Docket No. RP16-___-000
Exhibit No. ANR-087

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ANR Pipeline Company	)	Docket No. RP16 -___-000

Summary of the Prepared Direct Testimony of Bruce C. Hopper

Mr. Hopper is the Manager of Long Term Marketing for TransCanada, U.S. Pipelines. Mr. Hopper's testimony describes the competitive circumstances which led ANR Pipeline Company ("ANR") to enter into the negotiated rate contracts for which ANR is seeking a discount-type adjustment in this case. Mr. Hopper explains the general considerations that lead ANR to enter into negotiated rate contracts, and describes the competitive environment that ANR faced when it entered into the negotiated rate arrangements.

Mr. Hopper's testimony then discusses the negotiated rate contracts for which ANR is seeking a discount-type adjustment. The first group of contracts consists of negotiated rate contracts that were entered into to retain load and/or avoid bypass. Mr. Hopper lists these contracts by customer and explains the competitive circumstances that led ANR to enter into these negotiated rate contracts. The second group consists of negotiated rate contracts related to capacity expansion projects, specifically the Wisconsin 2006 Expansion Project and the Wisconsin 2009 Expansion Project. Mr. Hopper explains that ANR entered into these contracts in order to gain business by meeting competition and describes the competitive alternatives available to shippers who entered into these negotiated rate contracts. Finally, Mr. Hopper discusses a negotiated rate contract that ANR entered into to attach certain offshore production to its system, and explains the competitive circumstances that led ANR to enter into this agreement.

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PREPARED DIRECT TESTIMONY
OF BRUCE C. HOPPER ON BEHALF OF
ANR PIPELINE COMPANY

January 29, 2016

Glossary of Terms

ANR	ANR Pipeline Company
Columbia Gulf	Columbia Gulf Transmission, LLC
Commission	Federal Energy Regulatory Commission
Dth	Dekatherm
Duluth	City of Duluth, Minnesota
G-I	The initial phase of Guardian from Joliet, Illinois to Ixonia, Wisconsin
G-II	The second phase of Guardian from Ixonia to Green Bay, Wisconsin
Guardian	Guardian Pipeline, L.L.C.
Lebanon Lateral	The jointly-owned lateral extending from Glen Karn, Indiana to Lebanon, Ohio
NGPL	Natural Gas Pipeline Company of America
Northern Natural	Northern Natural Gas Company
NSP	Northern States Power Company
REX	Rockies Express Pipeline LLC
SWPL	Superior Water, Light and Power
UGI	UGI Utilities, Inc.
Viking	Viking Gas Transmission Company
Wisconsin 2006 Expansion Project	An ANR expansion project certificated by the Commission in Docket No. CP05-364-000
Wisconsin 2009 Expansion Project	An ANR expansion project certificated by the Commission in Docket No. CP08-465-000
WEPCO	Wisconsin Electric Power Company
WPSC	Wisconsin Public Service Corporation

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Prepared Direct Testimony of Bruce C. Hopper

Q: What is your name and business address?

A: My name is Bruce C. Hopper. My business address is TransCanada Corporation, 18000 West Sarah Lane, Brookfield, Wisconsin 53045.

Q: What is your occupation?

A: I am the Manager of Long Term Marketing for TransCanada, U.S. Pipelines. I am filing testimony on behalf of ANR Pipeline Company ("ANR").

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

A: I graduated from Western Michigan University with a Bachelors of Business Administration-Accountancy degree in 1978. I am a Certified Public Accountant registered in the State of Michigan. I have been employed by ANR and its predecessors since 1978, other than a brief stint in Public Accounting when I obtained my certification. I began my career in Operational Accounting and Budgeting in various positions for several years. I then held several leadership positions in Rates and Regulatory Affairs for eleven years where I oversaw tariffs and certificates, subsidiary rate filings and rates research. For the last seventeen years I have been based in Wisconsin in leadership roles within the Marketing Department. My responsibilities include managing all long-term marketing for ANR.

Q: Have you ever testified before the Federal Energy Regulatory Commission ("Commission") or any other energy regulatory commission?

A: Yes, I have testified before this Commission in the following proceedings: Northern Natural Gas Company, Docket No. RP98-203-000; High Island Offshore System, Docket No. RP94-162-000; U-T Offshore System, Docket No. RP94-161-000; ANR Pipeline Company, Docket No. RP94-43-000; and High Island Offshore System, Docket No. RP93-59-000.

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

A: I am describing the competitive environment that led ANR to enter into the negotiated rate contracts for which ANR is seeking a discount-type adjustment in this case.

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

A: Yes, I am sponsoring the following exhibits:

Exhibit No. ANR-088	Negotiated Rate Contracts for Discount-Type Adjustment
Exhibit No. ANR-089	1999 Wisconsin Public Service Commission Letter
Exhibit No. ANR-090	Interstate Pipeline Deliveries Into Wisconsin
Exhibit No. ANR-091	Excerpts from Guardian Certificate Applications
Exhibit No. ANR-092	WPSC Capacity Load Reduction
Exhibit No. ANR-093	UGI Service Territory and Interconnecting Pipelines
Exhibit No. ANR-094	UGI Portfolio Correspondence
Exhibit No. ANR-095	City of Duluth and SWPL Presentation
Exhibit No. ANR-096	Excerpt from Wisconsin 2009 Expansion Application

Q: Is ANR proposing any discount-type adjustments for negotiated rate contracts?

A: Yes, as ANR witness Word explains, ANR is proposing to adjust its billing determinants to reflect certain negotiated rate contracts. Those contracts are identified in Exhibit No. ANR-088.

Q: Are there any negotiated rate contracts for which ANR is not seeking a discount-type adjustment?

A: Yes, there are certain negotiated rate contracts that ANR entered into for reasons other than meeting competition to obtain or retain load. ANR is not seeking discount-type adjustments for those contracts.

Q: Are you knowledgeable about the circumstances that led ANR to enter into the negotiated rate contracts for which it is seeking a discount-type adjustment?

A: Yes, as I noted above, my responsibilities include managing all long-term marketing for ANR. As a result, I have been actively involved with many of the negotiations of the contracts that are the subject of my testimony, and for those where I was not directly involved, I recall the competitive environment and I have reviewed the supporting documentation that underlies ANR's decision to agree to the negotiated rate arrangements.

Q: Please explain why ANR entered into the negotiated rate contracts for which it is seeking a discount-type adjustment.

A: As a threshold matter, ANR gains business only when it meets or beats competition. ANR competes with numerous options available to shippers, and the services that it provides can be provided by, or supplanted by, a variety of alternatives. Competition is what drives the decision by shippers to contract on ANR or to pursue other options available to them, and thus ANR has to earn its business by being the preferred provider of service in a crowded field. For example, four other interstate natural gas pipelines deliver into Wisconsin: Guardian Pipeline, L.L.C. ("Guardian"), Natural Gas Pipeline Company of America ("NGPL"), Northern Natural Gas Company ("Northern Natural"), and Viking Gas Transmission Company ("Viking"). However, ANR's competition includes not only other service providers and fuels, but also the ability of end users to site facilities outside of areas that ANR can economically serve. If our services are too expensive or prices too volatile, shippers may choose to build elsewhere, or not at all. ANR gained business by meeting or beating the competition, utilizing negotiated rates to do so.

Q: In your view, what were the most significant factors that led ANR to enter into the negotiated rate arrangements you discuss in your testimony?

