

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

ANR Pipeline Company

)

Docket No. RP16 - ____-000

Summary of the Prepared Direct Testimony of Nathaniel A. Brown

Mr. Brown is the Controller for TransCanada, U.S. Pipelines. His testimony presents data to support ANR's proposed \$924,950,880 cost-of-service. Mr. Brown sponsors the various cost-of-service statements and schedules containing the data supporting ANR's proposed cost-of-service. He identifies the Base Period used in his statements and schedules as the period from November 1, 2014 to October 31, 2015 and the Adjustment Period as the period from November 1, 2015 to July 31, 2016.

Docket No. RP16-____-000

Exhibit No. ANR-079

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

ANR Pipeline Company

)

Docket No. RP16 - ____-000

**PREPARED DIRECT TESTIMONY
OF NATHANIEL A. BROWN ON BEHALF OF
ANR PIPELINE COMPANY**

January 29, 2016

Glossary of Terms

ADIT	Accumulated deferred income tax
Adjustment Period	The nine-month period ending July 31, 2016
AFUDC	Allowance for Funds Used During Construction
ANR	ANR Pipeline Company
Base Period	The twelve-month period ending October 31, 2015
Commission	Federal Energy Regulatory Commission
CS1	Cold Springs 1
FERC	Federal Energy Regulatory Commission
FTE	Full-time equivalent staff
Test Period	The Base Period and Adjustment Period
Wisconsin 2009 Expansion Project	An ANR expansion project certificated by the Commission in Docket No. CP08-465-000

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

ANR Pipeline Company)

Docket No. RP16 - ___-000

Prepared Direct Testimony of Nathaniel A. Brown

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

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

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

5 A: I am the Controller for TransCanada, U.S. Pipelines. I am filing testimony on behalf of
6 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 was appointed the Controller of TransCanada’s U.S. natural gas pipelines in March
10 2014. As Controller, I am responsible for accounting, financial reporting, planning and
11 budgeting for ANR. Previously, I was a manager of accounting and financial reporting
12 for TransCanada’s U.S. natural gas pipelines from November 2009 through March 2014.
13 Prior to joining TransCanada, I spent eight years in public accounting, most recently as
14 an audit manager for Grant Thornton LLP from 2007 to 2008 and Ernst & Young from
15 2003 to 2007. I have a Master of Science degree in Accounting from Texas A&M
16 University, and I am a Certified Public Accountant in Texas, originally licensed in 2003.

17 **Q: Have you ever testified before the Federal Energy Regulatory Commission**
18 **(“FERC” or “Commission”) or any other regulatory commissions?**

19 A: No, I have not.

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

2 A: The purpose of my direct testimony in this proceeding is to present data and support for
3 ANR's cost-of-service and cost allocations utilized in support of ANR's revenue
4 requirement in ANR's general section 4 rate filing.

5 **Q: What is the test period utilized by ANR in this proceeding?**

6 A: Pursuant to 18 C.F.R. § 154.303(a), the test period is a consecutive twelve-month base
7 period followed by an adjustment period of up to nine months. ANR is utilizing a base
8 period reflecting actual data for the twelve months ended October 31, 2015 ("Base
9 Period"). ANR is utilizing an adjustment period that began on November 1, 2015
10 (immediately following the Base Period) and which extends for nine months succeeding
11 the end of the base period, or through July 31, 2016 (the "Adjustment Period") (together
12 the Base Period and Adjustment Period are referred to as the "Test Period"). Adjustment
13 Period data will be used to make adjustments to the Base Period data for those changes
14 which are known and measurable through the end of the Test Period.

15 **Q: What are the sources of the Test Period data utilized by ANR in this proceeding?**

16 A: Base Period and Adjustment Period data were taken from ANR's books and records,
17 which are maintained in conformity with the Uniform System of Accounts prescribed by
18 the Commission.

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

20 A: Yes, I sponsor various cost-of-service related statements and schedules set forth in the
21 Commission's regulations, 18 C.F.R. § 154.312.

22 **Q: Please identify the statements and schedules that you sponsor and explain in your**
23 **testimony.**

1 A: I am sponsoring the statements and schedules listed below. I describe and, where
2 appropriate, explain the following items included in ANR's rate filing:

3	Exhibit No. ANR-113	Statement A (Cost-of-Service Summary)
4	Exhibit No. ANR-114	Statement B (Rate Base and Return Summary)
5	Exhibit No. ANR-115	Schedule B-1 (Summary of Accumulated Deferred Income
6		Taxes
7	Exhibit No. ANR-116	Schedule B-2 (Regulatory Asset and Liability)
8	Exhibit No. ANR-117	Statement C (Cost of Plant Summary)
9	Exhibit No. ANR-118	Schedule C-1 (Gas Plant by Account)
10	Exhibit No. ANR-119	Schedule C-2 (Gas Plant Additions Claimed in Rate Base)
11	Exhibit No. ANR-120	Schedule C-3 (Storage Plant by Major Function)
12	Exhibit No. ANR-121	Schedule C-4 (Methodologies Followed in Capitalizing
13		AFUDC to the Extent Changed Since Last Filed FERC
14		Form No. 2 or 2-A)
15	Exhibit No. ANR-122	Schedule C-5 (Gas Plant in Service Not in Use for
16		Rendering Gas Service to the Extent Changed Since Last
17		Filed FERC Form No. 2 or 2-A)
18	Exhibit No. ANR-123	Statement D (Accumulated Provision for Onshore Book
19		Regulatory Depreciation, Depletion, and Amortization)
20		
21	Exhibit No. ANR-124	Schedule D-1 (Difference Between Present Book
22		Depreciation Rates and Depreciation Rates Not Yet
23		Approved by FERC)
24	Exhibit No. ANR-125	Schedule D-2 (Workpapers for calculating depreciation,
25		depletion, and amortization of plant and abandonments)
26	Exhibit No. ANR-126	Statement E (Working Capital)
27	Exhibit No. ANR-127	Schedule E-1 (Cash Working Capital Computation)
28	Exhibit No. ANR-128	Schedule E-2 (Materials and Supplies and Prepayments)
29	Exhibit No. ANR-129	Schedule E-3 (Gas Stored Underground – Balance)

1	Exhibit No. ANR-130	Statement F-1 (Statement of Rate of Return Claimed)
2	Exhibit No. ANR-131	Statement F-2 (Capitalization and Cost of Capital)
3	Exhibit No. ANR-132	Statement F-3 (Capitalization and Cost of Debt)
4	Exhibit No. ANR-133	Statement F-4 (Preferred Capital Stock)
5	Exhibit No. ANR-140	Schedule G-4 (At-Risk Revenue)
6	Exhibit No. ANR-141	Schedule G-5 (Other Revenues)
7	Exhibit No. ANR-142	Schedule G-6 (Miscellaneous Revenues)
8	Exhibit No. ANR-143	Statement H-1 (Operation and Maintenance Expenses
9		Summary)
10		
11	Exhibit No. ANR-144	Schedule H-1(1) (Workpaper Summary of System Labor,
12		Materials and Other Expenses, and Expenses Applicable to
13		Accounts 810 and 812 (and associated sub-schedules))
14	Exhibit No. ANR-148	Schedule H-1(2) (Workpaper Classification of Principal
15		Charges, Credits, and Volumes; Supporting Accounting
16		Bases; Description of Services and Related Amounts for
17		which Liability Incurred or Accrued (and associated sub-
18		schedules))
19	Exhibit No. ANR-160	Statement H-2 (Depreciation, Depletion, Amortization and
20		Negative Salvage Expense)
21		
22	Exhibit No. ANR-161	Schedule H-2(1) (Reconciliation of Depreciable Plant to
23		Total Gas Plant)
24	Exhibit No. ANR-162	Statement H-3 (Federal and State Income Taxes Schedule
25		H-1(1))
26		
27	Exhibit No. ANR-163	Schedule H-3(1) (State Income Taxes)
28	Exhibit No. ANR-164	Schedule H-3(2) (Reconciliation of Net Book Plant and Net
29		Tax Plant)
30	Exhibit No. ANR-165	Statement H-4 (Other Taxes by Function)
31	Exhibit No. ANR-166	Schedule H-4 (Adjustments to Other Taxes)
32	Exhibit No. ANR-167	Statement I (Allocation of the Overall Cost of Service)

1	Exhibit No. ANR-168	Schedule I-1 (Functionalized Cost-of-Service (and
2		associated sub-schedules))
3	Exhibit No. ANR-177	Schedule I-4 (Transmission and Compression of Gas by
4		Others
5	Exhibit No. ANR-178	Schedule I-5 (Gas Balance)
6	Exhibit No. ANR-185	Statement L (Balance Sheet as of October 31, 2015 and
7		2014)
8	Exhibit No. ANR-186	Statement M (Income Statement for the twelve months
9		ended October 31, 2015)

10 **Q: Please explain Statement A.**

11 A: Statement A, Column (c), shows ANR's overall cost-of-service of \$924,950,880 for the
12 Base Period, as adjusted for known and measureable changes that will become effective
13 through the end of the Test Period. The overall cost-of-service consists of operations and
14 maintenance expense; depreciation and amortization expense; return allowance; income
15 taxes; taxes other than income taxes; and revenue credits.

16 **Q: Please explain Statement B.**

17 A: Statement B is a summary of ANR's Base Period rate base as adjusted for known and
18 measurable changes becoming effective through the end of the Test Period, and ANR's
19 total return on rate base computed at the total weighted cost of capital (of 11.89 percent)
20 derived on Statement F-2 as supported by ANR witnesses Vilbert and Carpenter. ANR's
21 total rate base is \$1,847,291,904 as shown on line 15, Column (c) of Statement B. Total
22 rate base includes gas plant in service, gas stored – base gas, and system balancing gas as
23 provided in Statement C, a deduction for accumulated provision for depreciation and
24 amortization as provided in Statement D, working capital as provided in Statement E, a
25 deduction for accumulated deferred income taxes as provided in Schedule B-1, and
26 regulatory assets and liabilities, as provided in Schedule B-2, as explained below. The

1 various items comprising the rate base are supported in the supporting Statements or
2 Schedules referenced in Column (b).

3 **Q: Please explain Schedule B-1.**

4 A: Schedule B-1 shows actual accumulated deferred income tax (“ADIT”) account balances
5 and activity for the Base Period, as well as adjustments to forecast ADIT balances and
6 activity that become effective through the end of the Test Period. The accumulated
7 deferred income taxes shown in Schedule B-1, totaling \$443,104,230, represent the
8 combined balance of deferred taxes recorded in Account Nos. 190, 282, and 283. This
9 amount is included in rate base, as shown on line 18, Column (e) of Statement B.

10 **Q: Please explain Schedule B-2.**

11 A: Schedule B-2 reflects regulatory assets recorded in Account No. 182.3 which have been
12 included (or which ANR is requesting to include) in this proceeding in ANR’s rate base.

13 **Q: What is the nature of the regulatory assets included in Schedule B-2?**

14 A: Column (b) reflects the estimated balance of ASC 740, gross-up for equity Allowance for
15 Funds Used During Construction (“AFUDC”) in Gas Plant In Service, for the Test
16 Period. This regulatory asset is offset by corresponding deferred tax amounts in FERC
17 Account Nos. 282 and 283. Both the regulatory asset and the associated offsetting
18 deferred taxes are removed from rate base.

19 Column (b) also reflects the estimated balance of the deferred income tax expense
20 gross-up for equity AFUDC in Construction Work In Progress. Because the equity
21 AFUDC is attributable to non-utility facilities, an adjustment has been made to remove
22 the entire balance from regulatory assets in rate base.

23 **Q: Please continue with your explanation of the rate treatment for the balance of**
24 **ANR’s regulatory assets and liabilities.**

1 Column (d) of Schedule B-2 is the balance representing the cumulative position of
2 ANR's system cashout mechanism. This mechanism represents the difference between
3 the value of "in-kind" natural gas received from customers for compressor station fuel,
4 other utility purposes and unaccounted-for gas and the actual amount of natural gas used
5 by ANR for these purposes. Columns (e) and (f) represent the balance of ANR's electric
6 and gas fuel tracker regulatory assets, apart from the value differential captured in
7 Column (d).

8 Column (c) reflects the total estimated regulatory expenses that ANR expects to
9 incur as a result of the current rate proceeding. ANR proposes to amortize such amount
10 over a three-year period, as a proxy for the anticipated term of the rates arrived upon
11 through this proceeding. The annual amortization is reflected as an adjustment to
12 Account No. 928. Regulatory expenses reflected in Account No. 928 capture expenses
13 related to ongoing regulatory filings and do not include costs associated with the current
14 rate proceedings.

15 **Q: Please explain Statement C and supporting Schedules C-1 through C-3.**

16 A: Statement C summarizes the beginning and ending balances as well as the changes in the
17 plant accounts during the Base Period. The Base Period amounts are then adjusted for
18 known and measureable changes that will become effective by the end of the Test Period.
19 Test Period adjustments reflected in Column (i) represent additions to Gas Plant in
20 Service of \$659,352,250, which are expected to be in service by July 31, 2016, and
21 Column (j) represents retirements of \$94,746,586. These adjustments are reflected on
22 Schedule C-1 by plant accounts. Schedule C-2 sets forth a listing of major additions by
23 project included in Account No. and 107 as of the end of the Test Period. Schedule C-3
24 summarizes the cost of storage plant by major function and facility location.

1 **Q: Please explain the breakout of plant by function and incremental facility.**

2 A: For purposes of identifying the appropriate level of detail around the cost of
3 incrementally-priced facilities and separate functions for use in this proceeding, Schedule
4 C-1, page 2 of 3 and 3 of 3 and Schedule C-2, lines 81 through 88 include additional
5 detail to separately identify the relevant balances. Schedule C-3 includes storage plant
6 balances listed by facility including Cold Springs 1 (“CS1”).

7 **Q: Describe any changes in the methods and procedures used in capitalizing allowance**
8 **for funds used during construction and other construction overheads**

9 A: These methods have not changed since ANR’s last filed 2014 FERC Form No. 2 Annual
10 Report (see p. 218), and therefore Schedule C-4 is not applicable.

11 **Q: Does ANR have any gas plant in service being used for activities other than**
12 **rendering gas services?**

13 A: No, and therefore Schedule C-5 is not applicable.

14 **Q: What is contained in Statement D and supporting schedules?**

15 A: Statement D summarizes the beginning balance, changes and ending balance in
16 Accumulated Provision for Depreciation and Amortization for the Base Period. The Base
17 Period amounts are then adjusted for known and measureable changes that will become
18 effective by the end of the Test Period. Columns (g) and (h) show the estimated
19 provisions for depreciation, net retirements, and transfers to arrive at the resulting Test
20 Period balances. The Test Period balance of \$1,931,863,337 reflected in Column (i) is
21 included in Rate Base and has been carried forward to Statement B. Schedule D-1 sets
22 forth the difference between present book depreciation rates and depreciation rates that
23 have yet to be approved by FERC. ANR has not changed its methods for calculating
24 depreciation, depletion, and amortization of plant and abandonments since ANR’s last

1 filed 2014 FERC Form No. 2 Annual Report, and therefore Schedule D-2 is not
2 applicable.

3 **Q: How is Accumulated Provision for Depreciation and Amortization for the Base and**
4 **Test Periods identified by function and incremental facility?**

5 A: A summary of the related balances by function and incrementally-priced facility is
6 included in a separate table below line 21 on Statement D.

7 **Q: Please describe Statement E and supporting Schedules E-1 to E-3.**

8 A: Statement E is a summary of the items comprising the working capital for materials and
9 supplies, and prepayments at the end of the Test Period. The detail is set forth on
10 supporting Schedule E-2 as referenced in Columns (b) through (e). Schedule E-2 shows
11 the thirteen monthly balances of materials and supplies, and prepayments for the Base
12 Period with no adjustments to reflect expected balances through the end of the Test
13 Period. The total working capital amount on Statement E, line 9, has been carried
14 forward to Statement B. Schedule E-3 shows the thirteen monthly balances of Gas
15 Stored Underground for Resale for the Base Period. It has been adjusted to reflect
16 anticipated activity adjustments to reflect a zero balance at the end of the Test Period.
17 ANR is not including an allowance for cash working capital and therefore Schedule E-1
18 is not applicable.

19 **Q: How much working capital does ANR require?**

20 A: Based on known and measurable changes occurring during the Adjustment Period, ANR
21 requires a working capital allowance of \$115,911,745.

22 **Q: Is ANR proposing to use its own capital structure in this proceeding?**

23 A: Yes, consistent with Commission policy, ANR proposes to use its own actual capital
24 structure, as projected through the end of the Test Period. ANR's proposed capital

1 structure appropriately reflects the current business risks faced by ANR, as explained in
2 the testimony of ANR witnesses Bennett and Carpenter. In addition, the use of ANR's
3 own capitalization conforms to FERC's policy. First, ANR issues its own non-
4 guaranteed debt. Second, ANR has its own debt ratings that are separate from those of its
5 parent, TransCanada. Third, ANR's debt is currently rated by Moody's Investors
6 Service. Finally, ANR's equity ratio of 65 percent is in line with capital structures
7 previously approved by FERC.

8 **Q: What is contained in Statements F-2 and F-3?**

9 A: Statement F-2 sets forth the capital structure that ANR used to calculate the overall rate
10 of return. The Base Period balances were adjusted for known and measurable changes
11 becoming effective by the end of the Test Period. ANR witness Vilbert supports the
12 range of required return on common equity expected by investors, and his analysis yields
13 a median return on common equity for ANR of 13.19 percent. ANR witness Carpenter
14 recommends that ANR's return on common equity be set at 100 basis points above the
15 median return on common equity calculated by Dr. Vilbert. I am therefore utilizing a
16 14.19 percent return on common equity for purposes of calculating ANR's overall rate of
17 return. ANR's filed capital structure comprises 65 percent equity and 35 percent debt.
18 As shown in Statement F-1, the Overall Rate of Return is 11.89 percent. This return is
19 computed using an embedded cost of debt of 7.63 percent and a return on equity of 14.19
20 percent.

21 **Q: What is the basis for ANR's capital structure used to calculate the overall return**
22 **allowance?**

23 A: Statement F-2 sets forth the calculation of the capital structure utilized in developing the
24 overall rate of return in this filing. The capital structure reflects ANR's actual capital

1 structure as of October 31, 2015 (the end of the Base Period), adjusted for known and
2 measurable changes through the end of the Test Period. During the Adjustment Period,
3 equity is projected to increase approximately \$264.6 million to reflect an expected
4 change associated with the contribution of approximately \$211 million from ANR's
5 parent to fund recent capital expenditures undertaken as described by ANR witness
6 Hampton.

7 **Q: What is the basis for ANR's 7.63 percent cost of debt?**

8 A: The calculation of ANR's 7.63 percent cost of debt is set forth on Statement F-3. As
9 shown on Statement F-3, ANR's cost of debt relates to \$672.5 million of senior
10 unsecured notes projected to be outstanding as of July 31, 2016. \$432.5 million of senior
11 unsecured notes comprise three existing issuances: (1) \$300 million of 9.625 percent
12 senior unsecured notes due 2021; (2) \$125 million of 7.375 percent senior unsecured
13 notes due 2024; and (3) \$7.5 million of 7.00 percent senior unsecured notes due 2025.
14 During the Adjustment Period, debt is projected to increase by \$240 million to reflect the
15 addition of the anticipated balance of new senior unsecured notes and a Credit Facility
16 entered into by ANR during the Test Period. We anticipate that ANR's interest rate for
17 this borrowing will be 4.57 percent based upon market analysis and communications with
18 lenders. As described by ANR witness Hampton, recent capital expenditure activity
19 necessitated additional funding. In addition, the annual amortization of discounts and
20 premiums on reacquired debts is included in the calculation of the net weighted average
21 cost of debt capital, as provided in General Instruction 17B of the Uniform System of
22 Accounts.

23 **Q: Are you sponsoring Statement G?**

1 A: No, I am only sponsoring Schedules G-4 to G-6. However, Schedule G-4 is not
2 applicable and with respect to Schedule G-6, ANR has no miscellaneous revenues to
3 report. ANR witness Word is sponsoring Statement G and Schedules G-1 to G-3.

4 **Q: Please explain Schedule G-5.**

5 A: Schedule G-5 sets forth other revenues by type and month recognized. Footnotes in
6 Schedule G-5 provide additional detail regarding adjustments to these balances to arrive
7 at amounts in Column (q) for inclusion in Statement A.

8 **Q: Please explain Statement H-1 and related Schedules**

9 A: Statement H-1 shows the summary of monthly operation and maintenance expenses by
10 FERC Account for the Base Period, adjusted for known and measureable changes that
11 will occur by the end of the Test Period. Column (o) shows the Base Period amounts.
12 Column (p) shows the projected adjustments during the Adjustment Period. Column (q),
13 as Adjusted, reflects the operation and maintenance expenses by FERC Account included
14 in ANR's cost-of-service adjusted for known and measurable changes that will occur by
15 the end of the Test Period. The total Test Period operation and maintenance expenses in
16 cost-of-service shown in Column (q), line 69, is carried forward to Statement A.

17 **Q: Please compare adjusted operating and maintenance expenses to the unadjusted**
18 **Base Period operating and maintenance expenses.**

19 A: Total Adjusted Operating and Maintenance expenses (line 69, Column (q)) are \$408.7
20 million. This represents an increase of \$4.1 million compared with the Base Period. A
21 summary of the changes is provided on pages 6 and 7 of Statement H-1.

22 **Q: Please describe detailed adjustments to ANR's operation and maintenance expenses.**

23 A: The H-1 Schedules contain explanations of the adjustments, as well as details supporting
24 the costs reflected in Statement H-1. Specifically, Schedule H-1(1)(a) shows labor costs,

1 Schedule H-1(1)(b) shows material and other expenses (exclusive of gas costs), and
2 Schedule H-1(1)(c) shows gas operation and maintenance expense. Each of these
3 schedules includes detail related to the incrementally-priced facilities.

4 **Q: What do the H-1(2) Schedules provide?**

5 A: Schedule H-1(2)(a) contains detail of gas operation and maintenance expense applicable
6 to the accounts that relate to fuel use and gas loss. Schedule H-1(2)(c) contains amounts
7 of office supplies and expenses. Schedule H-1(2)(e) contains detail for outside services
8 employed. Schedule H-1(2)(f) contains detail for employee pensions and benefits.
9 Schedule H-1(2)(g) contains detail for regulatory commission expenses. Schedule H-
10 1(2)(i) contains detail of miscellaneous general expenses. Schedule H-1(2)(j) contains
11 detail of intercompany transactions. Schedule H-1(2)(k) contains detail of lease
12 expenses.

13 **Q: Please explain the method by which ANR records operation and maintenance**
14 **expenses.**

15 A: TransCanada's business operations are performed by functional areas that provide
16 integrated services to ANR. TransCanada uses cost centers to directly assign costs to
17 ANR where possible. Where costs are not directly assigned, an allocated portion of the
18 shared support service costs are assigned to ANR. ANR's operation and maintenance
19 expenses include expenses that are directly charged to ANR, as well as an allocated
20 portion of the shared support service costs by TransCanada.

21 **Q: What is the nature of shared support service costs and the methodology used for**
22 **determining the portion applicable to ANR?**

23 A: Shared support services costs have been included in Account No. 923, Outside Services
24 Employed, on Statement H-1. TransCanada operates a shared services organization that
25 supports multiple lines of business. Costs included in this category represent

1 departmental and general expenses common to, and shared by, the entire enterprise. In
2 order to ensure that costs are reasonably charged to the appropriate line of business, a
3 two-step process is utilized. First, costs that can be identified as attributable to a specific
4 line of business are charged directly to that business. Residual costs are allocated among
5 the various lines of business using cost drivers to allocate remaining shared and common
6 enterprise costs. The primary drivers are time, the number of full-time equivalent staff
7 ("FTE"), and the amount of capital employed in each line of business.

8 **Q: How does the TransCanada cost allocation methodology compare with other**
9 **methodologies adopted or accepted by the FERC?**

10 A: The TransCanada methodology addresses both shared services costs and residual
11 administrative and general costs. After removal of time-based shared services costs from
12 the pool, the residual costs would be similar to those utilized in the generally accepted
13 Distrigas and modified Massachusetts formulas. TransCanada's use of FTEs and capital
14 employed to allocate residual costs is conceptually similar to the use of labor and plant in
15 the Distrigas and modified Massachusetts methodologies.

16 **Q: What does Statement H-2 contain?**

17 A: Statement H-2 sets forth by plant account the Depreciation and Amortization expense for
18 the Base Period, adjusted for known and measureable changes anticipated to become
19 effective by the end of the Test Period. The resulting Test Period expense is shown on
20 Statement A, Column (c), line 2. The depreciation, depletion, and amortization rates are
21 supported in the testimony of ANR witness Crowley. As explained by ANR witness
22 Crowley, ANR proposes to change the depreciation rates for its facilities and other assets
23 as reflected in the differences between the percentages reflected on Statement H-2,

1 Columns (c) and (e) for the various asset types detailed therein. Schedule H-2(1)
2 contains a reconciliation of depreciable plant to total gas plant.

3 **Q: Please explain Statement H-3.**

4 A: Statement H-3 sets forth the federal and state income tax calculations supported by
5 schedules H-3(1) and H-(3)(2). The computation of income taxes is based on a gross-up
6 calculation on the taxable portion of the return allowance. This calculation begins with
7 the Rate Base as shown on line 15 of Statement B and applies to it the return on rate base
8 also shown on Statement B, line 19. Deducted from this amount is the income deduction
9 for the cost of debt from Statement B. The resulting amount represents the Taxable
10 Portion of Return. Line 8 represents the Total Tax Adjustments to the Taxable Portion of
11 Return to arrive at the Taxable Base, or taxable income after income taxes. This Taxable
12 Base is then grossed-up to a pre-tax number by dividing by 0.6233 (one minus the
13 composite income tax rate of 37.66 percent) to arrive at the Taxable Income Before
14 income taxes on line 11. State income taxes are then calculated using the currently
15 effective state income tax rates. The State income taxes are then deducted from the
16 Taxable Base to arrive at the Taxable Net income After State Income Taxes. Federal
17 income tax is then calculated on this subtotal using the appropriate Federal income tax
18 rate. The sum of State income taxes and Federal income taxes is then carried forward to
19 Statement A, line 3.

20 **Q: Please explain Statement H-4.**

21 A: Statement H-4 (as supported by Schedule H-4) summarizes ANR's total Base Period
22 Other Taxes by Function which comprises the following categories: (1) ad valorem
23 taxes, (2) franchise tax, (3) severance tax, (4) use tax, (5) gross receipts tax, and (6) other
24 taxes.

1 **Q: What level of Other Taxes has ANR filed for in this proceeding?**

2 A: As supported in Statement H-4, ANR has filed for Other Taxes of \$23,450,407.

3 **Q: Are you sponsoring Statement I?**

4 A: I am sponsoring Statement I and Schedules I-1, I-4, and I-5.

5 **Q: Please explain Schedule I-1.**

6 A: Schedule I-1 and related sub-schedules detail the breakdown of the overall cost-of-
7 service into the mainline and the incremental facilities.

8 **Q: Please Explain Schedule I-4?**

9 A: Schedule I-4 and related sub-schedules detail the Transmission and Compression of Gas
10 by Others.

11 **Q: Please Explain Schedule I-5?**

12 A: Schedule I-5 provides detail of the volumetric balances of gas accounts for the twelve
13 months ended October 31, 2015.

14 **Q: Please describe how the cost-of-service for the incrementally-priced facilities was**
15 **determined.**

16 A: ANR is proposing incremental pricing treatment for the CS1 Storage Project facility and
17 for the Wisconsin 2009 Expansion Project. All other cost items, such as Administrative
18 and General expenses, are allocated based on TransCanada's operating cost allocation
19 policy. The allocation of costs to CS1 and the Wisconsin 2009 Expansion Project is
20 necessary to properly assign cost responsibility and rate levels for these separately-priced
21 facilities within the ANR system.

22 **Q: What do Statements L and M contain?**

1 A: Statement L contains the Balance Sheets for ANR as of October 31, 2015, and October
2 31, 2014. Statement M is the Income Statement for ANR for the twelve months ended
3 October 31, 2015.

4 **Q: Does this conclude your Prepared Direct Testimony?**

5 A: Yes.

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

ANR Pipeline Company)

Docket No. RP16-____-000

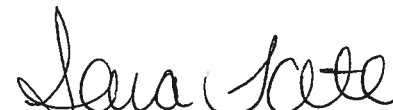
State of Texas)
County of Harris) ss.

AFFIDAVIT OF NATHANIEL A. BROWN

Nathaniel A. Brown, being first duly sworn, on oath states that he is the witness whose testimony appears on the preceding pages entitled "Prepared Direct Testimony of Nathaniel A. Brown"; 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 Nathaniel A. Brown's sworn testimony in this proceeding.


Nathaniel A. Brown

SWORN TO AND SUBSCRIBED BEFORE ME THIS 22nd DAY OF January, 2016


Notary Public
My Commission Expires:

