any material variation in the cost  
22 of providing the service due to: (i) whether the service is provided during a peak or an  
23 off-peak period; and (ii) the distance over which the transportation is provided.

1 **Q: Do rates for firm service under the four-zone rate design maximize throughput?**

2 A: Yes, as noted above, the elimination of rate stacking across distinct supply zones and  
3 market areas will allow supplies to compete more effectively for a broader universe of  
4 market demand, thereby facilitating a greater use of ANR system capacity. In addition,  
5 expanded secondary point and capacity release rights will encourage greater use of ANR  
6 system capacity.

7 **Q: Is the proposed four-zone rate design consistent with FERC requirement that rates**  
8 **reasonably reflect material variation in the cost of providing service due to the**  
9 **distance over which transportation is provided?**

10 A: Yes, the four-zone structure will reasonably reflect material variations in the cost of  
11 providing service due to the distance over which transportation will occur. The proposed  
12 zone boundaries have been selected so that each zone captures the facilities that are  
13 relevant to the transportation of gas through areas that are predominantly supply areas or  
14 through areas that are predominantly market areas. Under the four-zone structure, current  
15 market realities are reflected in the rate design, with zone boundaries acting as  
16 demarcation points between major market areas and major supply areas. The four-zone  
17 structure reasonably preserves the ability of shippers to pay for those portions of the  
18 system that they utilize while providing supplies and markets more competitive options  
19 across the ANR system. Overall, the system will benefit from the efficient use of  
20 capacity resulting from greater optionality for shippers. Ultimately, ANR will be  
21 afforded a better opportunity to sell its capacity as a result of the removal of these  
22 artificial rate barriers.

23 **Q: Will ANR's four-zone rate design proposal inhibit the use of market centers?**

1 A: No, ANR is not proposing to eliminate either of its title-transfer/pooling points near  
2 ANR's traditional Southeast and Southwest production areas.

3 **Q: Are there other considerations that FERC has identified as relevant to the design of**  
4 **rate zones and that support ANR's four-zone proposal?**

5 A: Yes, FERC has long held that rate zones should be designed to reflect the operational  
6 characteristics of a pipeline's system, including physical configuration, distinct  
7 operational areas, and gas flows. As I have explained above, the operational  
8 characteristics of ANR's system have evolved over time as a result of the emergence of  
9 new supplies located in non-traditional supply areas and the development of increased  
10 demand outside of ANR's traditional markets in the Northern Area. Moreover, ANR has  
11 created substantial north-to-south capacity on its SE Mainline such that the SE Mainline  
12 will now accommodate bidirectional flows, in contrast to the historic south-to-north flow  
13 pattern. ANR's four-zone proposal reflects the supply and market areas that now exist  
14 along its system, as well as current operational characteristics, and thus is consistent with  
15 the Commission's precedent and policy.

16 **Application of Discount Adjustment Policy to Negotiated Rate Contracts**

17 **Q: Is ANR proposing discount-type adjustments for negotiated rate contracts that are**  
18 **priced below ANR's otherwise applicable maximum recourse rates?**

19 A: Yes, consistent with Commission policy, ANR is proposing to discount-adjust negotiated  
20 rate contracts that are below the otherwise applicable maximum recourse rate.

21 **Q: Does Commission policy permit discount-type adjustments for negotiated rate**  
22 **agreements?**

1 A: Yes, it is my understanding that in 1997, the Commission articulated its policy  
2 concerning pipelines' ability to make discount-type adjustments for negotiated rate  
3 contracts in NGA section 4 rate cases, stating:

4 Although the Commission is not promulgating a *per se* rule against discount-type  
5 adjustments to recourse rates to reflect negotiated rates, the Commission does require  
6 that a pipeline's negotiated rate proposal protect the recourse rate-paying shippers  
7 against inappropriate cost-shifting. . . Thus, without protective measures in place, the  
8 Commission will not permit discount adjustments for negotiated rates.

9 CNG Transmission Corp., 80 FERC ¶ 61,401 at 62,328 (1997). The Commission  
10 subsequently reiterated this policy in 2006, and accepted specific tariff language that  
11 established protective measures that the Commission deemed consistent with the policy.

12 Wyoming Interstate Co., Ltd., 117 FERC ¶ 61,150 (2006).

13 **Q: Does ANR have tariff language that explicitly permits the pipeline to seek discount-**  
14 **type adjustments for negotiated rate contracts in NGA section 4 rate proceedings?**

15 A: Yes, consistent with Commission policy, section 6.29(d) of the General Terms and  
16 Conditions ("GT&C") of ANR's tariff states:

17 A discount-type adjustment to recourse rates for Negotiated Rate agreements shall  
18 only be allowed to the extent that Transporter can meet the standards required of an  
19 affiliate discount-type adjustment including requiring that Transporter shall have the  
20 burden of proving that any discount granted is required to meet competition.

21 Transporter shall be required to demonstrate that any discount-type adjustment for  
22 Negotiated Rate agreements does not have an adverse impact on recourse rate  
23 shippers.

24 (1) Demonstrating that, in the absence of Transporter's entering into such  
25 Negotiated Rate agreement providing for such discount, Transporter would not  
26 have been able to contract for such capacity at any higher rate, and that recourse  
27 rates would otherwise be as high or higher than recourse rates which result after  
28 applying the discount adjustment; or

29 (2) Making another comparable showing that the Negotiated Rate discount  
30 contributes more fixed costs to the system than could have been achieved without  
31 the discount.



1 **Q: Has ANR met the standards required of an affiliate discount adjustment with**  
2 **respect to negotiated rate contracts below the otherwise applicable recourse rate?**

3 A: Yes, in his testimony, ANR witness Hopper provides detailed evidence demonstrating  
4 that, with respect to each of the negotiated rate contracts for which ANR is proposing a  
5 discount-type adjustment, ANR agreed to the negotiated rate in order to meet competition  
6 for the shipper's business.

7 **Q: Can ANR demonstrate that its proposed discount-type adjustments for negotiated**  
8 **rate agreements do not have an adverse impact on recourse rate shippers?**

9 A: Yes, based upon ANR's filed transportation rates, ANR has only one negotiated rate  
10 contract that is priced above ANR's proposed, otherwise applicable recourse rates. The  
11 particular contract rate is set equal to the applicable recourse rate for a path that is longer  
12 than the current primary path, and for rate design purposes the contract is treated as if its  
13 primary path was the longer path. As such, this particular negotiated rate contract does  
14 not have an adverse impact, through rate design, on ANR's recourse rate shippers.  
15 Furthermore, with respect to storage rate design, ANR is including negotiated rate  
16 agreements that are priced above either the maximum recourse rate or individual  
17 maximum rate components in the iterative discount adjustment process. When a storage  
18 rate or rate component exceeds the otherwise applicable maximum rate, additional  
19 volumes are imputed through the iterative process to allow additional costs to be  
20 allocated to such contracts. Therefore, through rate design ANR has ensured that  
21 negotiated rate agreements do not have an adverse impact on recourse rate shippers.

1           **Transportation Discount Adjustment Approach – Crediting**

2   **Q: Please discuss the approaches that the Commission has used to derive an**  
3   **appropriate discount adjustment.**

4   A: FERC's *Cost-of-Service Rates Manual*, which is available through FERC's internet  
5   website at <http://www.ferc.gov/industries/gas/gen-info/cost-of-service-manual.doc>, states  
6   that there are essentially three methodologies the Commission has used in deriving an  
7   appropriate discount adjustment. These are the (1) Revenue Crediting Method, (2)  
8   Proportional/Fractional Method, and (3) Iterative Method.

9   **Q: Which discount adjustment method has ANR utilized?**

10   A: I have instructed ANR witness Barry to utilize the revenue crediting method in the design  
11   of ANR's transportation rates, and the iterative method in the design of ANR's storage  
12   rates.

13   **Q: Does the *Cost-of-Service Rates Manual* describe how to effectuate a discount**  
14   **adjustment through the revenue crediting method?**

15   A: Yes, the *Cost-of-Service Rates Manual* provides, in part, the following example (at p.  
16   46):

17           Under [the revenue crediting] method, the revenue generated from discounted  
18           transactions is computed. For example, if 25,000,000 Dth of throughput were  
19           transported at a discounted rate of 40 cents per Dth, then the revenue generated  
20           from discounted transactions would be \$10 million. This amount would then be  
21           credited to the pipeline's cost-of-service. Next, the discounted volumes of  
22           25,000,000 Dth would be deducted from the total rate design determinants. Thus,  
23           rates would be computed by dividing the total cost of service adjusted for  
24           discounted revenues, by the total billing determinants adjusted for discounted  
25           volumes[.]