A: With respect to most of the negotiated rate contracts that I discuss below, the most significant factor was pipeline-on-pipeline competition. By way of background, at the time that ANR restructured its operations pursuant to Order No. 636, it entered into ten-year contracts with the vast majority of its shippers. As a result, ANR faced a situation in 2003 where most of its load was under contracts that were coming up for renewal, and its shippers were free to pursue competitive options at that time. This had a pronounced impact on ANR's load in Wisconsin. The Commission had certificated the initial construction of a new greenfield pipeline, Guardian, from Joliet, Illinois to Ixonia, Wisconsin, in 2001, and those facilities ("G-I") went into service in 2002. Exhibit No. ANR-089 is a 1999 Wisconsin Public Service Commission analysis of a request by Wisconsin Gas Company to change its gas supply plan to include transportation on Guardian. The exhibit demonstrates that Guardian was constructed to provide a competitive alternative to ANR.

When Guardian was proposed, ANR sought to compete with Guardian to add and retain load, but was unsuccessful and lost load in Wisconsin to Guardian as a result. As shown on Exhibit ANR-090, which presents data compiled by the Wisconsin State Energy Office, by 2004 Guardian was supplying over ten percent of the natural gas delivered into Wisconsin, and much of its growth came at ANR's expense. Guardian subsequently expanded its Joliet-to-Ixonia segment and further extended its facilities from Ixonia to Green Bay, Wisconsin, with these facilities ("G-II") going into service in 2009. Again, ANR competed with Guardian to add and retain load, but Guardian was successful in supporting its expansion.

As I describe further below, most of the negotiated rate contracts for which ANR is seeking a discount-type adjustment were entered into against the background of the initial construction, and subsequent expansion, of Guardian. ANR undertook two significant expansions in Wisconsin, in 2006 and 2009, and also renegotiated a portfolio of contracts with one of its major shippers in Wisconsin. The resulting contracts reflected the willingness of shippers to pay ANR's then-existing maximum tariff rates, but also their unwillingness to expose themselves to the risk that ANR could file for a rate increase at some point during longer contract terms. The contracts also reflected ANR's awareness that these shippers could pursue other options, such as Guardian, and of its need to offer competitive deals in order to gain and retain load. Exhibit No. ANR-091 consists of excerpts from the G-I and G-II certificate applications, showing that Guardian was also entering into fixed-rate contracts with its shippers, demonstrating that this was what the market was demanding at the time.

Q: Can you describe ANR's specific reasons for agreeing to the negotiated rate contracts for which ANR is seeking a discount-type adjustment?

A: ANR has 36 active negotiated rate contracts for which it is seeking a discount-type adjustment. It is helpful to organize these contracts based on the types of deals and the varying circumstances which required ANR to enter into a negotiated rate agreement. Specifically, I will address negotiated rate contracts in the following categories: (1) load retention/bypass avoidance; (2) capacity expansion projects; and (3) Hoover/Diana supply attachment. Exhibit No. ANR-088 itemizes these contracts in their respective groups and describes the negotiated rate applicable to each.

<u>Load Retention/Bypass Avoidance</u>

Q: Please discuss the negotiated rate contracts for which ANR is seeking a discount-type adjustment that were entered into in order to retain load or avoid bypass.

A: ANR entered into a number of negotiated rate contracts that involved particular circumstances that required ANR to agree to a negotiated rate contract in order to earn or retain the customer's business over competitive alternatives available to the customer. I will discuss the contracts and negotiations involved by customer: Wisconsin Public Service Corporation ("WPSC"), UGI Utilities, Inc. ("UGI"), Superior Water, Light & Power ("SWPL"), and City of Duluth, Minnesota ("Duluth").

Q: What were the competitive circumstances that led ANR to enter into the negotiated rate agreements with WPSC?

A: ANR is seeking a discount-type adjustment for the following contracts with WPSC: ETS Contract Nos. 1600, 5450, 106322, 111296, and 111864; and FTS Contract Nos. 104404, 114405, and 106199. As I noted previously, ANR is one of five pipelines that serve the state of Wisconsin. Guardian, ANR's largest competitor, was built relatively recently, and as shown on Exhibit No. ANR-090, ANR lost a very significant portion of its Wisconsin business when G-I and G-II went into service. ANR vigorously competed for business against both phases of Guardian, but in the end shippers decided to underpin construction of Guardian into southern Wisconsin (G-I) and later into northern Wisconsin (G-II).

WPSC was not a participant in G-I, but they were a major shipper on G-II. In 2008, WPSC notified ANR that it intended to turn back 143,864 Dth/d of winter capacity and 98,824 Dth/d of summer capacity to ANR because G-II was expected to become operational and therefore WPSC would no longer require this level of ANR's services. This reduction was to be phased in as contracts expired or were otherwise reduced on ANR. Exhibit No. ANR-092 shows ANR's analysis of the WPSC turnback volumes. Since ANR believed itself to be at risk of losing even more of WPSC's load, ANR once again vigorously competed to reduce the impact to ANR and its remaining shipper base from the construction and subsequent expansion of Guardian. ANR offered to extend certain contracts in WPSC's portfolio at a competitive rate for a long term. Because of this, and as part of the carefully balanced negotiations with WPSC, ANR agreed to provide WPSC with long-term rate certainty through negotiated rates fixed at then-current maximum tariff rates in an effort to gain this extension, assuring continuation of the remaining business for at least a decade. Extending these agreements provided benefits to ANR and its remaining shipper base because ANR was able to successfully compete to retain significant contract demand. The contracts listed in this section were extended or put in place as part of the overall portfolio negotiations which took place in 2008.

Q: Please describe the competitive circumstances that led ANR to enter into the negotiated rate agreements with UGI.

A: ANR is seeking a discount-type adjustment for the following contracts with UGI: Contract Nos. 114586, 114588, 114590, 114591, 114592, 114593, 114594, and 114595. Prior to the negotiation of the existing portfolio with UGI, ANR had a discounted portfolio of contracts with UGI. Those contracts were subject to an extension negotiation in 2008. Early in the negotiating process, it became clear that UGI had or would soon thereafter have access to competitive options that threatened to result in UGI no longer transporting on ANR's system. In particular, UGI's service territory is located in southern and central Pennsylvania. It is not directly connected to ANR, but to a great extent it is located within the area of the Marcellus shale basin, where drilling and local production were just beginning to develop in a significant way. Exhibit No. ANR-093 depicts UGI's location relative to ANR and other major interstate pipelines. Moreover, at the time of the negotiations, ANR was aware that the eastward expansion of Rockies Express Pipeline LLC ("REX") to Clarington, Ohio had been announced, and as shown on page seven of the U.S. Energy Information Administration Report that is included as Exhibit No. ANR-013, REX was expected to interconnect with pipelines that supplied UGI and to compete for service into Pennsylvania. As shown on page 9 of Exhibit No. ANR-013, Texas Eastern Transmission, LP had proposed its Northern Bridge project to serve the Philadelphia area.

As one of the largest shippers of gas on ANR's Lebanon Lateral, UGI has been an important strategic partner for ANR. Retaining UGI as a shipper represented a significant win for ANR and its other shippers in that UGI's portfolio is "off system," and ANR creatively optimizes use of its facilities to serve a customer whose service territory is hundreds of miles from ANR's system. As the negotiations progressed, it became apparent that UGI would seek other options if ANR did not agree to a compelling portfolio, thereby costing ANR this valuable business. UGI and ANR agreed to long-term (ten years) negotiated fixed rates for the services listed. Because of UGI's "off-system" location, ANR faces a substantial risk of losing this portfolio with each negotiation, so locking this portfolio up long term extended the services well after UGI may otherwise have shifted to other alternatives. Exhibit No. ANR-094 consists of internal correspondence regarding the negotiations with UGI for fixed rates on ANR.

Q: What were the competitive circumstances that led ANR to enter into the negotiated rate agreements with Duluth and SWPL?

A: ANR is seeking a discount-type adjustment for FTS-1 Contract No. 113610 with Duluth and FTS-1 Contract No. 113498 with SWPL. Duluth and SWPL are local distribution company customers who are not located directly on ANR's system, but who utilize ANR storage and transportation services to serve markets off of a third-party pipeline, Great Lakes Gas Transmission Limited Partnership. They are small but strategically important customers for ANR and as such were afforded fixed-rate contracts to maintain the business over ANR's competitor Northern Natural. Exhibit No. ANR-095 is the internal pricing committee presentation requesting approval of the contracts.

<u>Capacity Expansion Projects</u>

Q: For which negotiated rate contracts related to capacity expansion projects is ANR seeking a discount-type adjustment?

A: ANR is seeking a discount-type adjustment for negotiated rate contracts that supported two capital expansion projects on ANR: the Wisconsin 2006 Expansion Project and the Wisconsin 2009 Expansion Project. Specifically, ANR is seeking a discount-type adjustment for the following contracts:

- Wisconsin 2006 Expansion Project: Contract No. 111730, an FTS-3 contract with Wisconsin Electric Power Company ("WEPCO"); Contract Nos. 111403, 111813, and 116064, ETS contracts with Wisconsin Power and Light Company; and Contract No. 113479, an FTS-3 contract with WEPCO entered into for similar capacity at the same time the 2006 project was put in service; and

- Wisconsin 2009 Expansion Project: Contract No. 114505, an ETS contract with WPSC; Contract No. 114489, an FTS-1 contract with United Wisconsin Grain Producers, LLC; Contract Nos. 114492 and 114667, FTS-1 contracts with Northern States Power Company ("NSP"); Contract Nos. 114498, 114499, 114500, 114501, 114502, 114503, 114504, FTS-1 contracts with Constellation Energy; and Contract No. 114677, an FTS-1 contract with Didion Ethanol, LLC.

These expansion projects are described in greater detail by ANR witness Burman.

Q: Why did ANR enter into these negotiated rate contracts with capacity expansion project shippers?

A: ANR entered into these negotiated rate contracts in order to gain business by meeting competition. In the case of the Wisconsin 2006 Capacity Expansion Project, ANR specifically was seeking to avoid the threat of bypass by Guardian. In essence, ANR was in competition to preempt a potential Guardian expansion, an expansion which as I discuss below became reality.

Q: Can you describe the competitive alternatives available to shippers who entered into negotiated rate arrangements for the Wisconsin 2006 Expansion Project?

A: I have previously described the competitive environment that ANR faced in Wisconsin. Moreover, at the time this project was being negotiated, the industry was reeling from the collapse of Enron and the resultant turmoil in the natural gas market. This generally created a desire on the shippers' part for long-term rate protection and service providers that were stable. As I noted above, shippers had witnessed the building of a new greenfield pipe, Guardian, into the heart of ANR's southern Wisconsin market, and Guardian was an attractive and competitive alternative to service from ANR. Further, the market was actively courting an expansion of Guardian, and indeed Guardian filed to construct another greenfield expansion into northern Wisconsin in late 2006, not long after ANR filed the certificate application for the Wisconsin 2006 Expansion Project. In November 2004, shortly after ANR conducted the open season which led to the Wisconsin 2006 Expansion, a group of Wisconsin LDCs issued a request for proposals which led to the G-II expansion. The threat of competition drove ANR to work with shippers to retain and grow their load, preventing or at least delaying further bypass risk. Agreeing with shippers for rates fixed at the then-current maximum tariff rates allowed ANR to provide a product that appealed to shippers to sign with ANR and not pursue other options as some shippers previously had done to underpin the construction, and subsequent expansion, of Guardian.

Q: What competitive alternatives were available to shippers who entered into negotiated rate arrangements for the Wisconsin 2009 Expansion Project?

A: NSP, the major shipper on the Wisconsin 2009 Expansion Project, is not located directly on ANR's system, and thus required that ANR deliver gas into another interstate pipeline for further transportation and use in NSP's service territory. NSP represented approximately 76 percent of the total contract quantity for the project (see Exhibit No. ANR-096, an excerpt from ANR's certificate application showing the capacity held by each of the project shippers), and had traditionally been served by Northern and Viking. ANR needed to compete vigorously to attract NSP's business to ANR's system, and fixing rates at the then-existing maximum tariff rates was one of the incentives ANR could offer to differentiate ANR from the competition. The agreement reached with NSP "set the bar" for the rates agreed to with the other project shippers, as the project would not have been viable without NSP.

<u>Hoover/Diana Supply Attachment</u>

Q: What were the competitive circumstances that led ANR to enter into the Hoover/Diana negotiated rate agreements?

A: ANR is seeking a discount-type adjustment for PTS-2 Contract No. 106776 with ExxonMobil. This contract (as well as a separate contract with BP that is no longer in effect) was entered into in 1996, at a time when a significant source of supply for ANR was production from offshore Gulf of Mexico. Hoover/Diana was a major offshore find and there was intense competition among ANR and other pipelines that sought production such as this to augment and diversify their supply sources. Because the Hoover/Diana production platform was located in the Deepwater Area of the Gulf of Mexico, it was within reach of pipelines from Louisiana, Texas, and even Mexican waters. This put ANR in direct competition with a large pool of transportation pipelines, including Tennessee, Stingray (NGPL), Sea Robin, Columbia Gulf, Williams, Texas Eastern, and Leviathan. In fact, ANR had lost a previous round of bidding related to this deal to Columbia Gulf. This extreme competition put ExxonMobil and BP, the developers of the production, in a position to extract the best commercial terms from any number of interested parties. As part of their requirements, the producers insisted on three things:

- The lowest possible transportation rates
- Rate certainty
- Flexible firm service

Accordingly, ANR needed to offer a proposal that was as close to the minimum rate as possible to have a shot at winning the bid.

In order to provide the producers a flexible firm service, ANR offered a path made up of two separate service contracts, each with a different character of service. First, the producers would use a specific PTS-2 (firm) service contract with a reservation and commodity rate component to nominate and transport gas to ANR's Southeast Headstation, and then the producers would use an ITS (interruptible) service contract would be used to nominate and transport the gas from ANR's Southeast Headstation to points in the Southeast Area rate zone. If the producer nominated on these two contracts, the negotiated rate would apply. The PTS-2 reservation rate would be reduced to zero and the commodity charge would be the minimum allowable. The ITS rate was reduced to $0.03/Dth, minus the PTS-2 minimum commodity charge. Because the PTS-2 service was firm and the ITS route was a backhaul, there was very little chance of service being curtailed or interrupted. Accordingly, the producers received an essentially firm service, while paying only commodity-based fees for a low rate of $0.03/Dth. Again, ANR was willing to offer this rate in order to attach additional supplies to its system, knowing that the producers had numerous other options to transport their gas to onshore markets.

Q: Are there any other considerations associated with the ExxonMobil contract that relate to the negotiated rate?

A: Yes, I would note that ordinarily ANR could have provided the services using Rate Schedule PTS-1, which is a no-fee pooling transportation service. However, PTS-1 service does not guarantee specific point-to-point transportation; rather, the downstream transportation relies on the capacity held by the downstream shipper receiving the gas. The producers had contracted to deliver to proposed LNG export terminals, and the export agreements required the producers to obtain point-to-point service. In order to compete to attach these supplies to its system, ANR was willing to agree to the negotiated rate described above for PTS-2 service, which does provide for specific point-to-point service.

Q: Does this conclude your testimony?

A: Yes, it does.

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ANR Pipeline Company	)	Docket No. RP16-____-000

State of WISCONSIN)
) ss.
County of WAUKESHA)

AFFIDAVIT OF BRUCE C. HOPPER

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

Bruce C. Hopper

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

KIMBERLY POYNER
NOTARY PUBLIC
STATE OF WISCONSIN

Notary Public
My Commission Expires: permanent