

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

**BIG WEST OIL CO. v. ANSCHUTZ RANCH EAST PIPELINE, INC.
and EXPRESS PIPELINE PARTNERSHIP
DOCKET No. OR01-3-000, et al.**

**CHEVRON PRODUCTS CO. v. ANSCHUTZ RANCH EAST PIPELINE INC.
and EXPRESS PIPELINE PARTNERSHIP
DOCKET No. OR01-5-000, et al.
(Consolidated)**

**PATRICK R. CROWLEY
WITNESS FOR THE STAFF OF
THE FEDERAL ENERGY REGULATORY COMMISSION**

**PREPARED DIRECT TESTIMONY
COST OF SERVICE & RATE DESIGN**

REDACTED PUBLIC VERSION



Washington, D.C.
December 18, 2001

Federal Energy Regulatory Commission

BIG WEST OIL CO. v. ANSCHUTZ RANCH EAST PIPELINE INC.
and EXPRESS PIPELINE PARTNERSHIP
DOCKET No. OR01-3-000, et al.

CHEVRON PRODUCTS CO. v. ANSCHUTZ RANCH EAST PIPELINE INC.
and EXPRESS PIPELINE PARTNERSHIP
DOCKET No. OR01-5-000, et al.
(Consolidated)

Summary of the Prepared Direct Testimony of Patrick R. Crowley

Exhibit No. CS-7

Exhibit No. CS-7 contains Mr. Crowley's analysis of whether the rates charged by Anschutz Ranch East Pipeline, Inc. (local tariff FERC No. 7) are just and reasonable. He calculates the cost of service for Anschutz for the relevant years, estimates the appropriate volumes for the test year, and calculates a transportation rate for Anschutz' local tariffs FERC No. 7. Mr. Crowley recommends a rate of \$0.1954 per barrel for future transportation. Mr. Crowley also derives appropriate rates for 1999 and 2000 (\$0.1865 and \$0.2114, respectively) for the purpose of calculating potential reparations. This exhibit contains *protected material*.

Exhibit No. CS-8

Exhibit No. CS-8 contains the Staff Cost of Service model for Anschutz Ranch East Pipeline, Inc. The model develops the annual cost components for operating expenses, depreciation expenses, the amortization of deferred earnings on the trended equity rate base, and the allowance for return on capital. Mr. Crowley makes numerous adjustments to Anschutz' cost components. Mr. Crowley's cost of service model results in substantial reductions in the total cost of service for the years 1999, 2000, and for the 12 month period ending June 30, 2001, which produce the rates discussed in Exhibit No. CS-7. This exhibit contains *protected material*.

Exhibit No. CS-9

Exhibit No. CS-9 contains various *non-protected material* workpapers in support of Mr. Crowley's cost of service analysis and rate design.

Exhibit No. CS-10

Exhibit No. CS-10 contains various *protected material* workpapers in support of Mr. Crowley's cost of service analysis and rate design.

**Prepared Direct Testimony of
Patrick R. Crowley
Witness for the Staff of the
Federal Energy Regulatory Commission**

Q. Please state your name and business address.

A. My name is Patrick R. Crowley. My business address is 888 First Street, N.E., Washington, D.C. 20426.

Q. By whom are you employed and in what capacity?

A. I am employed by the Federal Energy Regulatory Commission (FERC or Commission) as an Economist in the Division of Litigation, Office of Markets, Tariffs, and Rates.

Q. Please state your educational background and professional qualifications.

A. I graduated from DePaul University in Chicago, Illinois, in 1976 with a Bachelor of Arts degree in Economics. In 1978, I received a Master of Arts degree in Economics from DePaul University. I began work at the Commission in 1979 as an Industry Economist in the Pipeline Rates Division of the Office of Pipeline Rates. As an expert witness with the Staff litigation team from 1979 to 1992, I prepared pipeline depreciation studies, long-term forecasts of natural gas reserves and production, mortality studies of plant investment and retirements, cost behavior studies for pipeline facilities, and Mcf/mile studies. From 1992 through 1994, I worked on two teams shepherding the restructuring of two major gas pipeline companies. From 1994 through 1998, I worked on the advisory side of the Commission where I prepared reports for Commission orders regarding proposals for revised tariff terms; new services, rate designs, and tariff rates; and a wide

variety of utility reports and cost studies. In 1998, I returned to the litigation side of the Commission where I now work on electric utility, natural gas pipeline, and oil pipeline rate cases and complaint cases.

Q. Have you previously filed testimony before the Commission?

A. Yes, I filed testimony in the following rate cases:

Black Marlin Pipeline Company, Docket No. RP81-67-000;

Tarpon Transmission Company, Docket No. RP84-82-000;

National Fuel Gas Supply Corporation, Docket No. RP86-136-000;

Pacific Gas Transmission Company, Docket No. RP87-62-000;

Sea Robin Pipeline Company, Docket No. RP88-181-000;

Natural Gas Pipeline Company of America, Docket No. RP88-209-000;

Paiute Pipeline Company, Docket No. RP88-227-000;

Southwest Gas Storage Company, Docket No. RP89-60-000;

Montana Power Company, Docket No. ER98-2382-000.

San Diego Gas & Electric Company, Docket Nos. ER97-54-002 & EL99-21-000.

Boston Edison Company, Docket No. ER01-890-000.

Frontier Pipeline Company, Docket No. OR01-02-000 et al. & OR01-05-000 et al.

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

A. The purpose of my testimony is to examine the rates charged by Anschutz Ranch East Pipeline, Inc (Anschutz) under its local tariff FERC No. 7, in effect at the time the complaints were filed and under the currently effective FERC No. 8, which governing the transportation of crude oil from Frontier Station, Utah, and Evanston Station, Wyoming, to Kimball Junction, Utah. I shall also examine whether reparations are in order due to any difference in the rates charged under tariff FERC No. 7 in 1999 and 2000 versus my recommended rates for those years.

Q. What exhibits are you sponsoring in this proceeding?

- A. In addition to this direct testimony, Exhibit No. CS-7, I am sponsoring:
Exhibit No. CS-8, which is the Staff Cost of Service Model for Anschutz,
Exhibit No. CS-9, which is a set of non-protected workpapers supporting my cost of service analysis and rate design.
Exhibit No. CS-10, which is a set of protected workpapers supporting my cost of service analysis and rate design.