26   **Q: Why did you instruct ANR witness Barry to utilize the revenue crediting method in**  
27   **the design of ANR's transportation rates?**

1 A: I recommend use of the revenue crediting method in the design of transportation rates for  
2 three reasons in particular: (1) the method, according to FERC's *Cost-of-Service Rates*  
3 *Manual*, may be used to derive an "appropriate" discount adjustment; (2) ANR is  
4 proposing increases to all transportation rate components, and therefore it is appropriate  
5 to use the crediting method to discount-adjust ANR's discounted transportation contracts  
6 and below-max negotiated contracts; and (3) use of the revenue crediting method  
7 removes, relative to use of the iterative method, a significant amount of complexity from  
8 ANR's complex rate model.

9 **Q: Why did you instruct Mr. Barry to utilize the iterative method in the design of**  
10 **ANR's storage rates?**

11 A: A notable distinction in the design of ANR's storage rates is that one of the reservation  
12 components is decreasing relative to existing rates. Therefore, when a discounted rate  
13 component ends up being higher than the proposed, new rate component, a crediting  
14 approach would result in too many dollars being credited to the component of the rate  
15 that is decreasing relative to existing rates. Under these circumstances, the crediting  
16 method is not an appropriate discount adjustment method to apply.

17 **Term-Differentiated Firm Storage Rates**

18 **Q: Please discuss ANR's proposal to implement term-differentiated rates for firm**  
19 **storage service under Rate Schedule FSS.**

20 A: As part of this rate case filing, ANR has included tariff sheets that will allow ANR to  
21 implement term-differentiated rates for firm storage under Rate Schedule FSS. ANR's  
22 proposal to introduce firm rates that vary based upon the term of a customer's firm

1 storage contract is accomplished by shifting cost responsibility from longer-term firm  
2 contracts to shorter-term firm contracts after the system storage rates have been designed.

3 **Q: What is the Commission’s policy with respect to term-differentiated rates?**

4 A: In Order No. 637, the Commission found that “term-differentiated rates should be  
5 available to the pipeline as one of the several methods that could be used to price capacity  
6 more efficiently.” Regulation of Short-Term Natural Gas Transportation Services and  
7 Regulation of Interstate Natural Gas Transportation Services, Order No. 637, 1996-2000  
8 FERC Stats. & Regs. [Regs. Preambles] ¶ 31,091 at 31,293 (2000). The Commission did  
9 not endorse or mandate the use of any particular method of implementing term-  
10 differentiated rates, but instead permitted pipelines and their customers to “develop  
11 specific methodologies suitable to the characteristics of the specific pipeline in a Section  
12 4 rate proceeding.” Id. The Commission concluded that term-differentiated rates would  
13 more accurately reflect in the price of service the relative levels of risk that pipelines  
14 must face when selling service for a shorter period than for a longer period, as well as the  
15 higher risks that customers face when they purchase service for a longer period of time.

16 **Q: Please explain why a longer-term contract is riskier for a shipper and a shorter-**  
17 **term contract riskier for the pipeline.**

18 A: Shorter-term contracts benefit shippers and lower shipper risk by allowing them to react  
19 to both their individual circumstances and changes in the market, thereby allowing the  
20 shorter-term shippers to take advantage of changing situations or market conditions that  
21 may lead, upon contract expiry, to a reduction in their transportation rates or contractual  
22 obligations. Under longer-term contracts, a shipper is committed to the contract volume  
23 and rate through the duration of the contract. Therefore, a shipper under a short-term

1 contract faces less risk because it is able to more rapidly respond to market considerations  
2 and competition, as compared to a longer-term shipper. On the other hand, shorter-term  
3 contracts impose a greater risk to a pipeline because such contracts do not provide the  
4 financial and planning certainty that comes with longer-term contracts.

5 **Q: What additional policy considerations has the Commission articulated with respect**  
6 **to term-differentiated rates?**

7 A. The Commission indicated that term-differentiated rates would be cost-based, just and  
8 reasonable rates because the Commission will limit the rates in the aggregate so that they  
9 may not exceed the pipeline's annual revenue requirement. Therefore, the Commission  
10 recognized that term-differentiated rates would raise the maximum tariff rates for shorter-  
11 term customers, and that there should be a decrease in the maximum tariff rates for  
12 longer-term customers.

13 **Q: Please continue.**

14 A. The Commission stated that a pipeline may propose term-differentiated rates just for  
15 long-term services or for both short- and long-term services, and that the general  
16 reallocation of revenue responsibility among customer classes must be done through rate  
17 changes for all customers simultaneously in the NGA section 4 rate filing in which the  
18 pipeline seeks to implement term-differentiated rates.

19 **Q: What specific storage rate schedule is impacted by this proposal?**

20 A: ANR proposes to design term-differentiated rates for its firm storage services under Rate  
21 Schedule FSS.

22 **Q: Please describe how ANR designed its term-differentiated storage rates.**

1 A: Once system storage rates are designed, ANR proposes to differentiate storage rates  
2 based upon contract terms of:

- 3 1. under 4 years (Group 1);
- 4 2. under 10 years to and including 4 years (Group 2); and
- 5 3. 10 years or more (Group 3).

6 Contract terms, as reflected herein, refer specifically to either original contract terms or  
7 terms associated with contract renewals or extensions. For example, a contract within its  
8 original ten-year term would be treated as a Group 3 contract, whereas a ten-year contract  
9 that had extended its term for only two years would be treated as a Group 1 contract. The  
10 intent is to reward shippers for committing, at a single point in time, to longer contract  
11 terms.

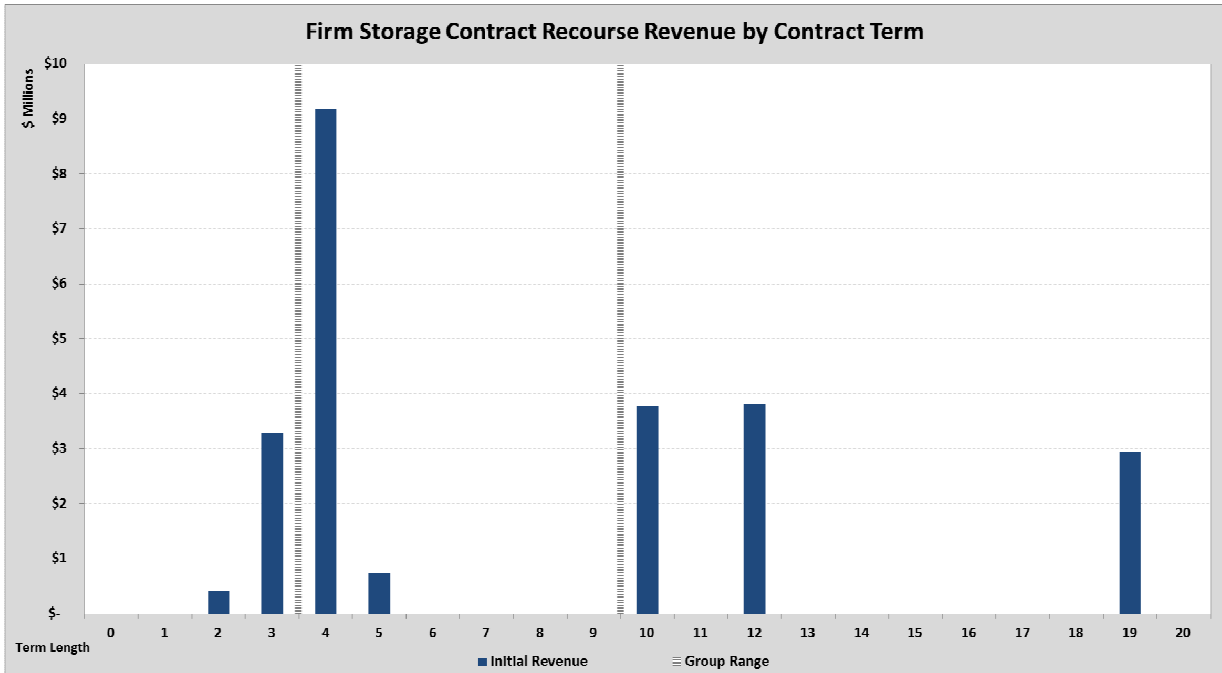
12 In order to design term-differentiated storage rates, firm reservation charges  
13 applicable to Group 3 firm shippers are reduced by approximately \$1.5 million per year,  
14 and this revenue reduction is then redistributed to Group 1 shippers such that the  
15 additional revenue collected from Group 1 shippers equals the Group 3 revenue  
16 reduction. By redistributing revenues in this manner, ANR has ensured that application  
17 of term-differentiated storage rates produces the pipeline's annual revenue requirement.  
18 Rates for Group 2 shippers will remain equal to the rates derived from the overall system-  
19 wide rate design. In other words, Group 2 rates will not be impacted by ANR's term-  
20 differentiated rate proposal.

21 **Q: What is the basis for the term differentiation you are proposing?**

22 The vertical lines, or "Group Range" lines, in Figure 3 below illustrate term demarcations  
23 utilized in the design of the term-differentiated rates. The term groupings for storage

1 were intended to disperse, as evenly as practicable, the amount of contracted recourse  
2 capacity dedicated to each grouping.

**Figure 3**



3 **Q: Please explain the basis for the amount of costs shifted from longer-term contracts**  
4 **to shorter-term contracts.**

5 **A:** For storage, a balance was struck between ANR's desire to reward firm shippers willing  
6 to sign up for longer terms with a lower rate and ANR's willingness to assume cost  
7 recovery exposure resulting from the shifting of costs to shorter-term contracts. While  
8 ANR believes that the market will be willing to pay more for less-risky shorter-term  
9 storage contracts, there is a possibility of cost under-recovery if traditional shorter-term  
10 shippers take advantage of lower rates associated with longer-term contract terms.

11 **Q: Did you consider using differing returns on equity as the basis for the amount of**  
12 **costs to shift between longer-term and shorter-term contracts?**

1 A: ANR considered using differing returns on equity, given that it was specifically  
2 mentioned in Order No. 637-A as one possible approach to designing term differentiated  
3 rates, and also given that other pipelines have proposed term-differentiated rates on that  
4 basis. However, ANR rejected that approach because shifting costs through proposed  
5 differences in return is an inexact science at best. As noted above, the Commission  
6 invited pipelines to develop methodologies suitable to their particular systems. ANR's  
7 proposed approach allows the pipeline to effectively balance cost recovery exposure with  
8 longer-term contracting benefits, without the need to quantitatively justify gradations of  
9 contract term risk through a complex discounted cash flow exercise.

10 **Q: What are the underlying reasons for proposing term-differentiated storage rates for**  
11 **ANR?**

12 A: ANR is proposing to implement term-differentiated storage rates, in general, to recognize  
13 through rate design the divergent risks associated with varying contract term lengths. In  
14 addition, term-differentiated rates reward firm shippers willing to sign up for longer  
15 terms with a lower rate.

16 **Q: What overall benefits does ANR expect will be realized from implementing term-**  
17 **differentiated storage rates?**

18 A: ANR anticipates that benefits will be realized from implementing term-differentiated  
19 storage rates, including:

- 20 1. Firm shippers willing to enter into, renew, or extend contracts for longer  
21 terms will be rewarded with a lower rate; and
- 22 2. Overall pipeline risk will potentially be reduced to the extent that longer-term  
23 contract rate incentives yield more long-term contracts.



1           **Interruptible Rate Design With Incrementally-Priced Facilities**

2   **Q: Please discuss the Commission's roll-in policy for interruptible service on a pipeline**  
3   **with incrementally-priced expansion facilities.**

4   A: The Commission has held that on an integrated system, the IT rates established in an  
5   NGA section 4 rate case should be based on the rolled-in costs of the entire system,  
6   regardless of whether there are firm services priced on an incremental basis. Equitrans,  
7   L.P., 136 FERC ¶ 61,046 at P 25 (2011).

8   **Q: Is ANR proposing to establish incremental rates for any of its transmission or**  
9   **storage facilities in this proceeding?**

10   A: Yes, ANR is proposing to establish an incremental storage rate for its Cold Springs 1  
11   storage facility. The design of the incremental rate for CS1 is discussed in the testimony  
12   of ANR witness Barry. I have instructed Mr. Barry to design CS1 interruptible service  
13   rates under Rate Schedule DDS on a rolled-in basis, consistent with the above-referenced  
14   roll-in policy.

15   **Q: Should the roll-in approach for IT apply to any incrementally-priced ANR facility?**

16   A: Yes, to the extent that incremental rates for firm service are ultimately found to be  
17   appropriate for any of ANR's other integrated transmission or storage facilities, it would  
18   be appropriate to design rates for interruptible transportation or storage services on a  
19   rolled-in basis consistent with this Commission policy.

20           **Incremental Rate Roll-Down Mechanism**

21   **Q: You noted above that that ANR is proposing to establish an incremental storage**  
22   **rate for CS1. Do you recommend that ANR be permitted to roll down the CS1 rate**  
23   **over time?**

1 A: Yes, I am proposing the establishment of a generic roll-down mechanism for incremental  
2 transportation and storage reservation rates, as set forth in Section 6.37 of the GT&C of  
3 ANR's tariff, that will allow incremental rates to be rolled down over time, consistent  
4 with the Commission's 1999 Policy Statement regarding the certification of new  
5 interstate pipeline facilities. Certification of New Interstate Natural Gas Pipeline  
6 Facilities, 88 FERC ¶ 61,227 (1999), order on clarification, 90 FERC ¶ 61,128, order on  
7 clarification, 92 FERC ¶ 61,094 (2000) (collectively, "Certificate Policy Statement"). In  
8 particular, I propose to apply the roll-down mechanism to the incremental rate established  
9 for CS1.

10 **Q: Please explain the basis for the Commission's roll-down policy.**

11 A: In PG&E Gas Transmission, Northwest Corporation, 82 FERC ¶ 61,289 (1998) ("1998  
12 Order"), the Commission articulated its policy whereby any new shipper joining the  
13 system following an incremental rate expansion, whether by permanent release or  
14 otherwise, id. at 61,123 n.29, should be subject to the same incremental rate paid by  
15 expansion shippers. The Commission found that new shippers taking long-term firm  
16 capacity following an expansion are similarly situated to expansion shippers. The result  
17 of new shippers paying the incremental expansion rate, the Commission noted, would be  
18 a gradual roll-down of the incremental expansion rate over time.

19 **Q: Please continue.**

20 A: Through its subsequent Certificate Policy Statement, the Commission clarified how the  
21 roll-down policy articulated in the 1998 Order would apply to existing shippers  
22 exercising their right of first refusal ("ROFR") rights. The Commission indicated that

1 existing shippers with ROFR rights may be subject to the highest incremental rate on a  
2 pipeline system under certain conditions that are intended to protect existing shippers  
3 from automatic exposure to higher rates. Specifically, the Commission stated that a  
4 shipper exercising its ROFR could be required to match a bid up to a maximum rate  
5 higher than the historic maximum rate applicable to its capacity in certain limited  
6 circumstances: when a pipeline expansion has been completed and an incremental rate  
7 exists on the system; the pipeline is fully subscribed; and there is a competing bid above  
8 the maximum pre-expansion rate applicable to existing shippers. 90 FERC ¶ 61,128 at  
9 61,394. The Commission additionally noted that the rates paid by new shippers to the  
10 system as well as the rates for (permanent) capacity release would have to be established  
11 as part of a proposal to establish a roll-down mechanism, either through submission of  
12 *pro forma* tariff sheets followed by a limited section 4 proceeding, or through a full  
13 section 4 rate case.

14 **Q: Has the Commission previously approved an incremental rate roll-down**  
15 **mechanism?**

16 A: Yes, on September 11, 2003, in Docket No. RP03-573-000, the Commission approved by  
17 letter order a proposal by GTN to implement a mechanism that allowed Gas  
18 Transmission Northwest Corporation (“GTN”) to roll down an incremental fuel rate that  
19 had been established as part of GTN’s 2002 Pipeline Expansion Project. The  
20 Commission found that GTN’s mechanism was consistent with the Commission’s  
21 Certificate Policy Statement.

22 **Q: Please describe the GTN roll-down mechanism.**

1 A: GTN implemented a roll-down mechanism that subjected all new long-term shippers to  
2 the highest incremental fuel rate on the pipeline system, where such fuel rate otherwise  
3 applied to expansion shippers on the GTN system. GTN defined new long-term shippers  
4 as shippers that acquire capacity on a long-term basis through either permanent capacity  
5 release, new sales of available pipeline capacity, or through the acquisition of capacity  
6 that is turned back by existing shippers through the ROFR process. GTN did not propose  
7 to subject existing firm shippers to the pipeline's incremental fuel rate through the ROFR  
8 process because of then-prevailing capacity subscription levels.

9 **Q: Please describe the roll-down mechanism that ANR is proposing for transportation**  
10 **and storage reservation rates.**

11 A: For incremental transportation and storage reservation rates, I am proposing a method,  
12 similar to that employed on GTN, whereby the highest incremental rate on the system  
13 will serve as the maximum recourse rate applicable to new firm shippers taking capacity  
14 subsequent to the establishment of an incremental rate. The incremental rate, in turn, will  
15 roll down over time as additional new shippers take service at rates that are higher than  
16 the otherwise applicable system rate, up to the incremental rate. As set forth in proposed  
17 GT&C Section 6.37, new capacity sales will be deemed to first make use of any available  
18 incrementally-priced capacity up until the point that the capacity is fully contracted.  
19 Roll-down of the incremental project rate will begin when the actual contracted capacity  
20 level associated with the incremental facility exceeds the subscribed capacity assumption  
21 reflected in the design of the incremental rate. When this occurs, the incremental  
22 reservation rate will be rolled down over time by applying the respective transportation or  
23 storage contract demand associated with new firm contracts (including the costs

1 represented by that contract demand) to the computation of the applicable incremental  
2 rate. Roll-down will only occur to the extent that the new shipper rate exceeds the  
3 otherwise applicable existing system rate. Roll-down will occur until the rolled down  
4 rate equals the otherwise applicable system rate, after which time the system rate will  
5 apply.

6 **Q: Please continue.**

7 A: To the extent that incremental or rolled-down capacity subsequently becomes  
8 uncontracted, further roll-down of the incremental rate will not occur until subscription  
9 levels once again exceed the previous level of rolled-down capacity.

10 **Q: Are you proposing to subject ROFR shippers to the highest incremental rate on the**  
11 **system?**

12 A: Consistent with the Certificate Policy Statement, I am proposing that shippers exercising  
13 ROFR rights will not be subject to the highest incremental rate unless the capacity along  
14 the path (or within the integrated storage facility) the shipper has contracted is fully  
15 subscribed and there is a competing bid above the maximum pre-expansion rate  
16 applicable to the existing shipper.

17 **Q: Is your proposed roll-down mechanism limited only to CS1?**

18 A: No, it is not. To the extent that incremental reservation rates are deemed appropriate for  
19 any ANR transportation assets, either now or in the future, ANR reserves the right to  
20 apply the roll-down mechanism to such incrementally-priced assets as well.

21 **Q: Does ANR have in place incremental fuel rates for any of its transmission or storage**  
22 **assets?**

23 A: Yes, incremental fuel rates were established for ANR's Sulphur Springs Expansion  
24 Project.

1 **Q: Are you proposing a roll-down mechanism for incremental fuel as well?**

2 A: Yes, I am proposing a separate generic roll-down mechanism for fuel (or any variable  
3 cost for that matter), as set forth in proposed GT&C Section 6.38, that can be applied to  
4 the incremental Sulphur Springs fuel rate.

5 **Q: Please describe your proposed roll-down mechanism for incremental fuel.**

6 A: The mechanism for rolling-down a variable cost such as fuel is necessarily different from  
7 the roll-down mechanism described above that is designed to roll down fixed-cost  
8 reservation charges. Because fuel is a variable cost that is recovered only when gas is  
9 transported (or injected and withdrawn from storage), the roll-down mechanism has to be  
10 based upon delivery (or injection/withdrawal) volumes rather than contract demand.  
11 Given this distinction, the roll-down mechanism for a variable cost such as fuel must be  
12 based upon delivery volumes related to new shipper contracts only.

13 **Q: Please continue.**

14 A: As set forth in proposed GT&C Section 6.38, the fuel rate that will apply to new firm  
15 shippers will be determined by the following formula, where Incremental Fuel represents  
16 the fuel assumption (in Dth) supporting the original incremental fuel rate associated with  
17 a particular expansion project and Incremental Project Dth + New Firm Shipper Dth  
18 represents total volumes subject to the incremental fuel charge.

19

20

21

$$\frac{\text{Incremental Fuel (Dth)}}{\text{Incremental Project Dth + New Firm Shipper Dth}}$$

22

23 **Rate Schedule ETS Rate Design**

1 **Q: Please describe Rate Schedule ETS (“ETS”).**

2 A: ETS is a firm transportation service designed specifically for local distribution company  
3 shippers. ETS service is similar to Rate Schedule FTS-1 (“FTS-1”) service, although it  
4 provides two additional service enhancements. One is the ability to aggregate multiple  
5 delivery points – often multiple city gates – under a single ETS contract, thus providing  
6 an ETS shipper the ability to move delivery point volumes among multiple gate stations.  
7 The second enhancement provides ETS shippers the right to deliver up to 1/16th of their  
8 MDQ on an hourly basis.

9 **Q: Please describe the historical rate design for ETS.**

10 A: As noted earlier in my testimony, ANR’s current rates are the product of the black-box  
11 RP94-43 Settlement. In ANR’s Order No. 636 restructuring proceeding in Docket No.  
12 RS92-1, prior to the RP94-43 Settlement, the ETS rate was designed as a derivative of  
13 the FTS-1 rate, with ETS receiving a double allocation of mileage reservation costs in the  
14 zone of delivery. This 2x multiple of the mileage reservation costs in the zone of  
15 delivery, which was found by the Commission to be just and reasonable, was intended to  
16 recognize the cost of the additional capacity required for ETS service flexibility.

17 **Q: Are you recommending continuation of the double allocation of zone-of-delivery**  
18 **mileage reservation costs in the design of the ETS rates?**

19 A: No. While the double allocation of mileage reservation costs has been approved by the  
20 Commission previously, applying the existing 2x multiplier within the ETS rate design  
21 methodology would result in an ETS premium relative to the FTS-1 rates that is far in  
22 excess of the premium reflected in current rates. Therefore, ANR is recommending an

1 adjustment of the zone-of-delivery multiplier from 2x to 1.5x. I have accordingly  
2 advised ANR witness Barry to utilize the 1.5x multiplier in the design of the ETS rates.

3 **Rate Schedule PTS-2 and PTS-3 Rate Design**

4 **Q: Please describe Rate Schedules PTS-2 (“PTS-2”) and PTS-3 (“PTS-3”).**

5 A: PTS-2 is a firm pooling transportation service that allows shippers to aggregate gas from  
6 various points within a pooling area and deliver the gas to a pooling headstation at either  
7 Greensburg, Kansas, or Eunice, Louisiana. PTS-2 shippers are not entitled to deliver gas  
8 to points other than these two headstations. PTS-3 is the interruptible form of PTS-2  
9 service.

10 **Q: Do you propose to assess an access charge to PTS-2 shippers?**

11 A: No. Downstream shippers that receive gas that is delivered to a headstation by means of  
12 a PTS-2 or PTS-3 agreement will pay an access charge that recovers all costs classified as  
13 non-mileage. Because all PTS-2 and PTS-3 gas must be delivered to an on-system  
14 headstation rather than to an off-system delivery point, assessment of the access charge to  
15 PTS-2 or PTS-3 shippers would essentially serve to apply the access charge twice to any  
16 transaction involving a PTS-2 or PTS-3 contract, thereby disadvantaging any shipper that  
17 pooled its gas under a PTS-2 or PTS-3 agreement. Therefore, I have advised ANR  
18 witness Barry that the access charge should not be applied to PTS-2 or PTS-3 service.

19 **Q: Does this conclude your prepared direct testimony?**

20 A: Yes, it does.



UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

ANR Pipeline Company )

Docket No. RP16-\_\_\_\_-000

State of Texas )  
County of Harris ) ss.

AFFIDAVIT OF JOHN A. ROSCHER

John A. Roscher, being first duly sworn, on oath states that he is the witness whose testimony appears on the preceding pages entitled "Prepared Direct Testimony of John A. Roscher"; that, if asked the questions which appear in the text of said testimony, he would give the answers that are therein set forth; and that affiant adopts the aforesaid testimony as John A. Roscher's sworn testimony in this proceeding.

  
\_\_\_\_\_  
John A. Roscher

SWORN TO AND SUBSCRIBED BEFORE ME THIS 22<sup>nd</sup> DAY OF January, 2016

  
\_\_\_\_\_  
Notary Public  
My Commission Expires:

