

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

ANR Pipeline Company

)

Docket No. RP16 - ___-000

Prepared Direct Testimony of Lee Bennett

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

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

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

5 A: I am the Manager, Pricing and Business Analysis 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 earned a B.B.A degree from Southwest Texas State University in December, 1989.
10 Over the last 25 years I have held various positions with increasing responsibilities. My
11 current position is in the Pricing and Business Analysis department for TransCanada,
12 U.S. Pipelines. In this role, I am responsible for providing pricing guidance and analysis
13 to the Marketing and Business Development departments. My group is responsible for
14 understanding current market fundamentals along with the competitive environment.

15 **Q: Have you ever testified before the Federal Energy Regulatory Commission
16 (“Commission”) or any other energy regulatory commission?**

17 A: Yes. I filed testimony and testified before this Commission in ANR Storage Co., Docket
18 No. RP12-479-000. I have also testified before the Michigan Public Service Commission
19 in DTE Gas Company, Case No. U-17691.

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

1 A: I will discuss the current key market challenges ANR is facing on its system, as well as
2 discuss key business risks ANR will face in the future on its system. In particular, I will
3 address the market challenges and business risks that ANR faces on its Southwest
4 Mainline (“SW Mainline”), and Southeast Mainline (“SE Mainline”), and with respect to
5 its integrated storage services. My testimony will support ANR witness Carpenter in his
6 discussion of the business risk faced by ANR and how it compares to the business risks
7 of the members of the proxy group proposed by ANR witness Vilbert, as well as Dr.
8 Carpenter’s determination of an appropriate return on equity for ANR.

9 **Q: What portions of ANR’s system face the most significant business risk?**

10 A: The SW Mainline, ANR’s storage market and the market for transportation associated
11 with storage, and the SE Mainline currently face the largest business risk and I expect
12 these areas to experience increased business risk over the next two to three years. To a
13 lesser extent ANR has risk associated with transportation in its Northern Area. I discuss
14 each of these portions of the system below.

15 **SW Mainline Business Risks**

16 **Q: Please describe the SW Mainline.**

17 A: As described in more detail by ANR witness Towne, the SW Mainline extends from
18 Greensburg, Kansas to an ANR compressor station near Sandwich, Illinois.

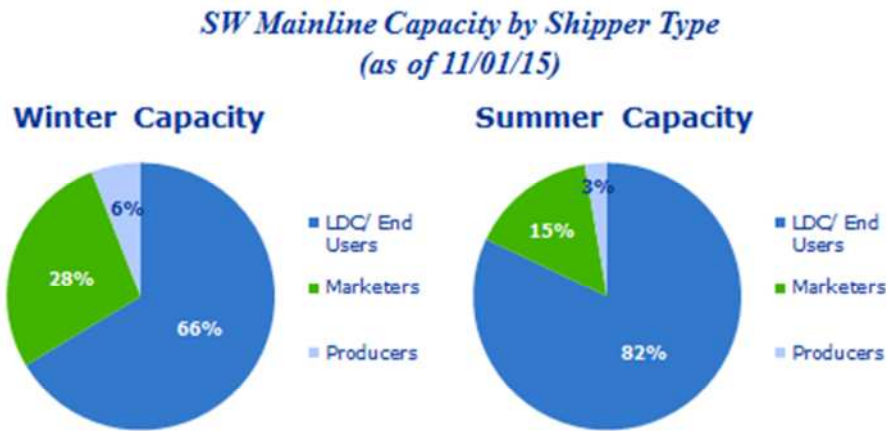
19 **Q: What is ANR’s current contracting level on the SW Mainline?**

20 A: ANR currently has 0.7 billion cubic feet per day (“Bcf/d”) contracted for on a long-term
21 basis with an average term of 2.2 years.

22 **Q: What is the current customer makeup and contract profile for the SW Mainline?**

1 A: Currently, capacity holders are made up of approximately 66 percent local distribution
 2 companies (“LDC”) and end users and 34 percent marketers and producers for the winter
 3 months (the breakdown for the summer months is approximately 82 percent and 18
 4 percent respectively). See Figure 1.

Figure 1



5
 6 Of ANR’s total deliveries off of the SW Mainline, approximately 39 percent are
 7 contracted into Michigan and Chicago in the winter, with the remaining 61 percent into
 8 Wisconsin and other markets (during the summer months, approximately 48 percent and
 9 52 percent, respectively). See Figure 2.

Figure 2

*SW Mainline Capacity by Primary Delivery Point
(as of 11/01/15)*



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2 **Q: How are values for the SW Mainline determined?**

3 A: Values on the SW Mainline are driven by the difference between the gas price basis at
 4 ANR's Southwest Headstation at Greensburg and the gas price basis in ANR's Northern
 5 Area, where ANR serves significant LDC and electric generation load, less fuel.
 6 Therefore, a depressed Southwest basis combined with a strong premium in the Northern
 7 Area provides the greatest value for the pipeline.

8 **Q: What competitive challenges does ANR's SW Mainline face today?**

9 A: As can be seen in Figure 3, ANR has been losing its Ohio and Eastern U.S. markets to
 10 Marcellus/Utica production. This has caused a shift in delivery point contracting on the
 11 SW Mainline from Ohio to Michigan.

Figure 3

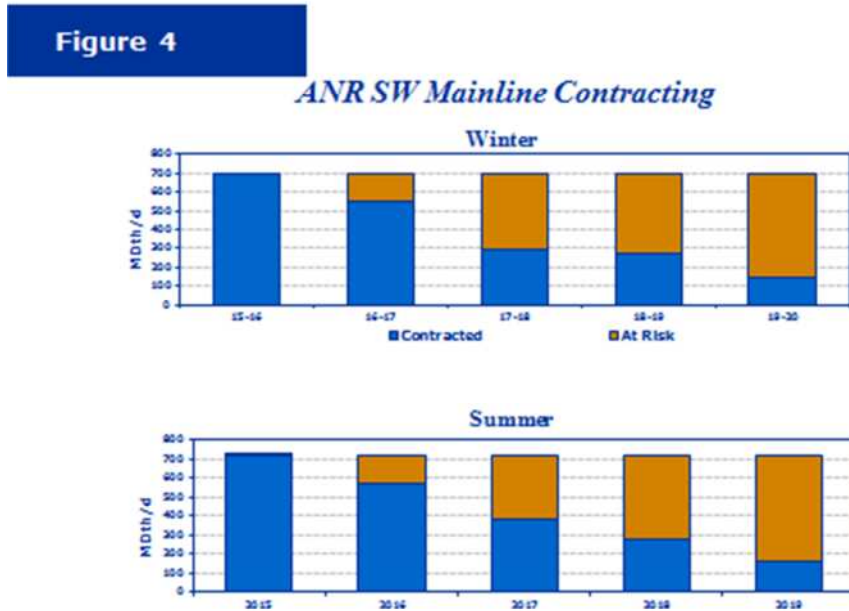
SW Mainline Contracting By Delivery Area



1

2 **Q: What business risks does ANR's SW Mainline face in the future?**

3 A: The largest risk on the SW Mainline in the future is the level of capacity expirations
 4 occurring over the next few years, combined with projections for very low transportation
 5 values. This signals that significant risk is looming for ANR to recontract the SW
 6 Mainline – which provided approximately \$90 million in revenue towards ANR's cost-
 7 of-service in 2011. Using the forward market values as a renewal rate for SW Mainline
 8 capacity expirations would suggest ANR's SW Mainline annualized revenue will be
 9 reduced by approximately 37 percent, or \$34 million, by year-end 2017. Figure 4 shows
 10 this expiring capacity.



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2 **Q: Why does this expiring capacity present additional business risk to ANR?**

3 A: The business risk associated with this expiring capacity is exacerbated by modest and
 4 further shrinking values for hauls from the SW Mainline to the Northern Area, in
 5 combination with the mix of customers holding the expiring capacity. SW Mainline
 6 customers serving markets in the Northern Area will simply have the option to turn back
 7 SW Mainline long-haul capacity on ANR in exchange for short-haul service (ML7-ML7,
 8 as an example), thereby stranding capacity on ANR's SW Mainline system.

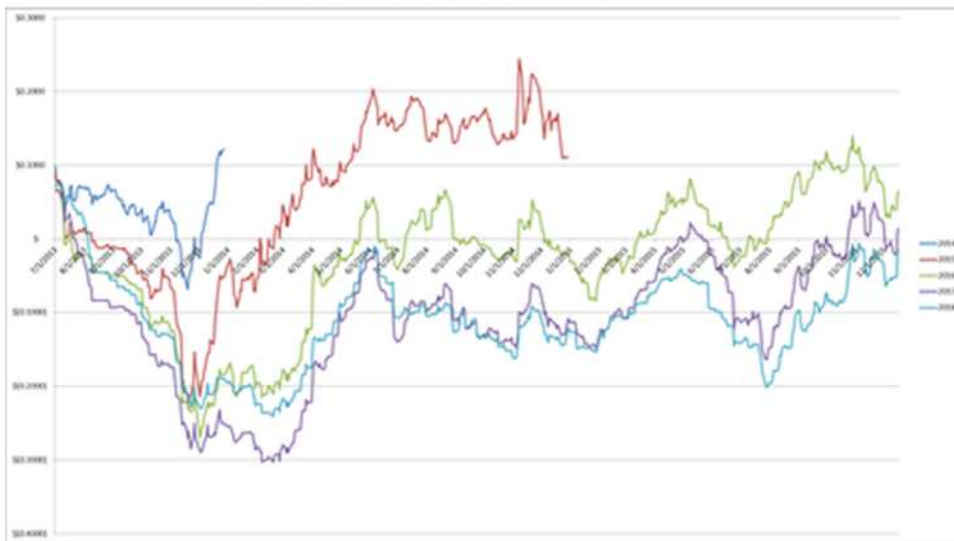
9 **Q: Why do you expect the basis values for transportation on ANR's SW Mainline to**
 10 **the Northern Area to shrink?**

11 A: The basis in the Northern Area has already seen downward pressure from the increasing
 12 Marcellus/Utica supplies flowing into the Midwest, as shown on Figure 5 below. As
 13 discussed above and reflected on Figure 3, SW Mainline deliveries into Ohio have
 14 already decreased by approximately 70 percent due to emerging supply close to or in the
 15 Northern Area. Up until winter 2015/2016, these reductions have been absorbed by

1 Michigan including ANR's storage. As discussed by ANR witness Pollard, effective for
 2 the winter 2015/2016 season, ANR allowed its transportation service arrangement on
 3 Enable Gas Transmission, LLC to expire, which effectively reduced the capacity of the
 4 SW Mainline and thereby covered the reductions in Ohio. As the Ohio market continues
 5 to decline due to the proximity of the Marcellus/Utica supply to Ohio, and Michigan
 6 continues to see increased volumes from the Marcellus/Utica supply basins increasing the
 7 competition for that market, these factors will continue to exert downward pressure on
 8 Northern Area basis and hence SW Mainline value.

Figure 5

Historical MichCon Forward Basis

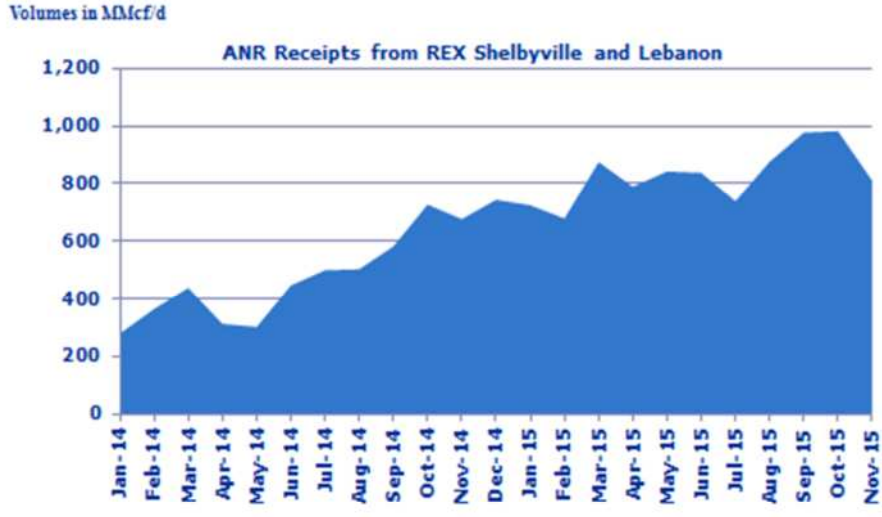


Source: Platts M2M

9
 10 ANR alone has 1.9 Bcf/d under contract, which flows from the Rockies Express Pipeline
 11 LLC ("REX") Shelbyville interconnection point or from points on the Lebanon Lateral.
 12 As seen in Figure 6, the flows from those receipt points have not exceeded 1.0 Bcf/d
 13 through November 2015. ANR witness Towne describes the increasing Marcellus/Utica
 14 production and new pipeline infrastructure that has been constructed to transport

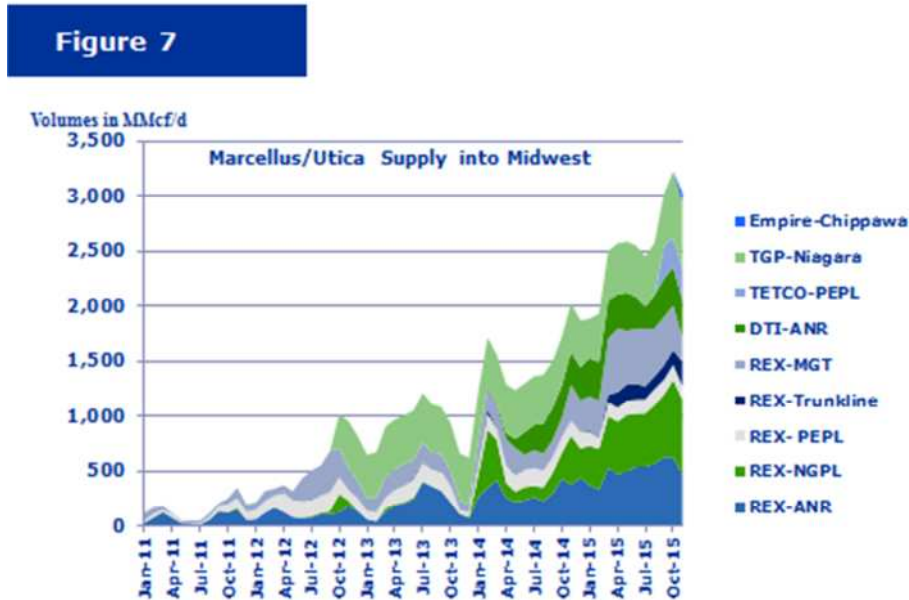
1 incremental supply into ANR’s Northern Area. These additional flows are expected to
 2 continue their upward trend, which will increase the downward pressure on the market
 3 basis.

Figure 6



Source: Point Logic Energy

4
 5 In addition, Marcellus/Utica deliveries into the Midwest markets have been increasing on
 6 an exponential basis over the last few years, as reflected on Figure 7.



Source: Point Logic Energy

1

2 **Q: Will this downward pressure on the market basis cease once existing pipelines**
 3 **currently serving the Northern Area reach capacity?**

4 **A:** No, the downward pressure on the Northern Area basis should continue as new
 5 infrastructure currently under development from the Marcellus/Utica basins comes online
 6 into the Northern Area.

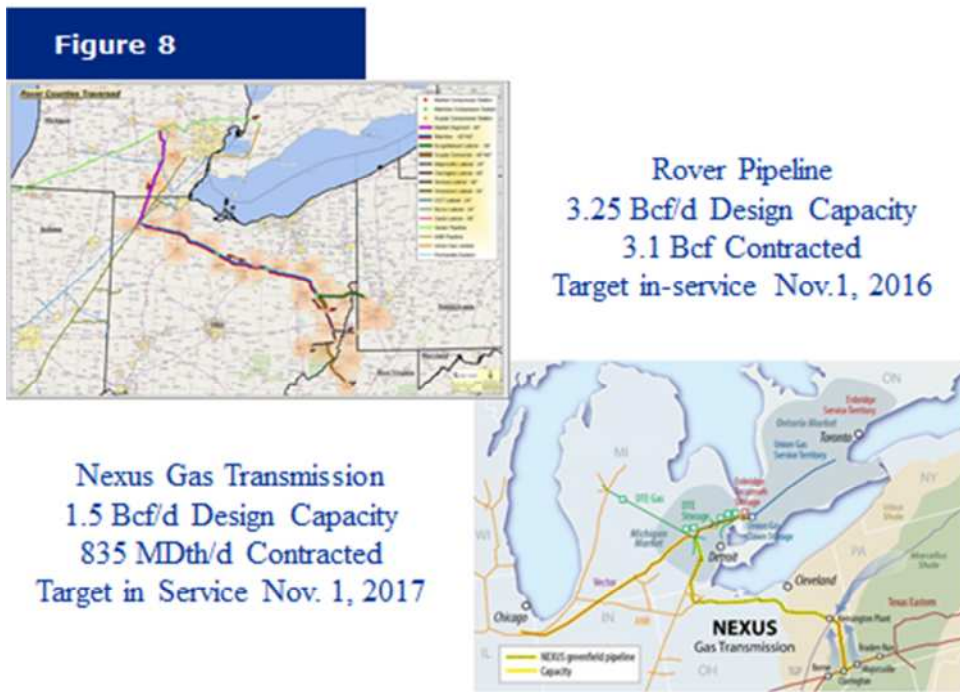
7 **Q: What new pipeline infrastructure is currently under development to serve load in**
 8 **ANR's Northern Area?**

9 **A:** The Energy Transfer Partners Rover Pipeline Project ("Rover") is expected to be in
 10 service by November 1, 2016. It will have a 3.25 Bcf/d capacity and will provide service
 11 between the Marcellus and Utica shale supply areas and Michigan and the Dawn Hub in
 12 Ontario Canada. Similarly, Spectra Energy's Nexus Gas Transmission Project
 13 ("Nexus"), which is expected to be in service by November 2017, will have a 1.5 Bcf/d
 14 capacity and will provide service between the Appalachian Basin and northern Ohio,
 15 northeastern Michigan and the Dawn Hub in Ontario Canada. In addition, Constitution

1 Pipeline Company, LLC (“Constitution”) will move Marcellus production to Iroquois
2 Gas Transmission System, L.P.’s (“Iroquois”) pipeline and Northeast markets. This
3 pipeline is being developed to move 650 MDth/d from the Marcellus production area to
4 Iroquois. The target in-service date for Constitution is November 1, 2016. Once
5 completed, it will displace volumes that are currently exported from Canada into Iroquois
6 at Waddington, which are necessary to meet the requirements in the Northeastern U.S.
7 The displaced volumes will push back into Dawn, which will increase the volume of gas
8 delivered into the Midwest.

9 **Q: Will this new infrastructure have an impact on the Northern Area?**

10 A: Yes, as can be seen in Figure 8, the combination of Rover and Nexus will provide an
11 additional 4.75 Bcf/d of incremental capacity into ANR’s Northern Area. Of this 4.75
12 Bcf/d, 3.9 Bcf/d is already under contract, as demonstrated in the certificate applications
13 filed in Docket Nos. CP15-93 (Rover) and CP16-22 (Nexus). The addition of this
14 capacity from these two projects will more than double the current capacity from the
15 Marcellus/Utica into the Midwest. In addition, Constitution is a fully contracted,
16 650,000 dekatherms per day (“Dth/d”) pipeline. As Figure 9 shows below, this will
17 provide the full 650,000 Dth/d to push back into the Midwest, which further depresses the
18 basis in the Northern Area. This pushback will affect the Chicago and MichCon basis as
19 well, as Dawn currently receives supplies from both of these locations to meet its
20 requirements.



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3 **Q: Do these new projects present additional risk to ANR?**

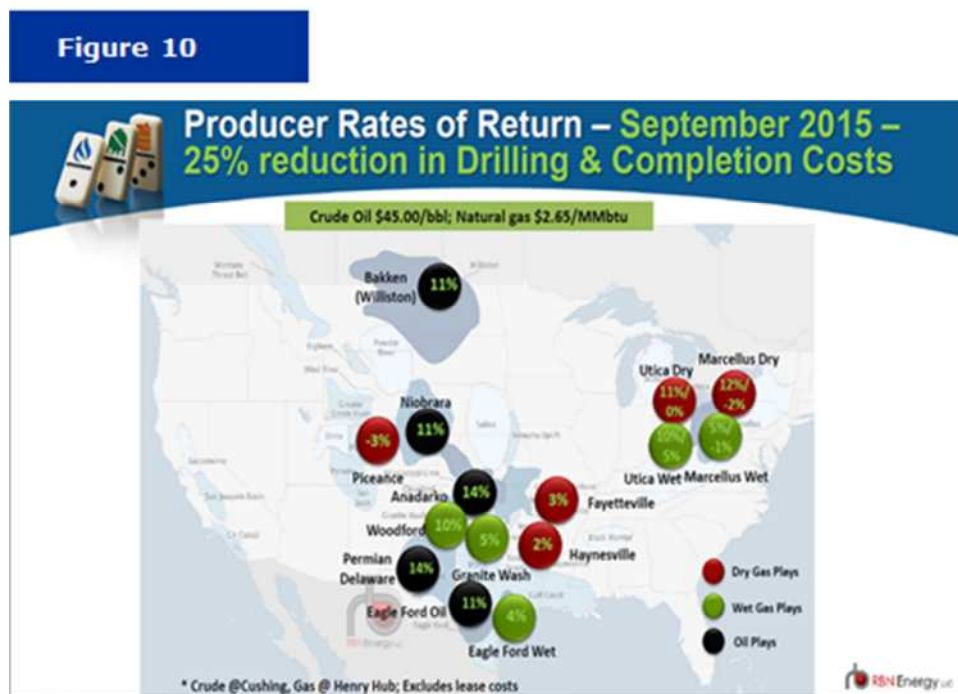
4 **A:** Yes, in addition to reducing ANR's transportation value to markets in the Northern Area,

5 these new pipeline projects will displace existing deliveries into the Midwest region.

1 This results in a double impact to ANR. First, ANR will have considerable exposure to
 2 declining sales as these new pipelines bypass ANR. Second, there will be an accelerated
 3 reduction in basis values driven by the incremental capacity displacing higher cost
 4 production basins.

5 **Q: Can you explain the term higher cost production basin?**

6 A: The Marcellus/Utica production basins, as compared to the Gulf Coast and Midcontinent
 7 basins, have considerably lower production costs and thus larger reserves of “cheap” gas,
 8 as can be seen on Figure 10.

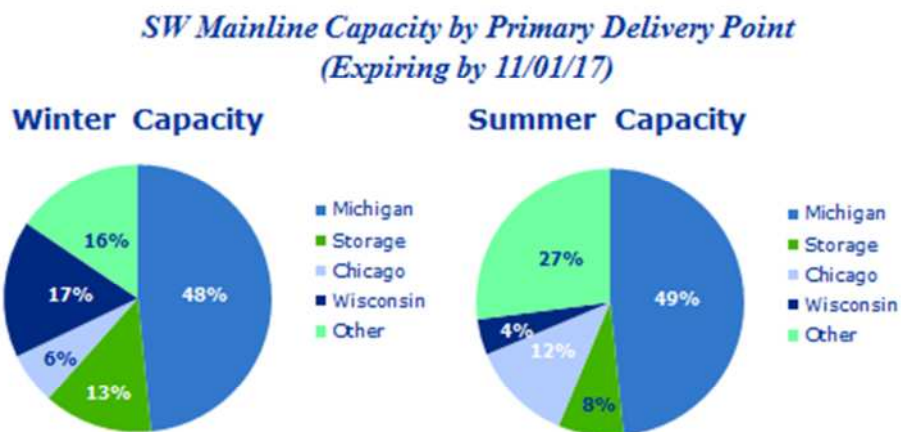


9
 10 This allows Marcellus/Utica producers to take a lower netback as compared to other
 11 basins and still remain comparatively profitable. As a result, these other basins are higher
 12 cost production basins as compared to the Utica/Marcellus basins.

13 **Q: Given this increased competition in the Northern Area, what percentage of ANR’s**
 14 **contracts that expire prior to the end of 2017 on the SW Mainline have delivery**
 15 **points in the Northern Area?**

1 A: As shown on Figure 11, approximately 17 percent of the SW Mainline contract volumes
 2 for winter have delivery points in Wisconsin, 61 percent have delivery points in Michigan
 3 (including storage), and 6 percent have Chicago as a delivery point (summer contract
 4 volumes are approximately 4 percent, 57 percent, and 12 percent, respectively). Thus,
 5 approximately 80 percent of the winter and 70 percent of the summer contract volumes
 6 have primary delivery points in the Northern Area.

Figure 11



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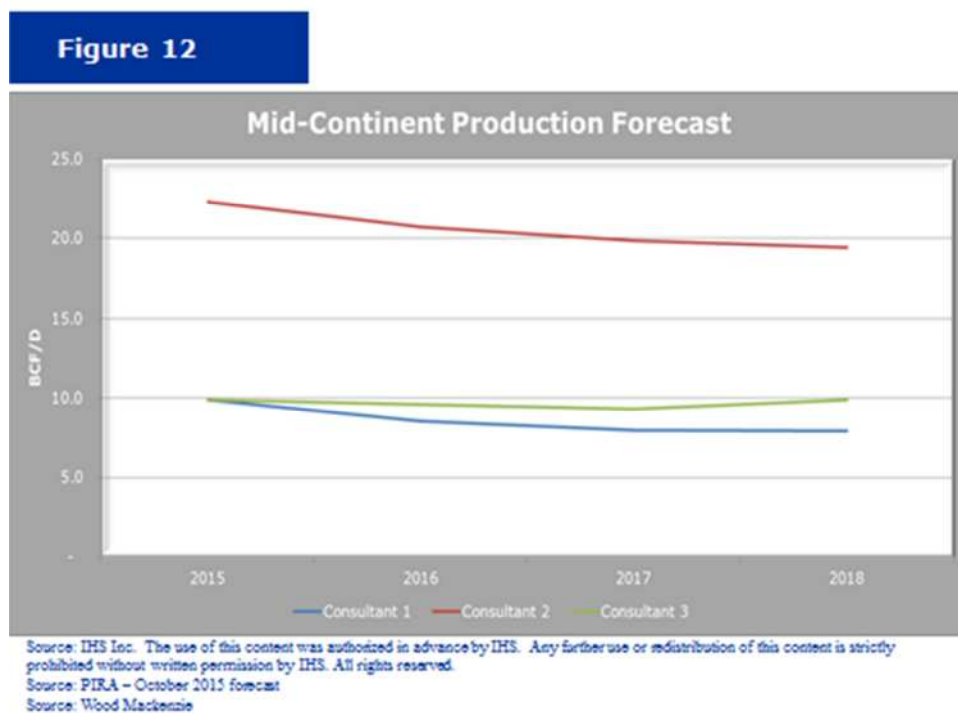
8 **Q: In addition to the issues discussed above, are there changing market dynamics**
 9 **related to the Southwest Headstation (basis) that will effect value on ANR?**

10 A: Presently there is already an increase in the SW Headstation value to the Waha Hub due
 11 to increasing demands from exports to Mexico. The Comisión Federal de Electricidad
 12 has awarded two contracts to Energy Transfer Partners to build new pipeline capacity
 13 from Waha to the US/Mexico border, which will increase export volumes by
 14 approximately 2.5 Bcf/d. As the demand for exports to Mexico increases, the production

1 that historically has been transported on the SW Mainline will experience a higher
 2 netback going to Waha as opposed to ANR's Northern Area. This higher netback to
 3 Waha will reduce the volumes available to the SW Mainline. This results in ANR having
 4 a lack of competitively-priced production to fill the increasing available capacity on the
 5 SW Mainline. This could result in continued decontracting on the SW Mainline, or put
 6 forward pressure on the basis values, which results in decreasing value to ANR.

7 **Q: Will production increase in the SW Area to meet this increased demand?**

8 A: As shown on Figure 12, production forecasts for Midcontinent supply do not show
 9 production increasing. Rather, it reflects a flat to downward trend for the Midcontinent
 10 region for the next several years.

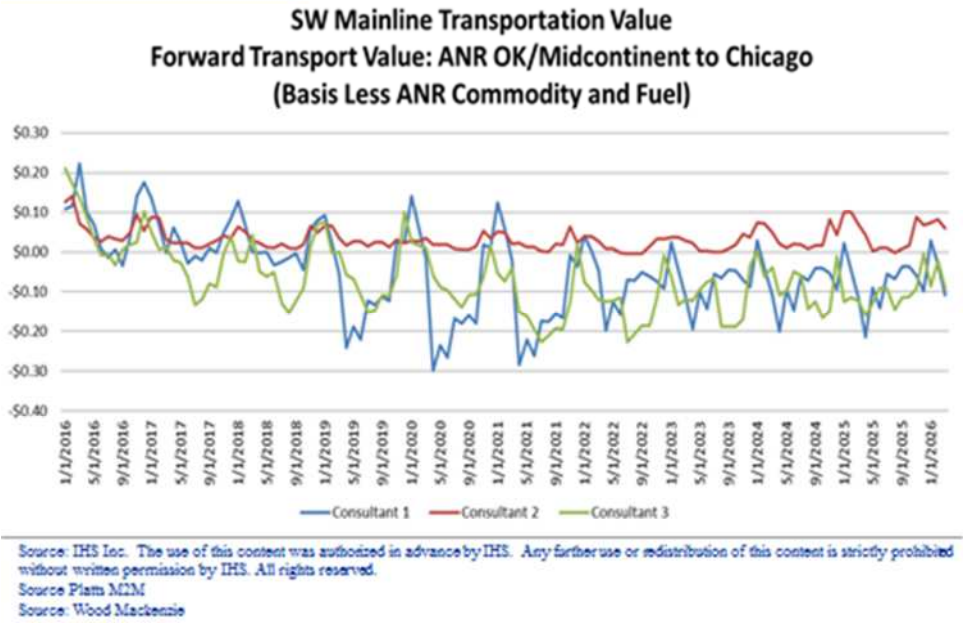


11
 12 **Q: Do the forward pricing curves reflect this reduction in value?**

13 A: Yes, Figures 13 and 14 depict forecast values from several sources for ANR's SW
 14 Mainline to Chicago and SW Mainline to MichCon. As the figures show, each source

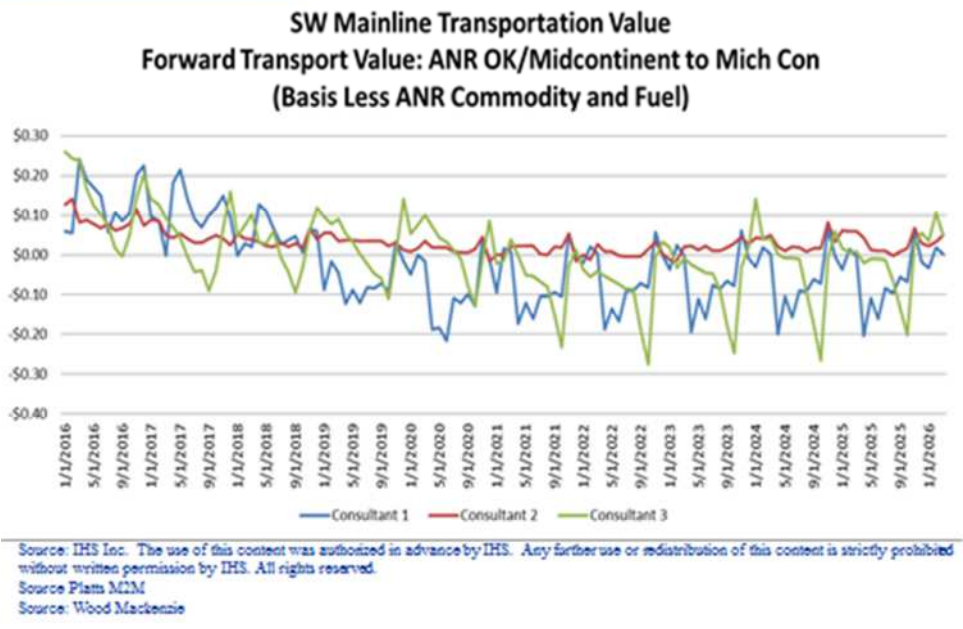
1 projects that the values will continue a downward trend to the point of having very little
2 to no value in just a few years. Without steep discounts on the SW Mainline, the forward
3 values support shipper turnback of the SW Mainline capacity and contracting for short-
4 haul transportation that could be filled from supplies within the Northern Area.

Figure 13



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Figure 14

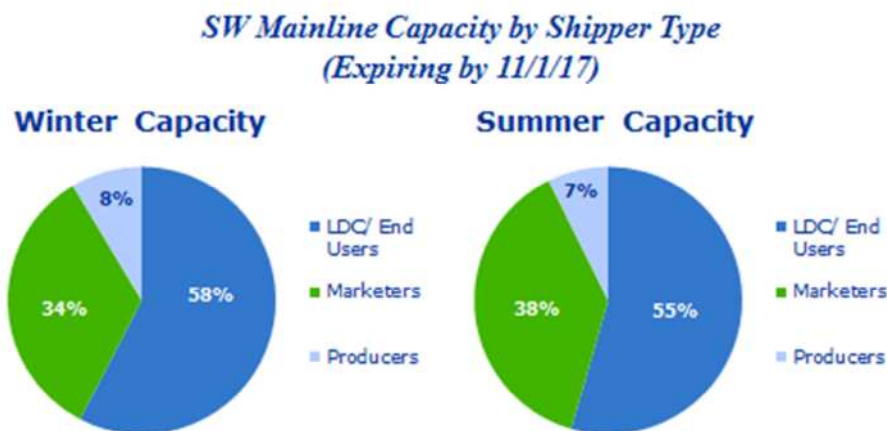


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3 **Q: How does the customer mix on the SW Mainline contribute to ANR’s business risk?**

4 **A:** Figure 15 shows the customer mix for capacity along the SW Mainline which expires
5 prior to November 1, 2017.

Figure 15



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12 **Q: Can you summarize ANR's business risk on its SW Mainline?**

13 A: The combination of reduced demand due to new pipeline capacity bringing production

14 from the Marcellus/Utica basins, the increased downward pressure of the Michigan and

1 Chicago basis resulting from the lower cost supplies, the increased exports to Mexico
2 which support the Waha Hub, and thereby the SW Headstation, basis, all combine to
3 drive down the value of ANR's SW Mainline to annual values that approach zero in the
4 near future, placing ANR at substantial risk that expiring capacity on the SW Mainline
5 will either not be recontracted or will be have to be resold for low value.

6 **Storage and Storage Transportation Business Risks**

7 **Q: Please describe ANR's storage and related transportation.**

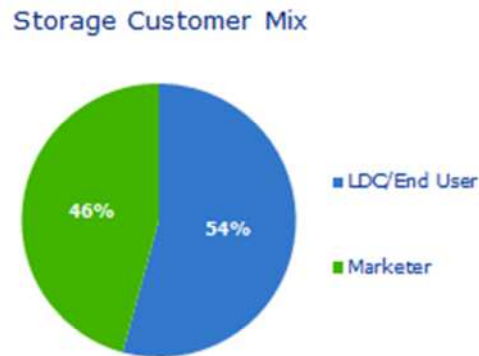
8 A: As described in more detail by ANR witnesses Towne and Pollard, ANR has several
9 storage fields in its Northern Area that play a significant role on ANR's system. Six
10 storage fields are directly connected to ANR's system, while nine fields are
11 discontinuous to ANR's system. Approximately 75 percent of ANR's storage
12 deliverability is discontinuous from its system. For a large portion of ANR's storage,
13 ANR shippers acquire transportation capacity in order to make injections and/or
14 transportation in order to make deliveries to markets from storage.

15 **Q: What is ANR's current storage contracting levels?**

16 A: ANR currently has 170 Bcf/d contracted for on a long-term basis, with an average term of
17 approximately 3.5 years.

18 **Q: What is the current customer makeup and contract profile for ANR's storage?**

19 A: Currently, capacity holders are made up of approximately 54 percent LDC and end users
20 and 46 percent marketers and producers. See Figure 16.

Figure 16

1

2 **Q: What tool is used to determine the value of storage?**

3 A: ANR utilizes FEA® @ENERGY/Storage, which is a real options-based decision support,
4 optimization and valuation tool for aquifer, reservoir and salt dome storage facilities.

5 **Q: What was the average rate per dekatherm (“Dth”) of maximum storage quantity**
6 **(“MSQ”) achieved for the 2015/2016 storage season?**

7 A: ANR achieved an average rate of \$0.48/Dth for deals that became effective for the
8 2015/2016 storage season.

9 **Q: What is the current FEA value?**

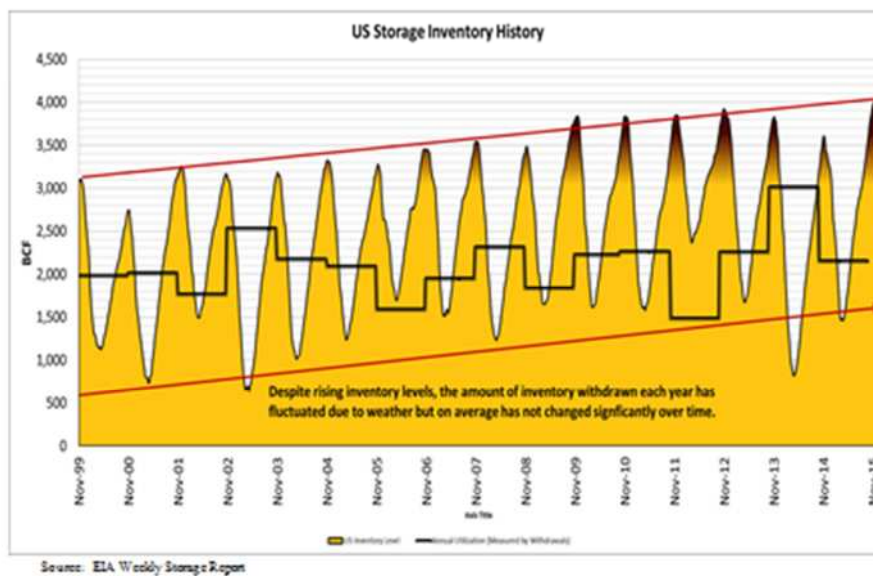
10 A: As of December 11, 2015, the current FEA value is \$0.37 for one year and \$0.39 for two
11 years.

12 **Q: What current commercial challenges does ANR face today with respect to its**
13 **storage services?**

14 A: Storage in general has been overbuilt in relationship to the current market need. Figure
15 17 reflects the amount of storage withdrawals that have occurred over time relative to the

1 amount of inventory. The graph reflects that the amount withdrawn over time has
 2 fluctuated due to weather, but on average, the volume remained relatively consistent even
 3 though the total inventory levels have increased. Considering that the 2013/2014 winter
 4 was one of the coldest on record, the end of the winter inventory balance remained at
 5 approximately 800 Bcf of working gas. Of the 800 Bcf remaining, 133 Bcf was located
 6 in the Midwest region. That alone is more than half of ANR's storage inventory. When
 7 combined with the excess in the East region of 167 Bcf, the total exceeds ANR's storage
 8 inventory.

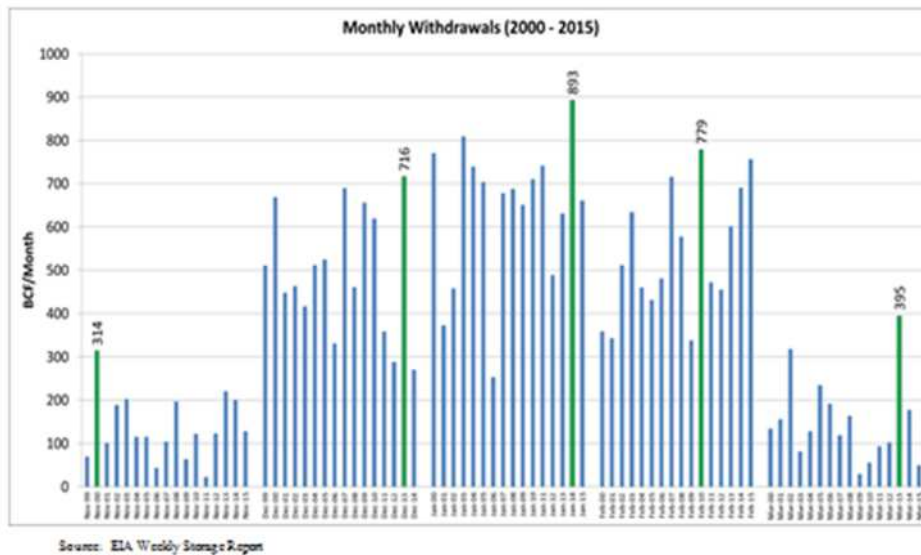
Figure 17



9
 10 In addition, Figure 18 reflects the highest monthly storage withdrawals since 2000
 11 for each of the five winter months. The total volume for these months only provides 3.1
 12 trillion cubic feet (“Tcf”) for the winter, which is well below the maximum storage
 13 inventory level, which exceeds 4 Tcf. This oversupply of storage has reduced the rate
 14 that can be collected from the market.

Figure 18

The total of the highest withdrawal for each of the five winter months since 2000 is 3.1 Tcf



1

2 **Q: In general, what business risks does ANR face going forward with respect to its**
 3 **storage services?**

4 **A:** The largest risk for ANR's storage in the future is the level of capacity expirations
 5 occurring over the next few years, combined with projections for very low storage values.

6 This signals significant risk is looming for ANR to recontract its storage services – which
 7 provided approximately \$165 million in revenue from storage and an additional \$70
 8 million in associated transportation revenue towards ANR's cost-of-service in 2011.

9 Applying the average of the one- and two-year FEA values of \$0.38 as discussed above
 10 to the expiring capacity as reflected on Figure 19 below as the market value for renewals

11 for storage expirations and available capacity suggests ANR's storage annualized revenue
 12 will be reduced by approximately 40 percent, or \$62 million, by year-end 2017. The

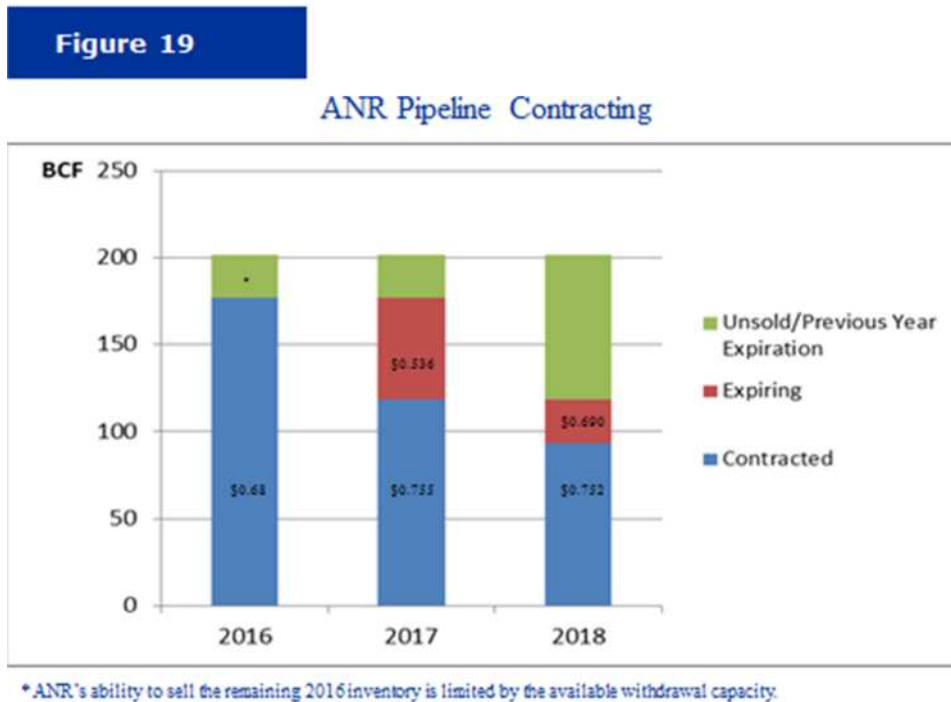
13 amount of the reduction could be higher, based on the future contracting practices of
 14 ANR's shippers in respect to transportation related to storage. ANR faces large risks

15 with respect to its storage services due to the rapidly increasing amount of unsubscribed

1 storage capacity on its system as a result of a confluence of factors, including: increased
2 production from the Marcellus/Utica basins; large quantities of excess storage
3 capabilities; and increased supplies and infrastructure reducing price volatility.

4 **Q: Why has ANR seen increasing unsubscribed storage capacity?**

5 A: For the last several years, ANR has seen decreasing levels of storage contracting, and the
6 contracts generally have been for shorter terms. This is due to increased competition, as
7 the amount of storage that is available to the market expanded from new projects and
8 expansions as described above. In addition, increasing production in the Utica/Marcellus
9 basins provides a greater volume of flowing supplies into the Northern Area, which
10 reduces ANR's storage customers' storage requirements necessary to meet their
11 demands. This can be expected to continue in the immediate future because, as discussed
12 previously, the Rover and Nexus projects together will provide an additional 4.75 Bcf/d
13 of incremental capacity into ANR's Northern Area, of which over 0.8 Bcf/d of capacity is
14 still unsubscribed. As a result, ANR's storage customers will be able to utilize these new
15 pipelines to deliver gas directly into the Michigan and Chicago markets, alleviating the
16 need for them to contract for storage with ANR. As shown in Figure 19, ANR has 58 Bcf
17 of MSQ that is expiring at the end of March 2017 and 25 Bcf expiring at the end of
18 March 2018. ANR faces significant risk in being able to remarket this capacity, given the
19 developments I have discussed above.



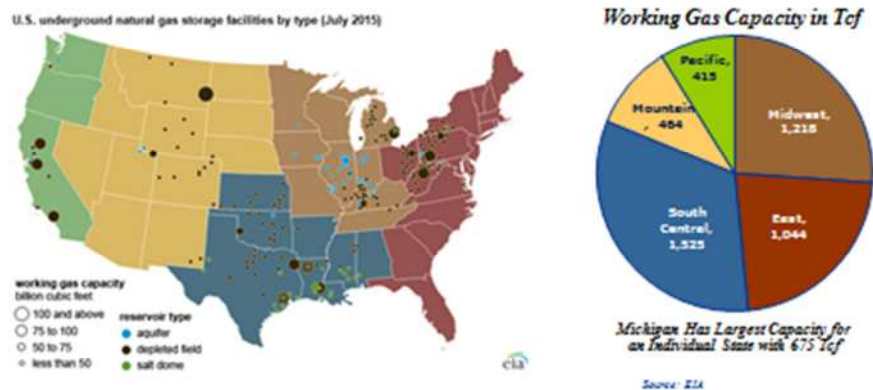
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2 **Q: In addition to ANR's unsubscribed storage capacity, what other factors affect**
 3 **storage value?**

4 **A:** The value of storage is impacted by a number of factors, including the amount of storage
 5 capacity located in and around ANR's system, the forward pricing curve, the liquidity in
 6 the market, market volatility, and the operational limitations of the storage facility.
 7 Additionally, storage values are broken up into intrinsic and extrinsic value. Intrinsic
 8 value is created by a difference between the purchase cost of the injected volumes and the
 9 sales price of the same withdrawn gas. This is commonly referred to as the
 10 winter/summer spread. This value, however, is offset by other costs associated with
 11 storage, such as injection and withdrawal charges, injection fuel, and the time value of
 12 money associated with carrying the inventory. The market in which ANR provides
 13 storage services is very competitive, with multiple storage providers and large quantities
 14 of storage to serve the market as can be seen on Figure 20 below. In addition to the
 15 competition with Midwest storage providers, the new projects that are connecting the

1 Marcellus/Utica basins directly with the Midwest will bring in additional access to
 2 Eastern storage, which will almost double the amount of storage located in the Midwest.
 3 This competition reduces the value that ANR can charge for its services. Additionally, a
 4 number of ANR's storage competitors have market-based rates. This is an important
 5 distinction. Without market-based rates, ANR is unable to recoup the value lost during
 6 the low value storage periods during the high value storage periods as ANR is capped by
 7 its maximum tariff rates. These competitors are more likely to discount deeper than
 8 ANR, during lower value periods, as they are able to capture a greater value than ANR
 9 during higher value periods. This inequity creates an environment where ANR either
 10 meets the lower competitor pricing or its capacity may go unsold due to the large amount
 11 of excess capacity in the market.

Figure 20

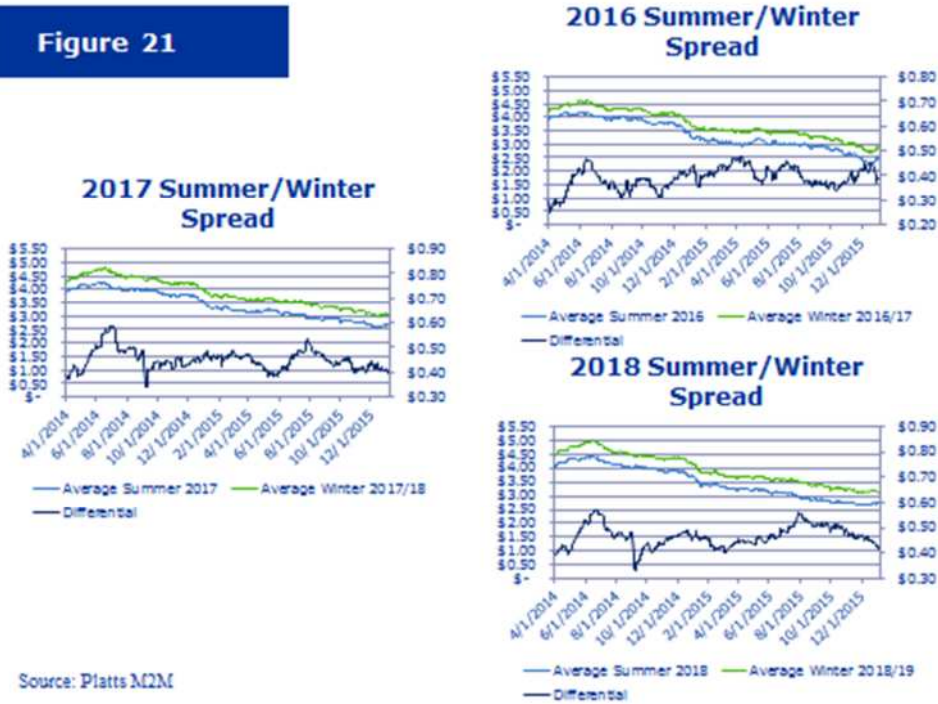


12

13 **Q: How does ANR see the intrinsic value of its storage in the future?**

1 A: The intrinsic value is based off the winter/summer differential. The forward curve shows
 2 a slight improvement in the winter/summer differential over the 2016, 2017, and 2018
 3 storage seasons. The average winter/summer spreads for the forward pricing curves for
 4 MichCon from April 1, 2014 to January 7, 2016 are \$0.40 for 2016, \$0.45 for 2017, and
 5 \$0.47 for 2018. The spreads in 2016, 2017, and 2018 vary by as much as approximately
 6 \$0.12 up and down. See Figure 21.

Figure 21



Source: Platts M2M

7

8 **Q: What factors drive the extrinsic value for storage?**

9 A: Extrinsic value for storage is created by injecting and withdrawing gas to capture daily
 10 pricing volatility. Additional value is derived by trading into and out of financial hedges
 11 over time as the forward curve changes

12 **Q: Is there any business risk associated with the extrinsic value of storage?**

13 A: Yes, as the liquidity in the forward market changes, the bid/ask spread fluctuates as it
 14 increases and decreases over time. This fluctuation impacts the cost to enter into and flip

1 out of the financial hedges. Prompt Month to about four months out is more liquid and
2 trades more often. The forward curve becomes relatively illiquid outside of nine months
3 to a year.

4 **Q: What commercial point is commonly used to calculate the value of ANR's storage?**

5 A: The MichCon pricing point is commonly used as a proxy to calculate the value of ANR's
6 storage due to its proximity to ANR's storage facilities.

7 **Q: How liquid is the MichCon point for hedging storage?**

8 A: As described above, MichCon is more liquid in the near term and becomes more illiquid
9 as you move out on the curve.

10 **Q: What impact can the bid/ask spread have on ANR's storage value?**

11 A: Utilizing FEA to run three scenarios with differing bid/ask spreads – three, five, and
12 seven cents – and holding all else constant between the cases, the P20 value of ANR's
13 storage increased or decreased by two to three cents for every two cent change up or
14 down in the bid/ask spread based on a one- or two-year storage service. For the purpose
15 of my testimony, the "P Value" represents the probability that the value will be less than
16 the value reflected. Using P20 as an example, there is a high probability that the value
17 will be less than the value shown.

18 **Q: Do you see the total value of ANR's storage increasing in the future?**

19 A: No, over the next several years, I do not see any fundamental changes that will increase
20 the value of ANR's storage substantially from where it is now. Storage will remain
21 overbuilt and the amount of storage that can compete with ANR will only increase once
22 Rover and Nexus are built into the Midwest from the Northeast. Additionally, the
23 increased production being delivered directly into ANR's Northern Area by these two
24 pipelines enables shippers to purchase higher deliverability storage services which

1 strands storage inventory capacity. Recent FEA runs produced values for the next several
2 years in the \$0.30 to \$0.40 range for 90-day service. Additionally, while storage values
3 have recently been trending upward, the calculated values remain around 30 cents below
4 the maximum tariff rates for firm seasonal ratcheted service, which has the lowest tariff
5 rates. This presents significant business risk for ANR, as ANR's expiring storage
6 contracts have an average rate of \$0.54 and \$0.69 per Dth of MSQ for 2016 and 2017
7 compared with the \$0.38 average rate previously discussed. As a result, ANR will be
8 facing considerable risk in its ability to remarket this expiring capacity due to a lower
9 value environment and a reduced need for storage services.

10 **Q: What other factors do you expect to influence ANR's storage business risk in the**
11 **future?**

12 A: Much like the SW Mainline, ANR's storage customer profile impacts the future storage
13 value that ANR can obtain for its storage services.

14 **Q: How does ANR's storage customer profile affect ANR's business risk?**

15 A: The expiring contracts over the next two years are more heavily weighted toward
16 marketers versus LDCs. Over the two years, approximately 70 percent of the volume is
17 held by marketers and only 30 percent is held by LDCs. See Figure 22.

Figure 22

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LDCs have an obligation to serve the needs of their franchise territory, whereas marketers do not have a comparable obligation. Moreover, the LDCs utilize their storage contracts for operational flexibility in order to operate/balance their systems. In contrast to the LDCs, marketers mainly contract for storage services when the market values exceed the values that ANR is charging for the services. As a result, LDCs have historically maintained their storage contracts on ANR. Consequently, I anticipate that ANR's business risk will increase as these contracts expire due to the low-value market for storage that is reflected in the forward curves, increasing the likelihood that marketers will decline to extend their contracts, resulting in greater available capacity across ANR's storage assets or capacity that will renew at values well below their existing contract values.

1 **SE Mainline Business Risks**

2 **Q: Please describe the SE Mainline.**

3 A: As described in more detail by ANR witness Towne, the SE Mainline extends from
4 Eunice, Louisiana to Defiance, Ohio. Additionally, ANR is also a partial owner of the
5 Lebanon Lateral, which extends from ANR's SE Mainline at Sulphur Springs, Indiana, to
6 the lateral's terminus near Lebanon, Ohio. As ANR witness Towne explains, ANR's SE
7 Mainline is becoming more of a header system with markets at both ends of the system
8 and gas supplies entering in the middle through interconnections with multiple interstate
9 and intrastate pipeline systems.

10 **Q: What is ANR's current contracting level on the SE Mainline for forward hauls?**

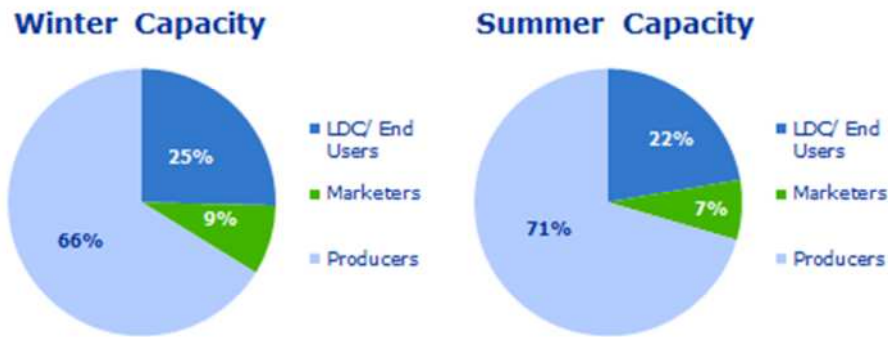
11 A: ANR currently has 1.7 Bf/d contracted on a long-term basis with an average term of 11.4
12 years. This includes both long hauls as well as short hauls.

13 **Q: What is the current customer makeup and contract profile for the SE Mainline for**
14 **forward hauls?**

15 A: Currently, SE Mainline forward haul capacity holders are made up of approximately 25
16 percent LDC and end users and 75 percent marketers and producers for the winter months
17 (the summer percentages are approximately 22 percent and 78 percent respectively). See
18 Figure 23.

Figure 23

*SE Mainline Forward Haul Capacity by Shipper Type
(as of 11/01/15)*



Note: For Deliveries into ML3, ML6 and ML7

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Contractually in the winter, approximately 45 percent of receipts into the SE Mainline for forward haul transportation enter at the Southeast Headstation, and 55 percent into the current ML-3 rate zone (the summer percentages are approximately 43 percent and 57 percent respectively). See Figure 24.

Figure 24

*SE Mainline Forward Haul Capacity by Receipt Zone
(as of 11/01/15)*



Note: For Deliveries into ML3, ML6 and ML7

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2

The current contract mix consists of approximately 75 percent at maximum tariff rates and 25 percent at discounted rates.

3

4 **Q: What are the current spreads on the SE Mainline for forward hauls?**

5

A: As of January 6, 2016, the current forward pricing curve produces spreads from REX to the Southeast Headstation which are reflected on Figure 25. Utilizing the highest value for either MichCon or Chicago and replacing negative monthly values with \$0.00, the average annual spreads range from approximately \$0.095 to \$0.125 for the Southeast Headstation to Northern Area route and from approximately \$0.115 to \$0.150 for the REX/Lebanon to Northern Area route.

6

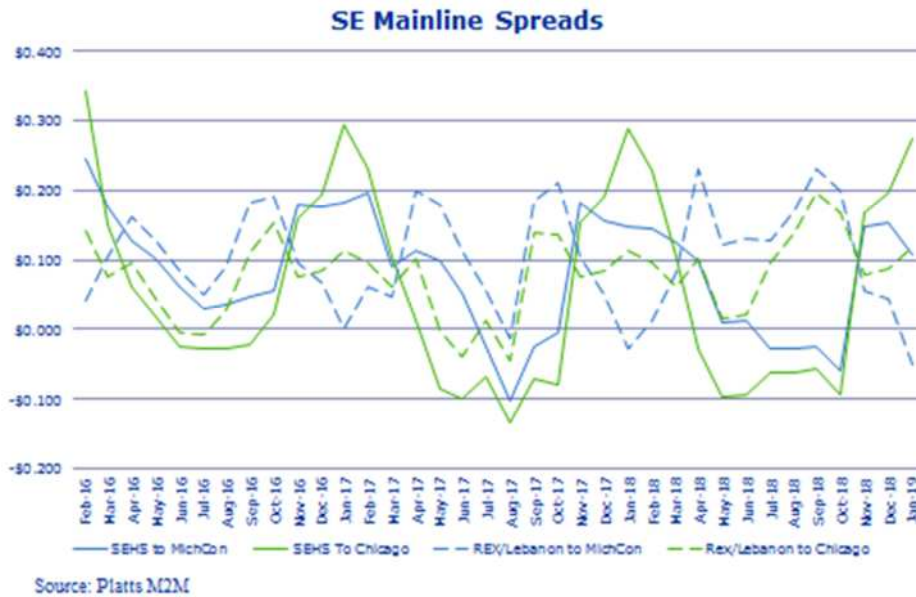
7

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Figure 25



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2 **Q: What is ANR’s current contracting level on the SE Mainline for backhauls?**

3 A: ANR currently has 1.2 Bcf/d contracted for on a long-term basis with an average term of
4 26.1 years.

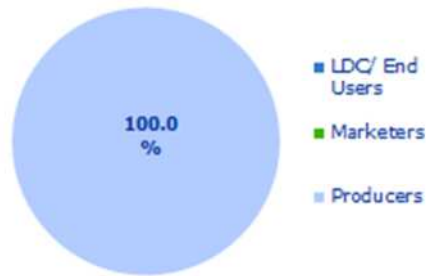
5 **Q: What is the current customer makeup and contract profile for the SE Mainline for backhauls?**

6
7 A: Currently, backhaul capacity holders are made up of 100 percent producers. See Figure
8 26.

Figure 26

*SE Mainline Back Haul Capacity
(as of 11/01/15)*

By Shipper Type



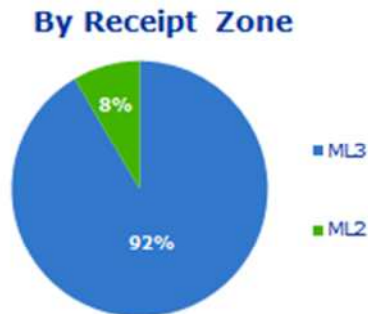
Note: Excludes intra-zonal routes

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Approximately 92 percent of receipts into the SE Mainline for backhaul transportation enter into the current ML-3 rate zone and 8 percent enter into the current ML-2 rate zone. See Figure 27.

Figure 27

*SE Mainline Back Haul Capacity
(as of 11/01/15)*



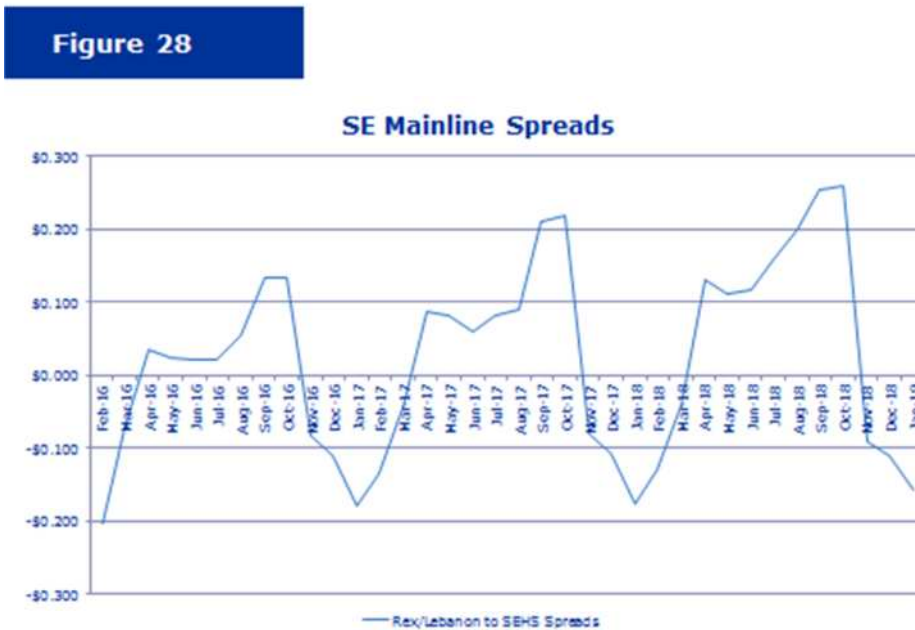
Note: Excludes intra-zonal routes

1

2 The current contract mix consists of approximately 85 percent at maximum tariff rates
3 and 15 percent at discounted rates.

4 **Q: What are the current spreads on the SE Mainline for backhauls?**

5 A: As of January 6, 2016, the current forward pricing curve produces spreads from REX to
6 the Southeast Headstation which are reflected on Figure 28. After replacing negative
7 monthly values with \$0.00, the average annual spreads range from approximately \$0.04
8 to \$0.10 from Rex/Lebanon to the Southeast Headstation.



Source: Platts M2M

1

2 **Q: What commercial challenges does ANR face on its SE Mainline today?**

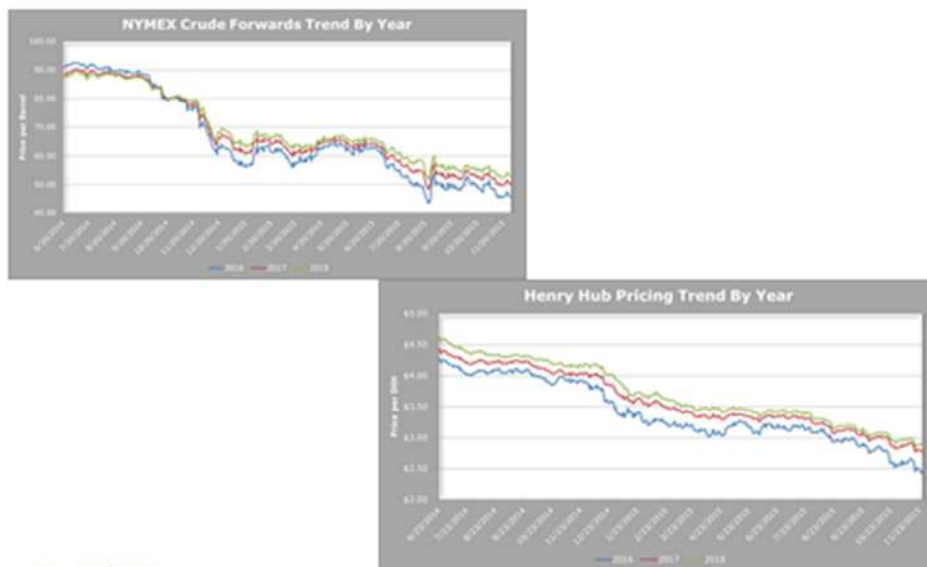
3 A: With the volume of capacity that is held by a limited number of producers, ANR is at risk
4 for default as a result of the low oil and gas price environment.

5 **Q: What business risks do you anticipate that ANR's SE Mainline will face in the
6 future?**

7 A: The business risk in the future that is associated with the SE Mainline is primarily related
8 to the amount of collateral that ANR collects on its long-term contracts and its inability to
9 remarket any capacity that may become available due to a shipper's default. ANR has
10 entered into long-term contracts for all of the currently available backhaul capacity on the
11 SE Mainline, but in accordance with ANR's tariff and Commission policy, shippers are
12 required to post only three months' worth of collateral for each contract. This risk is
13 further compounded because approximately 70 percent of the SE Mainline forward haul
14 capacity and 100 percent of the SE Mainline backhaul capacity is held by producers. See
15 Figures 23 and 26. With the current downward trends for both oil and gas forward prices

1 as seen in Figure 29, these shippers may experience significant cash flow problems,
 2 potentially putting them at risk for defaulting on their contracts with ANR. If that occurs,
 3 ANR will only have three months of collateral and will be faced with remarketing the
 4 capacity in a highly competitive market at values in the single digits after fuel. The
 5 longer the oil and gas price environment stays low, the greater the risk that a default will
 6 occur. ANR receives approximately \$154 million per year, which based upon filed rates
 7 will increase to \$326 million in 2017, from three of the producers in the Utica that are
 8 subject to this risk of default.

Figure 29



Source: NYMEX

9
 10 **Q: What marketing obstacles would ANR face in remarketing this capacity?**

11 **A:** While production will likely continue in the Marcellus/Utica basins, and this new
 12 production would require transportation from these production basins, ANR is not
 13 attached directly to the Marcellus/Utica basins. This will severely limit ANR's ability to
 14 successfully remarket the capacity, even at a discount. At the time these large long-term

1 contracts were entered into, there was limited transportation capacity that directly
2 accessed the production basins. Marcellus/Utica producers at the time had to purchase
3 capacity on at least two different pipelines to reach liquid markets. As a result, the
4 available capacity was swiftly contracted for, often at maximum tariff rates. However,
5 following completion of the Rover and Nexus projects, producers will have access to
6 over 800,000 Dth/d of available capacity directly from the Marcellus/Utica production
7 basins to Michigan and other liquid markets. See Figure 30.

Figure 30



8
9 This capacity will directly compete with ANR's now existing capacity, but producers will
10 only have to pay one transportation rate to move their production to market, as opposed
11 to two if they utilize ANR. As a result, ANR will face the distinct possibility of having to
12 either significantly discount its capacity to attract that demand, or simply face the reality
13 that it will not be able to remarket the capacity given market conditions.

1 **Q: Does ANR face the same risk in trying to remarket capacity to liquefied natural gas**
 2 **(“LNG”) export facilities on the Gulf Coast?**

3 A: Yes, while there are number of LNG export facilities being built in the emerging net
 4 market in and near Louisiana, ANR does not directly connect to any of them. As a result,
 5 these LNG facilities would need to purchase transportation on at least one other pipeline
 6 in addition to ANR to reach their LNG facility. See Figure 31.

Figure 31



7
 8 Consequently, similar to the situation above, ANR will face the distinct possibility of
 9 having to either significantly discount its capacity to attract that demand or simply face
 10 the reality that it will not be able to remarket the capacity given market conditions.

11 **Q: Does this conclude your testimony?**

12 A: Yes.