Tariffs

Joint Rate Tariffs & Local Rate Tariffs

- Q. What crude oil movements are involved in this case?
- A. Big West Oil Company (Big West) owns and operates a refinery in Salt Lake City, Utah. Chevron Products Company (Chevron) also owns and operates a refinery in Salt Lake City, Utah. Both Big West and Chevron supply their refineries with crude oil transported, in part, through a chain of pipelines originating in both the Rocky Mountains of Wyoming and Alberta, Canada. This transportation service is provided to Big West and Chevron by Anschutz using several tariffs, most of which are joint tariffs with the connecting pipelines, only one such tariff is solely an Anschutz tariff. The connecting pipeline companies are Express Pipeline Partnership (Express), Frontier Pipeline Company (Frontier), Anschutz, and Chevron Pipeline Company (CPL). In addition, the Anschutz pipeline is used by BPAmoco to supply its Salt Lake City refinery with crude oil from Canada. The BPAmoco crude moves over Glacier Pipeline Company from the Canadian border to Billings, Montana, where it meets Bear Tooth Pipeline, which brings the crude to the Big Horn Pipeline Company, which brings the crude down to Casper, Wyoming. The crude then moves on through Frontier, Anschutz, and CPL to Salt Lake City.

Q. What tariffs are involved with this case?

A. Anschutz' local interstate tariff FERC No. 7, now renumbered FERC No. 8, provides for transportation of crude oil over Anschutz' line from Frontier Station, Utah, and Evanston Station, Wyoming, to Kimball Junction, Utah.

Express Pipeline Partnership, which became known as Express Pipeline, LLC, on September 1, 2001, offers two joint interstate tariffs that govern the transportation of crude petroleum across all four oil pipelines from the Canadian border to Salt Lake City, Utah. The Express FERC No. 21, Supplement No. 3, is a term rate tariff that provides for 5, 10, and 15 year terms. Express FERC No. 21 has been replaced by Express Pipeline, LLC FERC No. 7. The Express FERC No. 22, Supplement No. 2, is an uncommitted rate tariff that does not specify the term of agreement. The Express FERC No. 22 has been replaced by Express Pipeline, LLC, FERC No. 8.

The Amoco Pipeline Company, which is now known as BP Amoco (North America) Inc., offers a joint tariff, FERC No. 2518, in conjunction with Frontier and Anschutz to transport crude oil from the Canadian Border to Kimball Junction, Utah. Amoco FERC No. 2518 has been replaced by BP Amoco (North America) Inc. FERC No. 78.

Q. What is the difference between a local tariff and a joint tariff?

A. Joint rate tariffs cover transportation services over more than one pipeline. Rather than subject its customers to several separate tariffs, scheduling orders, and the like, the joining pipelines offer one tariff, in essence a one-stop service for the whole transportation movement. The division of the revenues among the pipeline companies providing the service is governed by agreement between or among the pipeline companies. Local tariffs provide for service over only one pipeline. Proportional tariffs provide for service over one pipeline with the understanding

that the physical oil movement includes a preceding or succeeding (but not both) pipeline or trucking movement.

Q. What tariffs are you examining in this proceeding?

A. Although the complainants reference the two joint rate tariffs, it is the rates in the local tariff with which they take issue. The Commission established a hearing in this proceeding to examine the local interstate rates of Frontier and Anschutz, and determine whether those rates are just and reasonable. 94 FERC ¶ 61,339 at 62,260. The Frontier rates are the subject of the related Docket Nos. OR-2-000 and OR-4-000. In this testimony I will examine the rates provided by Anschutz local tariff FERC Nos. 7 and 8.

Q. Why do the Complainants take issue only with Anschutz' local rate?

A. The Commission's policy regarding the justness and reasonableness of joint rates is simply that the joint rates must be less than or equal to the sum of the local rates. 72 FERC ¶ 61,313 Big West and Chevron's complaints allege that Anschutz' local rate is unjust and unreasonable, and, if so, the joint rates are by definition unjust and unreasonable. The Commission's mandate in this proceeding, as noted above, is to examine only the local interstate rates.

Q. What are the current local and joint rates of the adjoining pipelines?

A. Anschutz' local tariff FERC No. 7 imposed a rate of \$0.3735 per barrel for the transportation of crude oil from Frontier Station, Utah, and Evanston Station, Wyoming, to Kimball Junction, Utah. On July 1, 2001, Anschutz placed into effect a revised local tariff FERC No. 8, to replace FERC No. 7, with an indexed rate of \$0.3477. A shipper wishing to bring crude oil from Canada to Salt Lake City via the local tariffs of the adjoining pipelines would have to pay the rates shown in Table 1 below. Alternatively, a shipper could utilize the joint rate tariffs. Express'

joint rate tariff covers the entire movement over Express, Frontier, Anschutz, and CPL, from the Canadian border to Salt Lake City for three grades of oil.

Q. Are the joint rates less than or equal to the sum of the local rates?

A. As shown on Table 1, the sum of the local rates for "Medium Salt Lake" crude oil transported from the Canadian border to Salt Lake City is \$3.1700 per barrel (using the Anschutz FERC No. 7 rate of \$0.3735), whereas the Express joint rate for Tariff No. 22 is \$2.8054 per barrel. Thus, under the FERC No. 7 rate, the joint rate was approximately 36 ½¢ less than the sum of the local rates. Table 2 below illustrates an almost 34¢ differential using Anschutz' new local tariff FERC No. 8.

Q. Does the rate you derived for Anschutz' local tariff significantly alter the relationship of the local and joint rates?

A. No, not on its own. My cost of service calculations indicate an appropriate rate for Anschutz' local tariff of \$0.1954 per barrel. Without changing the local rates of the other pipelines, the sum of the local rates would still appear to be more than the joint rate, as can be seen on Table 3 below. Making just the change to Anschutz local rate, the joint rate would still be about 18 ½¢ per barrel less than the sum of the local rates for "Medium Salt Lake" crude. Nonetheless, Staff's cost of service analysis indicates that neither local tariff FERC No. 7 nor FERC No. 8 is just and reasonable any longer.

Q. What is the impact of the rates you recommended for both Anschutz and Frontier?

A. As can be seen in Table 4 below, adopting my recommended rates for both Anschutz and Frontier will cause the sum of the local rates to be 80¢ lower than the joint rate for "Medium Salt Lake" crude. Although the justness and reasonableness of the Express Pipeline's joint rates are beyond the scope of this proceeding, I

would again note that Commission policy requires that joint rates be equal to or less than the sum of the local rates.

Table 1

Local & Joint Tariff Rates as Filed

	<u>Light</u>	Salt Lake <u>Medium</u>	Salt Lake <u>Heavy</u>
Express Pipeline, LLC			
FERC No.4 (local)	1.0780	1.1650	1.3150
Frontier Pipeline			
FERC No. 20 (local)	1.5106	1.5106	1.5106
Anschutz Ranch East PL			
FERC No.7 (local)	0.3735	0.3735	0.3735
Chevron Pipeline			
FERC No.628 (local)	<u>0.1209</u>	<u>0.1209</u>	<u>0.1209</u>
Total of Local Rates	3.0830	3.1700	3.3200
Express Pipeline LLC Joint Rate			
FERC No. 8	<u>2.4482</u>	<u>2.8054</u>	<u>3.0051</u>
Differential:			
Joint < Sum of local	0.6348	0.3646	0.3149

Table 2

Local & Joint Tariff Rates as Filed

	<u>Light</u>	Salt Lake <u>Medium</u>	Salt Lake <u>Heavy</u>
Express Pipeline, LLC			
FERC No.4 (local)	1.0780	1.1650	1.3150
Frontier Pipeline			
FERC No. 20 (local)	1.5106	1.5106	1.5106
Anschutz Ranch East PL			
FERC No. 8 (local)	0.3477	0.3477	0.3477
Chevron Pipeline			
FERC No.628 (local)	<u>0.1209</u>	<u>0.1209</u>	<u>0.1209</u>
Total of Local Rates	3.0572	3.1442	3.2942
Express Pipeline LLC Joint Rate			
FERC No. 8	<u>2.4482</u>	<u>2.8054</u>	<u>3.0051</u>
Differential:			
Joint < Sum of local	0.6090	0.3388	0.2891

Table 3

Local & Joint Tariff Rates w/ Proposed Anschutz

	<u>Light</u>	Salt Lake <u>Medium</u>	Salt Lake <u>Heavy</u>
Express Pipeline, LLC			
FERC No.4 (local)	1.0780	1.1650	1.3150
Frontier Pipeline			
FERC No. 20 (local)	1.5106	1.5106	1.5106
Anschutz Ranch East PL			
Recommended (local)	0.1954	0.1954	0.1954
Chevron Pipeline			
FERC No.628 (local)	<u>0.1209</u>	<u>0.1209</u>	<u>0.1209</u>
Total of Local Rates	2.9049	2.9919	3.1419
Express Pipeline LLC Joint Rate			
FERC No.8	<u>2.4482</u>	<u>2.8054</u>	<u>3.0051</u>
Differential:			
Joint < Sum of local	0.4567	0.1865	0.1368

Table 4

Local & Joint Tariff Rates w/ Proposed Anschutz & Frontier

	<u>Light</u>	Salt Lake <u>Medium</u>	Salt Lake <u>Heavy</u>
Express Pipeline, LLC			
FERC No.4 (local)	1.0780	1.1650	1.3150
Frontier Pipeline			
Recommended (local)	0.5250	0.5250	0.5250
Anschutz Ranch East PL			
Recommended (local)	0.1954	0.1954	0.1954
Chevron Pipeline			
FERC No.628 (local)	<u>0.1209</u>	<u>0.1209</u>	<u>0.1209</u>
Total of Local Rates	1.8903	1.9743	2.1003
Express Pipeline LLC Joint Rate			
FERC No. 8	<u>2.4482</u>	<u>2.8054</u>	<u>3.0051</u>
Differential :			
Joint > Sum of local	(0.5289)	(0.7991)	(0.8488)

Anschutz Page 700 Cost of Service

Anschutz' FERC Form 6 Cost of Service Model

- Q. Have you examined Anschutz' FERC Form 6 Cost of Service Analysis?
- A. Yes, I have. The FERC Form 6 is an annual report filed by oil pipeline companies that includes a snapshot of the pipeline's cost of service, throughput, and revenues. This snapshot, referred to as Page 700, appears on the last page of the Form 6. Anschutz' FERC Form 6 for the years 1997 through 2000 have been submitted by Big West and Chevron as Exhibit Nos. CBW-16 & 17 and CBW-75 & 76. The underlying calculations for the Page 700 cost of service were provided by Anschutz in response to Staff data request JLM-1An, number 1. The hard copies of Anschutz' workpapers were submitted by Big West and Chevron as Exhibit Nos. CBW-20 through 24.
- Q. What does the Page 700 cost of service indicate?
- A. The Page 700 cost of service, as reflected in workpapers prepared by Anschutz, indicates that, since Anschutz began filing its FERC Form 6 with the FERC in 1997, its net revenues have exceeded its cost of service each year by a significant amount. The figures shown in Table 5 below were copied from Anschutz' Page 700 workpapers (Exhibit Nos. CBW-22, page 5, and CBW-23, Page 1) rather than the Form 6 itself to reveal the components of the cost of service. I note here that Anschutz' FERC Form 6 Page 700 for 1997 and 1998 do not match the underlying workpapers in Exhibit No. CBW-22, page 5.

Table 5

(\$000)	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Operating Expenses	\$1,788	1,543	1,733	2,124
Depreciation Expense	\$ 312	348	371	376
AFUDC	\$ 12	12	16	16
Amort of Deferred Earn	\$ 87	95	79	87
Return Allowance	\$ 974	942	1,102	1,085
Income Tax Allowance	\$ <u>639</u>	<u>600</u>	<u>741</u>	<u>735</u>
Annual Cost of Service	\$3,812	3,540	4,042	4,423
<hr/>				
Operating Revenues	\$3,849	3,633	4,650	4,605
Net Revenues over Costs	\$ 37	93	608	182

Q. Do the Page 700 derivations include a return on capital component?

A. Yes, they do. The cost of service calculations underlying the Page 700 analyses incorporate all the major cost elements that the pipeline faces, including an allowance for a return on capital. The cost of service page of each set of calculations (on Exhibit Nos. CBW-22, page 5, and CBW-23, page 1) clearly show that return is included in the total cost of service and that Anschutz' revenues have nevertheless significantly outstripped its costs. The excess revenues in each year reflect a return well over and above the 13.25% allowance for the cost of capital incorporated into Anschutz' workpapers. This clearly demonstrates that the tariff rate for the movement of crude oil on Anschutz' line is significantly higher than necessary to recover Anschutz' annual cost of service.

Q. What were the realized returns on capital for those years?

A. Anschutz' realized returns on capital for the each of the last four years significantly exceed the return allowance that Anschutz incorporated into its *own* cost of service calculations. Adding the return on capital component, which is already in the cost of service, to the net excess revenues shown in Table 5, illustrates the substantial

realized returns, even using Anschutz' own numbers. The full calculations are shown in Exhibit No. CS-9, Page 1. In Table 6 below I have converted the return dollars into percentage returns on rate base and equity rate base.

Table 6

(\$000)	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Return on Trended Rate Base	12.01%	12.29%	20.57%	15.48%
Return on Equity Rate Base	13.03%	14.44%	20.57%	15.48%
Return Allowance in C of S (includes 13.25% for equity)	11.57%	11.18%	13.26%	13.25%

As can be seen in the table above, Anschutz' total returns on capital have significantly exceeded Anschutz' built in return allowances of 13.25% in the cost of service, as computed by Anschutz itself (see Exhibit No. CBW-22, page 5, line 2 and CBW-23, page 5, line 14). The revenue stream in these calculations is based on the amounts reported in Anschutz' FERC Form 6

The Staff Cost of Service Model

Q. How have you analyzed Anschutz' cost of service?

A. I have produced a cost of service model reflecting my recommendations as to the various cost of service elements that produce just and reasonable tariff rates for the transportation of crude oil on Anschutz' pipeline. My calculation of Anschutz' cost of service, labeled "Staff Anschutz Model" can be examined in Exhibit No. CS-8.

Q. What time frame does your model encompass?

A. My Staff Anschutz Model encompasses the years 1997 through June 30, 2001. The years 1997 and 1998 are included for comparison purposes; however, it is the years 1999, 2000, and the 12 months ended June 30, 2001 for which I am designing rates. Furthermore, the Staff Anschutz Model begins trending of the equity rate base in 1997 where Anschutz model begins the trending in 1987.

Staff Anschutz Model

Q. Please describe your model.

A. Rather than run a separate model for each year, my model in Exhibit No. CS-8 provides the cost of service analysis for the years 1997, 1998, 1999, 2000, and the 12 months ended June 30, 2001. Each year builds upon the data from the previous year. The model derives a rate for Anschutz' local interstate tariffs for the calendar years 1999 and 2000, and for the twelve month period ending June 30, 2001, which for convenience I have referred to as the "test year." The Staff Anschutz Model incorporates the following schedules, which Exhibit No. CS-8 abbreviates as "SCH":

"Index" presents the schedules included in Exhibit No. CS-8,

"Input" presents the variables that go into the model for 1997 through 2001,

"SCH 1" summarizes the cost of service for 1997 through 2001,

"SCH 2A" summarizes the real return on capital for 1997 through 2001,

"SCH 2B" summarizes the operating expenses for 1997 through 2001,

"SCH 3" summarizes the interest expense and return allowances for 1997 to 2001,

"SCH 4" summarizes the income tax allowance for 1997 through 2001,

"SCH 5A" summarizes the equity rate base return allowances for 1997 to 2001,

"SCH 5B" summarizes the debt rate base for 1997 through 2001,

"SCH 6" summarizes the carrier property for each year for 1997 through 2001,

"SCH 7A" summarizes the annual and accrued depreciation for 1997 to 2001,

"SCH 7B" summarizes the AFUDC calculations for 1997 through 2001.

Schedule 6 - Carrier Property

Q. Please describe Schedule No. 6.

- A. Schedule No. 6 contains the carrier property valued at its original cost. The starting balance for carrier property reflects the balances as shown in the FERC Form 6, page 213, for 1997 through 1999 (Exhibit Nos. CBW-75, CBW-76, and CBW-17). I have used plant additions for the year 2000 at \$100,000 as reported in an Anschutz data response, Exhibit No. CS-9, Page 2, rather than the FERC Form 6 amount of \$67,000.
- Q. How did you arrive at the carrier property amount for the test year 2001?
- A. To adjust the carrier property for the June 30, 2001 test year, I included plant additions of \$37,500 representing half the 2001 plant added for the year. This information was provided by Anschutz in response to Staff Data Request WHG-1An, Question13 (Exhibit No. CS-9, Page 2).

Schedule 7A - Accumulated Reserve for Depreciation & Depreciation Expense

- Q. Please describe Schedule 7A.
- A. Schedule 7A is the accumulated reserve for depreciation and the annual depreciation expense. The starting balance for the accumulated reserve for depreciation reflects the accrued depreciation as shown in the FERC Form 6 for 1997 (Exhibit No. CBW-75, Page 37).
- Q. What depreciation rate did you use in your cost of service model?
- A. For the relevant years in this proceeding, 1999 through June 30, 2001, I am relying on the depreciation recommendation of Staff Witness Kevin Pewterbaugh, who has conducted a study of the crude oil reserves in Alberta, Canada, which is the source of virtually all of Anschutz' throughput. His analysis, Exhibit No. CS-4, indicates that the proper depreciable remaining life for Anschutz' facilities is 36 years from January 1, 1999. Hence, the proper rate to calculate the depreciation expense to be included in Anschutz'1999 and 2000 cost of service is 2.02% and 1.95%

respectively (Exhibit No. CS-5, page 5). The appropriate depreciation rate for the derivation of future tariff rates is 1.82% (Exhibit No. CS-5, page 5).

Q. What depreciation expenses have you used in your model?

A. I used the depreciation expense as found in Anschutz' FERC Form 6 for the years 1997 and 1998 (Exhibit No. CBW-75, Page 37 and Exhibit No. CBW-76, page 34).

Mr. Pewterbaugh provided the depreciation expense figures of \$207,000 for the 1999 model and \$204,000 for the 2000 model. These are incorporated into the Staff Anschutz Model on Exhibit No. CS-8, "Input," Page 6, and "SCH 1," Page 4.

Adjustments to the accumulated reserve for depreciation for retirements are taken from the FERC Form 6.

Q. What depreciation expense have you used for the test year 2001 cost of service model?

A. For the test year ending June 30, 2001, I have estimated the depreciation expense as being half of the year 2000 expense and half of the year 2001 expense. The resulting estimate is \$197,000.

Schedule 7B - AFUDC

Q. Please describe Schedule 7B.

A. Schedule 7B, in Exhibit No. CS-8, pages 14 and 15, is the AFUDC calculation. The AFUDC schedule constructs an amortization stream to recover the cost of funds used during construction. The cost of such funds is the weighted average cost of capital at the time of the construction. Anschutz was built in 1987 when its weighted average cost of capital was approximately 13.75% (see Exhibit No. CS-8, page 14, lines 31 through 37). Consequently, the AFUDC amount to be amortized should be \$363,000 (Exhibit No. CS-8, page 14, line 10), rather than the \$450,000 amount derived by Anschutz (as reflected in Exhibit No. CBW-23, page 16, line

26 plus line 30). The 13.75% weighted average cost of capital incorporates the equity ratio of Anschutz' parent company in that year.

Q. What equity ratio did you use in deriving the 1987 AFUDC balance?

A. In the absence of data to support Anschutz' equity ratio for 1987, I have used Anschutz' parent company equity ratio of 18.79% in the derivation of the 1987 AFUDC balance rather than the 84.5% used by Anschutz in support of its Page 700 cost of service, Exhibit No. CBW-23, page 16. Anschutz elected not to provide the pipeline's equity ratio for 1987, although requested to do so in Big West and Chevron's request for production of data, items 14 and 15. Anschutz only provided debt ratios for Anschutz Ranch East Pipeline, Inc. for the years 1997 through 2001. This data response is included in my Exhibit No. CS-10, pages 1 through 3. The equity ratio is derived by subtracting the debt ratio from 1. I have noted on the exhibit the cost of debt, which is derived by dividing the interest expense by the total debt. The equity ratio of Anschutz' parent company was provided in data responses by Frontier Pipeline in the related Docket Nos. OR01-2 and OR01-4. This data response has been provided in Exhibit No. CBW-34.

Q. What was the cost of debt that you incorporated into the AFUDC derivation?

A. For the same reasons as noted above, regarding the lack of data for 1987 equity ratio and capital costs, I incorporated Anschutz' parent's cost of debt for 1987 of 12.83% (Exhibit No. 34, page 1) versus the 11.50% (Exhibit No. 23, page 16) used by Anschutz in its Page 700 cost of service.

Q. Why did you change Anschutz' depreciation rate used to derive the amortization of AFUDC for 1999, 2000, and test year 2001?

A. Anschutz' AFUDC schedule, as reflected in Exhibit No. CBW-23, page 23, includes a depreciation component of approximately 3.33%. As noted above, Mr. Pewterbaugh's depreciation study indicates a remaining life of 36 years as of 1999.

As noted in his testimony, a 36 year remaining life translates into a depreciation rate of 2.02% for 1999, 1.95% for 2000, and 1.82% for 2001. Therefore I have adjusted the AFUDC amortization to reflect Mr. Pewterbaugh's recommended depreciation rates.

Q. What allowance for the amortization of AFUDC did you use for the 1999, 2000, and test year 2001 cost of service models?

A. As shown on Exhibit No. CS-8, Schedule-1, Page 4, I have incorporated AFUDC amortization allowances of \$7,000 for each year 1999, 2000, and test year 2001.

Q. What happens with these AFUDC amounts?

A. AFUDC has two components that have an impact on the cost of service, the AFUDC balance itself and the amortization of the AFUDC balance. The equity portion of the net depreciated AFUDC balance (Exhibit No. CS-8, Schedule 7B, page 14, line 9 minus line 18) is incorporated into the trended equity rate base (Exhibit No. CS-8, Schedule 5A, page 8, line3). The equity portion of the amortization of the AFUDC balance (Exhibit Non. CS-8, Schedule 7B, page 14, line 17) is incorporated into the derivation of the income tax allowance (Exhibit No. CS-8, Schedule 4, line 5).

Schedule 2B - Operating Expenses

Q. Please describe Schedule 2B.

A. Schedule 2B of Exhibit No. CS-8 contains Anschutz' operating expenses for the years 1997 through June 30, 2001. I have used the figures for operating expenses as shown on Anschutz' Financial Statements for the years 1997 through June 30, 2001, provided in Exhibit Nos. CBW-19.

Q. Does your operating expenses schedule adjust for the difference in depreciation expenses that Staff is recommending?

-
- A. Yes, it does. My Exhibit No. CS-8, Schedule 2B, page 5, incorporates the revised depreciation expenses developed by Mr. Pewterbaugh.
- Q. Why have you incorporated revised depreciation figures into past period operating expenses?
- A. I have incorporated Mr. Pewterbaugh's revised depreciation figures into the past period operating expenses for 1999 and 2000 to calculate a cost of service for the two years preceding the date of the filing of the complaint for the purposes of preparing a calculation of reparations.
- Q. What operating expense did you use for the 1999, 2000, and test year 2001 cost of service models?
- A. As shown on Exhibit No. CS-8, Schedule-1, page 3, I have incorporated operating expenses for the 1999, 2000, and test year 2001 cost of service models of

, respectively. [Protected material in bold.]

Schedule 3 -Interest Expense and Return

- Q. Please describe Schedule No. 3.
- A. **Schedule 3 of Exhibit No. CS-8 is the** calculation of Anschutz' interest expense and return on capital allowance. The return on capital allowance incorporates: (1) an interest expense for the cost of debt, (2) a return on the original cost rate base, and (3) a return on the trended equity rate base.
- Q. How is the interest expense calculated?
- A. The interest expense is calculated by multiplying the rate base from Schedule 5B times the weighted cost of debt. The weighted cost of debt is calculated by multiplying the cost of debt (an interest expense) on line 12 times the debt ratio for Anschutz on line 11.

- Q. Why is the equity/debt ratio on Schedule 3 different from the debt ratio on Schedules 5A and 5B?
- A. The equity/debt ratios used on Schedules 5A and 5B are used to derive the trended equity rate base. The trended portion of the equity rate base becomes a deferred income asset for ratemaking purposes, which I will explain later in my testimony. When the deferred income is added to the equity portion of the original cost rate base, a new equity ratio is created to reflect the increased level of the equity portion of the total rate base. The new equity/debt ratio is used on Schedule 3 to derive the appropriate returns on capital.
- Q. How are the returns on the original cost rate base and trended equity rate base calculated?
- A. The original cost rate base (essentially the original cost less accrued depreciation) and trended equity rate base (which I will explain later in my testimony) are added together and multiplied by the weighted cost of capital. The equity rate base amount on line 5 of Exhibit No CS-8, Schedule 3, incorporates deferred income, which is an inflation write-up for the equity portion of the total rate base (I will explain this derivation later in my testimony). This deferred income, shown on line 6, is stripped out of the equity rate base, shown on line 5, for the derivation of the total original cost rate base, line 7. The total original cost rate base is multiplied by the weighted cost of capital from line 17 to derive the return on the total original cost rate base, shown on line 8. The return on the deferred income portion of the equity rate base is calculated separately on line 9 by multiplying the deferred income by the real return on equity from line 15.
- Q. What changes have you made to the return allowance calculations?
- A. Schedule No. 3 incorporates elements for which Staff witnesses are recommending different figures from those reflected in Anschutz' workpapers as shown on Exhibit

No. CBW-23, Schedule 2, page 6. These elements include the debt rate base, the equity rate base, the weighted cost of debt, and the capital structures. The correct figures for both 1999, 2000, and test year 2001 are provided in my Exhibit No. CS-8, Schedule 3, Page 9.

Q. Why are your equity rate base figures on Schedule 3 different from Anschutz' equity rate base figures underlying their Page 700 cost of service?

A. Anschutz' equity rate base figures, upon which the return is calculated, are shown in the workpapers underlying Anschutz' Page 700, provided by Big West and Chevron as Exhibit No. CBW-23, Schedule 2, page 6, line 9. These, in turn, are drawn from Schedule 4, which calculates the trended rate base, which in turn relies on Schedule 6, which derives the deferred income. Anschutz' derivation of the equity rate base write-up on Schedule 6, page 13 starts in 1987, whereas the appropriate equity rate base write-up should begin in 1997 when Anschutz became jurisdictional. The trended equity rate base concepts are further developed in the discussion under Schedule 5A.

Q. Why are your capital structure figures different from Anschutz' capital structure figures?

A. Anschutz has incorporated an equity ratio that in 1999 and 2000 was 100% equity. As noted above, Mr. Green's recommended capital structures, based on a representative proxy group, are: 54.05% equity/45.95% debt for 1999, 53.33% equity/46.67% debt for 2000, and 53.33% equity/46.67% debt for 2001.

Q. What return allowances have you included in the 1999, 2000, and test year 2001 cost of service models?

A. As shown on Exhibit No. CS-8, Schedule-1, Page 3, I have incorporated a return on capital component of \$746,000 for 1999, \$ 693,000 for 2000, and \$619,000 for the test year 2001 model.

Schedule 4 -Income Tax Allowance

Q. Please describe Schedule No. 4.

A. Schedule No. 4 of Exhibit No. CS-8 is the calculation of Anschutz' allowance for income taxes. The calculation of Anschutz' income tax allowance on Schedule 4 takes into consideration the fact that Anschutz became a Subchapter S corporation in July of 1999 and therefore no longer pays taxes directly.

Schedule 5A -Equity Rate Base Calculations

Q. Please describe Schedule No. 5A.

A. Schedule No. 5A contains the derivation of the equity rate base, which is used to derive the deferred income component of the cost of service. The basic purpose of Schedule 5A is to build up the rate base to reflect the increase in value of the equity portion of the rate base over time.

Q. What is the purpose for deriving a trended equity rate base?

A. As explained more fully in the Commission's Opinion No. 154-B, the intent of developing a trended equity rate base is to create a mechanism whereby newer high-cost pipelines can compete against older depreciated pipelines by deferring some cost recovery to later years. It is a portion of the return on capital that is deferred to later years.

The return component of a pipeline's cost of service is applied to the net depreciated rate base. A newer line carries a higher (less depreciated) rate base as well as an inflation impacted original cost vis a`vis an older line. The trended original cost mechanism carves out the inflationary component of the return on capital, to be recovered in later years. This deferred income lowers the cost of service, and thus the rates, allowing a newer pipeline to compete in the market.

The trended equity rate base mechanism of Opinion No. 154-B accounts for this deferral of the inflationary part of the return on capital by writing-up the rate base over time, thereby preserving the inflation-induced increased value of the pipeline's assets. This write-up is passed on to the equity holders through deferred income. Because the deferred income is an asset, the equity holders are entitled to both a return of the asset and a return on the asset. The return of the deferred income as an asset is accomplished through an amortization over the life of the facilities, which shows up on line 19 of Schedule 5A. The sum of the annual amortizations of the deferred income shows up on line 20 of Schedule 5A, which is carried over to the cost of service on Schedule 1. The return on the pipeline's asset is accomplished through a return computed based on both the original cost of the assets and the unamortized portion, line 34, of the deferred income, which shows up on Schedule 3.

Q. What is the Commission's methodology for deriving the equity rate base?

A. The Commission's Opinion No. 154-B established the methodology for developing jurisdictional rates for oil pipeline companies. Among other elements, Opinion No. 154-B established the mechanics of calculating the trended equity rate base in the cost of service. The Opinion states:

We have chosen to trend only the equity portion of the rate base. We have done this in order to ensure that the equity holder will not benefit from a write-up of the rate base with respect to assets financed by debt. The equity holder will only be compensated for the inflation to the extent that assets are financed by equity. 31 FERC ¶ 61,377 at 61835 (1985)

In other words, the deferred income, which represents the return of the increased value of the assets to the equity holders, should be based only on the proportion of

the assets financed by the equity holders. In practice the rate base is written up by applying an inflation factor to the rate base to reflect the increase in value of the facilities. However, the inflation factor is not applied to the whole rate base, only the equity portion of the rate base.

Q. Would you walk us through that calculation?

A. Yes. The methodology requires that the rate base is written-up according to a formula. The 1997 rate base on Schedule 5A, line 22, which is the sum of the gross plant in service less the total deductions, plus the working capital, is multiplied by the equity ratio on line 23, then multiplied by the inflation factor on line 28. The product of that computation is found on line 19 in the next column, which is the adjustment for the following year's rate base to reflect the write-up of that equity rate base. It is referred to as "deferred income" to represent the value of the inflationary portion of the return component that ultimately should be recovered by the equity holders.

Q. What happens to this deferred income?

A. This deferred income is amortized over the remaining life of the pipeline and each year's amortization is added to the amortizations of the prior years' deferred incomes, and included in the cost of service on Schedule 1.

Q. How does your Schedule 5A differ from Anschutz' model?

A. Anschutz' derivation of the trended equity rate base is seen on Exhibit No. CBW-23, page 9. The Anschutz model and Staff's model differ in two significant aspects. The first difference is that Anschutz has calculated its trended equity rate base using a starting year of 1987, the year the Anschutz pipeline was built whereas I have used a starting year of 1997 the year for which Anschutz first filed a FERC Form 6, and transported interstate volumes pursuant to the Express joint tariff FERC No. 5. The second difference is that Anschutz' model uses an equity

ratio that is, I assume, that of its parent company. I have used equity ratios that are supported by Staff witness Green for 1999, 2000, and 2001 using equity ratios of a representative proxy group.

Q. How has Anschutz calculated the amortization of the deferred income?

A. Anschutz' model calculates the amortization of deferred income in essentially the same manner as I have by 1) multiplying the net depreciated original cost plant by the equity ratio and 2) multiplying by the inflation factor. This calculation derives the deferred income for each year. The sum of the deferred incomes is added to the equity rate base in order to calculate the following year's deferred income. (See Exhibit No CBW-23, page 13 through 16.) For the annual amortization of the deferred incomes, the models divide the annual deferred income by the remaining life. The sum of the annual amortizations from 1987 (or in my case 1997) through 2000 are then added to the cost of service for each year. (See Exhibit No CBW-23, page 11 and 12.)

Starting Dates

Q. Why have you elected to begin your trended equity rate base analysis in 1997?

A. Although the Anschutz line was built in 1987, Anschutz did not perform jurisdictional transportation until 1997 and did not place a tariff on file with the Commission until 1998. Prior to that time, Anschutz did not believe it was a jurisdictional pipeline subject to the Interstate Commerce Act and did not maintain its books in accordance with the Commission's regulations. (See Anschutz' December 10, 2001, response to Staff Data request PRC-1An, number 9, in Exhibit No. CS-9, pages 3 through 6, and Anschutz' March, 17, 1998 letter to the Commission's Office of the Chief Accountant, Exhibit No. CS-9, page 7.) I have applied the trended equity rate base methodology to Anschutz' rate base beginning in 1997, the year in which Anschutz came under the jurisdiction of the

Commission. Anschutz should not be able to take advantage of the Commission equity write-up methodology until it came under the Commission's jurisdiction.

Q. Does the use of differing start dates lead to significant differences in the cost of service?

A. Yes it does. The write-up of the equity rate base has a cumulative effect over time as each year's deferred income is added to the equity rate base for the following year. The impact can be seen by comparing the deferred income component of the cost of service on my Exhibit No. CS-8, Schedule 1, page 3, line 3, with Anschutz' cost of service workpaper Exhibit No. CBW-23, Schedule 1, page 4, line 6. My cost of service model indicates an appropriate amortization of the deferred income should be \$9,000 for the year 2000. Anschutz cost of service workpapers suggest an amortization of \$87,000 for the year 2000.

Q. Should the rate base methodology of Opinion No. 154-B apply to Anschutz rate base back to 1987 in any event?

A. No, it should not. The trended equity rate base methodology of Opinion No. 154-B does not apply to non-jurisdictional pipelines. The Commission's regulations require that

Each carrier must publish, post, and file with the Commission tariff publications which contain in clear, complete, and specific form all the rules and regulations governing the rates and charges for services performed in accordance with the tariff. 18 CFR Part 341.0 (b)

Anschutz' affiliates may have had contracts with other parties prior to 1997, but the fact is clear that, before then, Anschutz Ranch East Pipeline it did not consider itself jurisdictional and did not have a jurisdictional rate on file with the Commission. Furthermore, the intent of Opinion No. 154-B was to make new

jurisdictional pipelines more competitive with older depreciated pipelines by requiring the deferral of the inflation portion of the return component of the cost of service. The consequence of that deferral is to initially lower the cost of service. The deferred income then is recovered through an amortization of the deferred income over time. The effect is to levelize a pipeline's costs (and rates) over the years, resulting in generally lower rates in the early years to be made up by generally higher rates in the later years. This "levelization" of costs makes the newer pipeline somewhat more competitive against older pipelines. However, for most of its existence, Anschutz stated in Exhibit No. CS-9, at page 7, that it only operated as a private pipeline. Thus, it did not need the protection of the rate base mechanisms of Opinion No. 154-B. More importantly, there is no evidence that Anschutz ever affirmatively deferred any earnings in its first ten years, such that it would now qualify for the benefits of a trended rate base. Anschutz is no longer a new pipeline. It would be inappropriate to give Anschutz the benefit of a built up rate base and deferred income for past periods when there is no evidence that it in fact deferred any of its past earnings because it was not subject to Commission jurisdiction prior to 1997.

Equity ratios

- Q. What equity ratios have you incorporated into your trended equity rate base analysis in Schedule 5A?
- A. The equity ratio I used for the years 1997 and 1998 reflect the equity ratio of the of Anschutz Ranch East Pipeline, Inc. as provided in the data response shown in Exhibit No. CS-10, pages 1 and 2. For the starting equity rate base (end of year 1996) in Schedule 5A, I had to use the equity ratio of Anschutz' parent company for that year as reflected in Exhibit No. CBW-34. Anschutz' equity ratio for 1999 and 2000 was 100%. However, for ratemaking purposes, for the derivation of the

tariff rates for the relevant years 1999, 2000, and test year 2001, I used the equity ratios recommended by Staff Witness Mr. Green.

Q. What inflation factors have you used to calculate the write-up or trending of the equity rate base?

A. I have used the Bureau of Labor Statistic's Consumer Price Index for All Urban Consumers (CPI-U), see Exhibit No. CS-9, Page 8. The inflation factors used by Anschutz in its workpapers differ from those I used. It is not clear what index Anschutz used.

Q. Why did you use the CPI-U instead of some other inflation index?

A. Oil pipeline rates are derived using two inflation indexes. In between cost of service analyses, oil pipelines are permitted to adjust their transportation rates by the Producer Price Index (PPI) to reflect the changes in industrial prices over time. In a cost of service analysis, however, Opinion 154-B permits the analysis to use whatever inflation index appears most appropriate - as long as the index used to write up the equity portion of the rate base is the same index used to deflate the return components in the cost of service. In other words, it does not matter what inflation index is used, as long as it is the same index, because the inflationary component of the return on equity that is stripped out of the nominal return on equity gets built back into write-up of the equity rate base. The CPI-U is the same index as used by Mr. Green to deflate the return on capital component. Thus my use of the CPI-U is consistent with the requirements of Opinion No. 154-B.

Q. What amounts did you include for Accumulated Deferred Income Taxes (ADIT)?

A. The ADIT amounts seen in Anschutz' workpapers in Exhibit No. CBW-23, Schedule 11, page 24 and 24, incorporate an allowance for 1999 and 2000 when Anschutz no longer paid taxes. Hence, there should no longer be an ADIT adjustment to the rate base in Schedule 4, page 9, line 13. I have adjusted my

equity rate base derivation to account for the change in Anschutz' tax status in Exhibit No. CS-8, Schedule 5A, page 8, line 13. The calculation of the appropriate ADIT adjustment is shown in **Exhibit No. CS-9, page 9.**

Schedule 5B -Debt Rate Base Calculations

- Q. Please describe Schedule No. 5B.
- A. Schedule No. 5B on Exhibit No. CS-8 is the calculation of the debt rate base. Schedule 5B is almost identical to Schedule 5A in that it derives the total rate base for Anschutz pipeline. Schedule 5B stops where Schedule 5A continues on to derive the equity rate base and deferred income. The debt rate base derivation is used on Schedule 3 for the derivation of the allowance for total return on capital.
- Q. Where have you reflected the revised debt rate base amounts in your cost of service model?
- A. The revised debt rate base is shown on Exhibit No. CS-8, Schedule 5B and Schedule 3.

Schedule 1 -Cost of Service

- Q. Please describe Schedule No. 1
- A. Schedule No. 1 of Exhibit No. CS-8 is the summation of the cost of service elements from all the other schedules. The table below summarizes the difference between Anschutz' Page 700 cost of service reports and my Staff Anschutz Model.

(\$000)	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Anschutz' Page 700 Model	\$3,503	\$3,633	\$4,042	\$4,423
Staff Anschutz Model				
[Protected material in bold]				

A comparison of Anschutz' Schedule No.1 on Exhibit No. CBW-23, page 4, and Staff Schedule No. 1 on Exhibit No. CS-8, page 3, reveals significant differences between the cost of service components. Staff's recommendation for year 2000 depreciation expense allowances, \$204,000, and is approximately \$393,000 less than the \$597,000 expense reflected in the FERC Form 6 for that year. I note here that Anschutz' workpapers underlying the Form 6 Page 700 cost of service in Exhibit No. CBW-23, page 1, utilizes a depreciation expense of \$376,000 for the year 2000 although Anschutz' Form 6 depreciation accrual for that year was \$597,000. The difference in the calculation of the 2000 equity rate base resulted in a difference of about \$78,000 in the 2000 allowance for deferred income amortization. Staff's 2000 allowance for return on capital is approximately \$392,000 less than Anschutz' calculated allowance. The revenues estimates on Schedule 1 are drawn from Exhibit No. CS-8, page 17, and assume that all volumes have moved at the rates under Anschutz local tariff FERC No. 4 or 7. My earlier analysis of realized returns in Table 6 used the actual revenues as reported in Anschutz' FERC Form 6. of My estimate of the cost of service for the test year ending June 30, 2001 is \$2,899,000.

Rate Design

Volumes

- Q. Earlier in your testimony you provided, in Tables 3 and 4 of this Exhibit No. CS-7, Staff's recommended revised rates for the transportation of crude oil over Anschutz' pipeline. What volumes did you use to derive those rates?
- A. I used actual annual volumes by tariff segment for 1999 and 2000. For the 2001 test year I used volumes for the last half of 2000 and the first half of 2001. The annual volumes for 1999 and 2000 were provided by Anschutz in response to Staff's data request PRC-1An, number 8, which I have reproduced in Exhibit No. CS-10, Bates numbers AN034543 though AN03484, see Exhibit No. CS-10 . These sheets are marked Highly Confidential. The volume figures for all three periods are shown in Exhibit No. CS-8, "Rates," Page 22.

Grandfathered Rates

- Q. Anschutz' response to Staff Data Request PRC-1An, question 9, Exhibit No. CS-9, page 7, which you referenced earlier, asserts that Anschutz had a contract for transporting oil for Big West in effect in February 1991 and that, therefore, its local tariff rate is a grandfathered rate under the Energy Policy Act of 1992 (EPACT) . What response do you have to this assertion?
- A. Anschutz cannot argue for grandfathered jurisdictional rate status for a contract rate that was not a FERC jurisdictional rate. Although Anschutz' affiliates may have charged "rates" in contracts with other parties, the EPACT grandfathering of existing rates would only apply to rates of jurisdictional pipelines. Section 1804 of EPACT defines "oil pipeline" as:

any common carrier (within the meaning of the Interstate Commerce Act) which transports oil by pipeline *subject to the*

functions and authority vested in the Commission under section 402(b) of the Department of Energy Organization Act (42 U.S.C. 7172 (b)). Emphasis added.

Prior to 1998, no information was provided by Anschutz indicating that it was subject to the functions and authority vested in the Commission. Moreover, Anschutz indicates, in Exhibit No. CS-9, page 7, that it did not believe it was a common carrier subject to the Commission's authority until 1998, although its 1997 FERC Form 6 indicates that it transported interstate volumes in 1997 and Anschutz participated in the joint Express pipeline tariff FERC No. 5 that became effective April 1, 1997. Hence, Anschutz was not an oil pipeline in 1991 pursuant to EPACT, to whose rates the grandfathering provisions of that Act would apply.

- Q. Please explain whether Anschutz actually transported oil for Big West under the contract shown in Exhibit No. CBW-92, page 1?
- A. Anschutz Ranch East Pipeline was not transporting oil for Big West in 1991. The 1991 contract (included in Exhibit No. CBW-92, page 1) was a purchase and sale agreement between Big West and Anschutz Marketing and Transportation Company, not Anschutz Ranch East Pipeline, Inc. The contract specifies that Anschutz Marketing and Transportation would hold title to the oil as it passed through the Anschutz Ranch East Pipeline. Indeed, Big West did not take title to the oil until after it passed through Anschutz Ranch East Pipeline. Hence, Anschutz did not transport oil for Big West but did so for its own affiliate, Anschutz Marketing.

Rate Design

Q. How did you design the rates for Anschutz?

A. The essential model for the rate design is simply dividing the costs by the barrels moved. However, two important aspects must be factored in: one, because some movements on Anschutz traverse significantly different distances, the rate design has to include a barrel-mile component; and, two, some cost elements are not distance related, so the barrel-mile component is not applied to them.

Q. What is the mileage for the crude movement?

A. Anschutz' tariff FERC No. 7 provides for transportation approximately 42 miles from Divide Junction, Wyoming, and Evanston Station, Utah, to Kimball Junction Utah. To derive the barrel-mile allocation, I multiplied the annual volumes times the corresponding mileage to get the distance-related rate per barrel. See Exhibit No. CS-8, page 16, columns labeled "Distance Related Costs."

Q. What cost components are not distance related?

A. The Administrative and General (A&G) cost components are generally not considered distance-related. Consequently, these costs are simply divided by the total barrels transported. The A&G costs from Exhibit No CS-8, Schedule 2B, line 18, less the pipeline taxes from line 17, are used for the non-distance-related rates. See Exhibit No. CS-8, page 16, columns labeled "Non-Distance-Related Costs."

Q. How is the total rate derived?

A. The total rate is the sum of non-distance-related rates and distance-related rates.

Q. What rates are you recommending for Anschutz for the future?

A. I am recommending a rate for Anschutz of \$0.1954 per barrel for the movement of crude oil from Divide Junction, Wyoming, and Evanston Station, Utah, to Kimball Junction Utah.

Reparations

Q. What is your estimate of the maximum potential reparations due from Anschutz for the differential between the current local tariff rates and your recommended local tariff rates?

A. Staff's analysis indicates that Anschutz' revenues have substantially over-collected its just and reasonable cost of service. I have calculated the difference between the current Anschutz local tariff rates, as indexed over the last three years, and the rate I have recommended for 1999 and 2000. These rates and charges are shown on Exhibit No. CS-8, Page 17. My calculations indicate that the maximum potential reparations for the local tariff shipments would be \$2,165,000 for 1999 overcharges and \$1,687,000 for 2000 overcharges. These amounts should also be adjusted for accrued interest on the reparation.

Q. Do these reparations include potential reparations for the joint tariffs?

A. No, they do not.

Q. How would you calculate potential reparations due Big West and Chevron?

A. Reparation due to individual shippers on Anschutz would be calculated by multiplying the volumes transported for those shippers times the difference between the charges assessed upon those shippers under the current rates and the charges assessed under my recommended rates for the relevant periods. I have not made a specific calculation for the amounts that may be owed to Big West or Chevron.

Q. Does this conclude your testimony?

A. Yes, it does.

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

**BIG WEST OIL CO. v. ANSCHUTZ RANCH EAST PIPELINE, INC.
and EXPRESS PIPELINE PARTNERSHIP
DOCKET No. OR01-3-000, et al.**

**CHEVRON PRODUCTS CO. v. ANSCHUTZ RANCH EAST PIPELINE, INC.
and EXPRESS PIPELINE PARTNERSHIP
DOCKET No. OR01-5-000, et al.
(Consolidated)**

AFFIDAVIT

City of Washington)
) **SS:**
District of Columbia)

Patrick R. Crowley, being first duly sworn, deposes and says that he is the same Patrick R. Crowley whose Prepared Direct Testimony accompanies this affidavit; that such testimony was prepared by him; that he is familiar with the contents thereof; that the facts set forth herein are true and correct to the best of his knowledge, information, and belief; and that he does adopt the same as his sworn testimony in this proceeding.

Subscribed and sworn to before me,
the undersigned notary public, this ____ day of _____, 2001.

Notary Public

My Commission expires: