BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

I. Rate of Return and Capital Structure

You are the FERC Staff rate-of-return analyst. The BGT claimed rate of return looks like this:

	Ratio	Cost	Weighted Cost
Debt	40 %	8 %	3.2 %
Equity	60 %	14 %	8.4 %
Total	100 %		11.6 %
Income Taxes @ 40% Federal and State:			5.6 %
Pre-Tax Rate of Return:			17.2 %

You've learned the following facts:

BGT is a subsidiary of Gas-R-Us, a large holding company which is financed with 60 % debt. Gas-R-Us bought BGT about ten years ago, but has never had to put any money in it.

Looking around the industry, there are four major pipeline holding companies, with the following financial statistics:

	Debt Ratio	Dividend Rate	Growth Rate
Diversified Methane, Inc.	50 %	2.5 %	10 %
ELRON & Hubbard LP	50 %	8.0 %	6 %
Gas-R-Us Inc.	60 %	2.0 %	10 %
Pete's Pipes & Vans, LP	45 %	6.0 %	8%

You also know the overall economy is supposed to grow at 5 % per year, indefinitely into the future.

You and everyone else think BGT has about average risk for a pipeline.

A. Would you recommend a change in BGT's capital structure? Why?

Staff will intensely examine the company's capital structure, to try to eliminate some equity and add some debt. The reason is that equity is much costlier than debt, so every percentage shift from equity to debt lowers the overall rate of return. For instance, if the interest rate is 8 percent and the return on equity-plus-income-tax rate is 18 percent, every dollar of investment supported by equity costs 10 percent more than if it were supported with debt.

Until July 1998, Staff had a powerful tool for shifting the capital structure toward debt. The capital-structure test under former FERC law was that, to use its own capital structure, the company had to (1) be financially independent of its parent (BGT is, and this part of the test has not changed) and (2) be in line with the major holding-company capital structures used to measure investor expectations (BGT is not--at 40 percent debt, it's 5 percent below the lowest debt ratio in the proxy group, and 11.25 percent below the average). Under the old rules, failing this test then automatically imputed the <u>parent</u>'s capital structure--in this case, 60 percent debt.

In Opinion 414-A, FERC disavowed this approach. It kept the financial independence criterion, but said the pipeline's own capital structure would be acceptable if it was in line with other capital structures the FERC had approved. One could ask (and intervenors probably will) where this circle starts--how does FERC know whether to approve the <u>first</u> one?

Since 414-A, Staff has generally contented itself with chopping out some discrete pieces of equity, rather than trying to disregard the company's capital structure as it would have in 1997. This can be done by claiming some of the equity supports non-pipeline businesses, or supports financial instruments such as loans to affiliates. Based on historical performance, this effort would probably result in pushing the equity ratio back to 50 percent.

B. What do you think about BGT's requested return on equity? What return on equity would you recommend?

Looking at it from the Staff's perspective, it is hard to see where the company could have gotten its 14 percent. First, note that two of the four proxy companies are Master Limited Partnerships (MLPs). Under the Opinion 414-A methodology, as augmented by the PL07-2 Statement of Policy on proxy groups, here's what the calculation looks like, using the four proxy companies. The average growth rate projected by Wall Street (IBES) for each company is averaged 2/3-1/3 with the projected growth rate in the whole economy (the GDP growth rate), with the exception that the GDP growth rate is cut in half for the MLPs. The answer is then added to the dividend rate for each company. This is it--the "Total Return" shown below is the FERC's view of the market-required return for pipeline holding company investors. That answer here ranges from 10.33% to 12.83%, with a median of 11.50%. It's this median FERC will use for an average-risk company. In other words, the Staff answer should be 11.50 percent, as compared with the 14 percent supported by the company.

			5.00%			
Proxy Companies	Dividend Rate	IBES Growth	GDP Growth	Weighted Growth		Cost of Capital
Diversified Methane, Inc.	2.50%	10.00%	5.00%	8.33%		10.83%
ELRON & Hubbard LP	8.00%	6.00%	2.50%	4.83%		12.83%
Gas-R-Us Inc.	2.00%	10.00%	5.00%	8.33%		10.33%
Pete's Pipes & Vans, LP	6.00%	8.00%	2.50%	6.17%		12.17%
					Median:	11.50%

C. What is the new overall rate of return you'd be recommending?

The new overall rate of return, according to Staff (if you did <u>not</u> have a bad day), should be 9.75 percent, with a pre-tax rate of return of 13.58 percent. This is the combined result of the positions on capital structure and return on equity. It looks like this:

	Ratio	Cost	Weighted
Debt	50%	8.00%	4.00%
Equity	50%	11.50%	5.75%
		Total	9.75%
		Income Tax @ 40 Pct.	3.83%
		Pre-Tax Return	13.58%

It needs to be noted that this pre-tax rate of return more than two percent (also referred to as two hundred basis points) higher than what the same data would have yielded before Opinion No. 414-A and before the inclusion of MLPs. The pre-414-A policy and methodology at the FERC, using only the stock-owned companies, would have yielded a return on equity of 9.75 percent, an equity ratio of 40 percent, and a pre-tax rate of return of 11.3 percent. So do not expect Staff to be very flexible or sympathetic as the company proposes further movement.

Meanwhile, this is the answer Staff <u>should</u> reach under current Commission policy. It is quite possible that Staff use a combination of equity eliminations and changes in the proxy group to get back to the low pre-tax rate of return we would have seen before Opinion No. 414-A and before the inclusion of MLPs.

D. Suddenly, you snap back to being a very irate Vice President of Rates. How would you answer the Staff?

Commission policy is much better than it used to be. So I wouldn't be half as upset at an overall pre-tax rate of return of 13.58 as I would have been at a pre-414-A answer of 11.3. The 11.50 percent on equity is lower than what might be necessary, and the exclusion of <u>any</u> of my equity is unfair. However, rather than great policy arguments, the debate from this point forward will probably be largely <u>factual</u>. The most likely target in this situation is to get the equity ratio back up to 60 percent, and to get about a 12.5 return on it. How? In settlement, as a trade for something else. In a trial on the merits, there's not choice but to try to move policy a little, unless the underlying numbers are volatile enough that you can just pick another snapshot in time and support it.

Otherwise, if Staff <u>does</u> put forward a pre-414-A answer of a 11.3 percent pre-tax return, no matter how they got there, the answer, is, "No, no, no, no. We finally got somewhere, and you're not going to take it back." This will be a time for looking grim and resolute in your settlement conference. It is also very important to threaten Staff with more speeches by your CEO, which is what happened in 1998 to help cause Opinion No. 414-, or with another series of "dueling financial experts" in public technical conferences, as led up to the PL07-2 Statement of Policy. As a rule, this is interesting posturing, and helps indicate your closeness to your CEO, but otherwise I've never seen it have an effect on the Staff.

BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

II. Other Taxes

You're the Staff cost-of-service analyst. BGT has included $5 million for a new tax Louisiana has proposed to repopulate the nematoda crop. It's been determined that the huge network of pipelines crisscrossing Louisiana has stopped the worms from breeding. So the legislature has proposed a tax on pipelines, to pay for nematoda breeding pits. The legislature passed the bill in May, and the governor is expected to sign it in December. When he does, partial bills for this year will go out right away.

Both of BGT's supply lines cross Louisiana. Thus, BGT's bill will be $5 million per year. Of that, about $1 million is expected to be paid by year-end after the tax is enacted

A. Would you let BGT include this tax, and if so, how much?

Unfortunately for the company, none of the tax would be includible. The test period in this rate case ends October 31. If the governor doesn't sign the act until December, and the first bills go out after that, BGT's a goner.

B. Why?

The only costs that can be included are those that are "known and measurable" during the test period. This tax is measurable, in that BGT knows its annual bill will be $5 million. But it's not known, in that the necessary events for it to be true haven't happened by the end of the test period.

C. If not, what are BGT's options for collecting the tax?

BGT can only collect this tax a couple of ways: Ask for a special tracker for the tax, or file a new rate case. A tracker would take a new tariff filing, and the Commission regulations explicitly frown on trackers. There is one more way, if Staff and the other parties would go along with it: Settle the rate case, and get the tax built into the settlement. Since settlement discussions are usually going on some time after the end of the test period, you'll know whether the governor signed the bill, and how much you're paying by then. Staff and the parties are often pretty open to this kind of adjustment, even though it's not formally permitted under the test-period approach. However, do not expect such reasonableness to come without a price (like you'll probably have to stop complaining about the rate-of-return guy).

BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

III. Retirements and Rates

You have come back in-house as Manager of Rates for BGT. One day, while you are buried under data requests, you receive a visit from Mr. Whipple of Accounting. Mr. Whipple is annoying, but he won't go away--you have to answer his question.

"We're thinking about retiring one of our compressors at East Deliverance Station," he says. "It really doesn't work anymore. If we retire it before the end of your test period, does it cause you any rate problems?"

The compressor is 30 years old, being depreciated at a 2.5 % rate. Its original cost was $4 million, and it's been depreciated to a net book value of $1 million. Because it's terminally broken, it's about as useful as Mr. Whipple himself. If you retire it now,

A. What is the effect on rate base?

There is no effect on rate base. This is because, although $4 million of plant would be removed from gross plant in service, $4 million would also be removed from the reserve for depreciation (rather than merely the $3 million of depreciation accumulated on the compressor). The Commission's accounting regulations prescribe this treatment for assets that are part of a broad group. As a result, net plant is unaffected--it went down when $4 million came out of plant, but it went up when $4 million came out of the reserve.

Is this fair? Yes. The concept of broad-group depreciation is that some assets in a class will die before others--some will have shorter lives than the average, some longer. So BGT's 2.5 percent depreciation rate is based on the average of all these lives. When some assets die earlier than the average, removing their full original cost from the reserve effectively transfers their remaining undepreciated value to the assets still in service.

An example is very helpful here. Say we have two compressors in a class, and that's it. Each cost $1 million, and the lives are expected to be 15 years for one and 25 years for the other. This gives us an average life of 20 years for the class. We get to the end of year 15, and here's what the plant balances look like:

	Gross Plant	Reserve	Net Plant
Compressor 1:	*$1,000,000*	*($750,000)*	*$250,000*
Compressor 2:	*$1,000,000*	*($750,000)*	*$250,000*
Totals	*$2,000,000*	*($1,500,000)*	*$500,000*

If we were right all along, and Compressor 1 dies out right now (at the end of year

15), what ought to happen? Well, if it turns out we're also right about Compressor 2 lasting for 25 years, we would hope that our annual depreciation expense of 5 percent (1 over 20 years) times our gross plant balances, would bring us out to zero when the second compressor croaks.

What happens if we just wipe out all the numbers for Compressor 1--that is, eliminate its $250,000 net plant balance? We will continue to charge 5 percent times the remaining $1,000,000, or $50,000 a year. After five years, at year 20, this will wipe out the remaining net plant balance for Compressor 2 of $250,000. After year 20, we'd be saying Compressor 2 is over depreciated, despite the fact that our 20-year average life was right all along. However, if we do what the FERC says, and remove $1,000,000 from both gross plant and the reserve, total net plant stays at $500,000. Compressor 2 has ten years of remaining life, meaning that $50,000 a year of depreciation expense for ten years and $500,000 of remaining net plant are both exactly right.

B. What is the effect on depreciation expense?

Depreciation expense goes down, by the 2.5 percent depreciation rate, times the $4,000,000 of plant we've killed off.

C. What is the effect on the depreciation rate?

Reducing gross plant without changing net plant could cause some upward pressure on the depreciation rate. However, if we're just seeing evidence that the depreciation rate was right in the first place, it won't change.Meanwhile, you have bigger problems than that with the depreciation rate. Let's look at the plant information from the rate-base summary. Also, remember, we have a 2.5 percent depreciation rate.

This table shows the net-plant calculation as of the end of the base period, with and without the retirement, and as of the end of the test period, again with and without the retirement. Then, at 2.5 percent, it calculates the implied remaining life and the implied end of the average life that the 2.5 percent would give you.

	Base Period	Base Period xRetirement	Test Period	Test Period xRetirement
Gross Plant	4,000	3,996	4,500	4,496
Reserve for Depreciation	(2,200)	(2,196)	(2,275)	(2,271)
Net Plant	1,800	1,800	2,225	2,225
Depreciation Expense @ 2.50%	100	100	113	112
Implied Years Left	18.00	18.02	19.78	19.80
Implied End of Average Life	**01/31/2016**	**02/07/2016**	**09/09/2018**	**09/16/2018**

Two things show up right away--first, the retirement only makes a one-week difference in the ending date, and second, the huge expansion included in this rate case--the difference between the base-period and the test-period numbers--makes a two-year difference. So unless something happens to make you believe the life of the whole system has been seriously extended, there has to be a full revisitation of the depreciation rate, and whether or not the retirement makes any difference will be lost in the rounding.

BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

IV. Zones and Load Factors

You decide none of your other personalities gets paid enough. So now you become the Washington lawyer for a bunch of big industrial users around St. Louis, which is in BGT's Zone 2. You now get paid by the hour (at least in your mind), so you want to be very thorough in reviewing every aspect of the BGT rate case--you need to spend a lot of time on it.

Suddenly, you realize that if all your clients are high-load-factor Zone 2 customers, they probably don't like the low-load-factor Zone 3 customers such as Madison. So you decide to concentrate on cost allocation and rate design.

As we noted in the introduction, the three BGT zones break down like this:

Zone	MDQ (Mdth/Day)	Old Rate (@ 100%LF)	Old Revenue ($ Millions)	New Rate (@ 100%LF)	New Revenue ($ Millions)
1	750	27¢	$ 74.0	30¢	$ 82.5
2	750	40¢	110.0	50¢	137.5
3	1,500	76¢	416.0	80¢	440.0
Total	3,000	55¢	$600.0	60¢	$660.0

It all looks pretty satisfying, at first: Zone 3 pays more than three times as much as Zone 2, and its rate is 60 percent higher. But then you ask, "Isn't there some way to keep an hourly-billing itinerant barrister busy in this case?" Yes, you tell yourself: Let's find out some facts and then thrash around uncontrollably for about six months. There might be something here.

So you set out to answer these questions:

A. What is the load factor in Zone 3? **[REFER TO BACKGROUND INFORMATION]**

You're right--We never did tell you. But we do tell you the effective unit costs in Zone 3, prior to the rate case. We know the 100 percent load-factor rate is 76¢. We know the actual effective unit cost is $2.28. Now, if this whole cost were the result of a fixed, monthly reservation charge, we'd know right now that the load factor is 33.3 percent. Put very simply, the load factor in that situation is just the ratio between the 100 percent load-factor rate and the actual unit cost.

This is easy to understand with a simple example: Say you have one Dth/Day of contract,

with a 100 percent load-factor rate of 50¢. In a month (the period for which you're paying the reservation charge), that would be a cost of $15.00--50¢ times 30 Dth. If I know that this fixed cost gives me an actual unit cost for the month of $1.50, I can figure out the volume that moved for the month: $15.00 divided by $1.50, or 10 Dth. That's one-third of the 30 full-contract volume, or a load factor of 33.3 percent. Meanwhile, if we'd just divided the 50¢ 100 percent load-factor rate by the $1.50 effective cost, we also would have gotten 33.3 percent.

Now, this calculation only works if the whole charge is a fixed reservation charge. If the charge were a volumetric quantity charge, it wouldn't vary with load factor at all. However, since BGT is under straight fixed-variable rate design, we can be confident that the quantity charge will be a very small part of the total, still letting us estimate the answer without a lot of brain damage.

So, if we start varying the quantity-charge assumption (like 2 or 3¢, with the rest in reservation rates), we're still pretty close. At 3¢ (leaving a 73¢ effective reservation rate at 100 percent load factor), the customer's actual unit cost consists of 3¢ plus $2.25 for reservation charges--adding back up to the $2.28. A $2.25 unit cost for a 73¢ effective reservation rate translates to a 32.5 percent load factor. So if you said "about 33 percent," you'd be right.

If you said, "We don't know the precise rate-design answer, so nobody can even venture a guess," you'd be missing a big opportunity to look smart--and you'd have a lot in common with many pipeline analysts.

BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

B. What is the system-average load factor? **[REFER TO BACKGROUND INFORMATION]**

This one is a no-brainer. In the background information, we said BGT moves 3,000 Mdth/day on peak, and 1,500 on average. That's a 50-percent load factor.

C. You learn that: (1) BGT uses a mileage-allocated system-wide cost of service to set zone rates, and (2) the pipeline from Springfield, Illinois to Madison is only fifteen years old as compared with the 30-year-old system south of there. What do you recommend?

The first thing you should notice, even without knowing a thing about how BGT sets its rates, is the relationship among the rate increases. Overall, BGT's rates went from 55¢ to 60¢. That's about an 8% increase. Zone 3 went from 76¢ to 80¢. That's about a 5% increase. But Zone 2, where your clients are, went from 40¢ to 50¢--a <u>20-percent increase!</u> Something's clearly wrong here.

The first step in reacting to this is to find out whether there's anything that BGT changed in its Dth-mile calculation. There are about a million places these studies can be jiggled to yield a completely different answer (a friend of mine once pointed out that it is very, very important to be liked by the dude performing the Dth-Mile study).

But then, this question of the different vintages of the segments of the system comes up. It would strongly be to Zone 2's advantage to argue for "Zone-Gate" cost allocation, instead of allocated system-wide cost of service. Zone-Gate isolates the cost of service of each segment, never charging an upstream zone for a downstream segment. Thus, Zone 2 would get the full benefit of heavily depreciated, old, facilities up to Springfield, and would pay little if any of the costs of the newer facilities heading on north.

D. The Public Service Commission of Wisconsin recommends a departure from SFV rate design, to put 20 percent of fixed costs in the quantity charge, rather than in the reservation charge. Do you advise your clients to agree with this? Why?

You should strongly oppose such a change in rate design. True, shifting costs to the quantity charge would place more risk on the pipeline and less on the customers, an outcome you would generally applaud as a customer.

However, any costs put in a quantity charge will get paid more heavily by the higher-load-factor customers (your clients). SFV is by far the best answer in terms of cost allocation for the kind of industrial customers you represent. The Wisconsin PSC's initiative is nothing more than an attempt to dump their costs on the "Show-Me State."

BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

V. Treatment of Expansions

Being a big-bucks D.C. lawyer is so much fun you decide to keep doing it until primal guilt might overcome you. So now (still at $350 an hour in your mind), you turn to the big reason for BGT's rate increase: They just completed a major mainline expansion from East Deliverance to Springfield, Illinois, costing $400 million. All the contract increases it allowed were in Zone 3, which went from 1,300 Mdth/day to 1,500 Mdth/day.

Based on BGT's claimed return and existing depreciation rate, the cost of service of the expansion is $80 million a year, out of the total claimed BGT cost of service of $660 million. At a 100 percent load factor, Zone 3 customers pay 80¢. But for the capacity added by the expansion, the unit cost is $80 million divided by the 200MDth/day involved, or $1.01 per Dth (again at a 100 percent load factor). That's 20 percent more than the Zone 3 rate BGT proposes to charge.

A. As the Zone 2 guy, what position will you take on the roll-in of the expansion?

You hate it. Why should you pay more (especially four times the Zone 3 percentage increase), just so the Tete-de-Fromage Restaurant can serve cheap brats? So you violently oppose the roll-in, arguing for an incremental charge of the expansion to Zone 3 expansion customers.

B. 200 Mdth/day is 73 MMDth annually at a 100 percent load factor. At 80¢ per Dth, that is $58 million of revenue. Meanwhile, the cost of service of the expansion is calculated as follows:

O&M Expense	$ 1.2 million
Depreciation	10.0 million **@ 2.5 PERCENT**
Return & Tax	68.8 million **@ A 17.2 % PRE-TAX RETURN**
Total	$ 80.0 million

So the shortfall is $80 million minus $58 million, or $22 million. Is this shortfall in rolled-in revenues sufficient to prevent a roll-in of the expansion?

Maybe, maybe not. Systemwide, $22 million divided by the $600 million pre-rate-case revenue stream is less than 4 percent. Thus, on average, rates would be increased less than 4 percent by the expansion. The FERC used to allow roll-in up to a 5-percent impact. The idea was that a little impact was all right and was better than creating a whole bunch of different-rate customers going to the same place.

However, in its Docket No. PL99-3 policy statement, issued September 15, 1999, the FERC declared a "no-subsidy" rule. In other words, if existing-customer rates went up at all, the project would have to be incrementally priced. So you have a pretty good chance to defeat

roll-in, if this the first examination of the project's rate impact.

However, you <u>will</u> have one other problem. If BGT got roll-in approval for the project back during its certificate case, the FERC requires you to show new facts, material changes in facts from those examined in the certificate case, to get the issue opened back up in the rate case. Thus, if the project was approved before September 15, 1999, and gained roll-in approval at that time, FERC will not reopen the issue here unless you meet the heavy burden of showing factual changes.

C. How large is the revenue shortfall, if any, at existing rates, before the rate case?

It's $16.5 million. By now you ought to be able to figure this out.--76¢ times 73 MMDth equals $55.5 million, and the old cost of service would have been $72 million. Shortfall--$16.5 MM. However, no one seems to bring a calculator to Madison, and a calculation of this extreme sophistication would be a lot to ask as you stroll down State Street.

BADGER GAS TRANSMISSION
[SMEAD'S ANSWERS TO THE QUESTIONS]

VI. Rate-Case Outcome

Whoa, that lawyer stuff was just too creepy to do indefinitely. So you're back as VP of Rates. It's sort of a relief, until the fax starts chirping at you, with incoming mail from 888 First Street, NE. You are startled to see that Staff has issued its Top Sheets just one month after the rate case was filed! This is an all-time record, and just one of the many improvements in efficiency resulting from The "FERC First" initiative.

Here's what Staff has to say:

Cost of Service: $508 million
Pre-Tax Return: 12.3 percent
And a lot of other stuff that's not job-threatening for you, so you ignore it.

This leaves you $152 million short (23 percent of your whole revenue target). You will need to figure out answers to the following:

A. Although you're a VP, and thus a big high muckety-muck, above you in the company is a regular "P", your president. She calls you in and says, "What on earth have you done? Where is this going to come out?" Well, what do you tell her?

First, you say, "This always happens. We file too high, and the Staff comes in too low. We'll get somewhere in the middle. Meanwhile, they just messed up their rate of return--their calculation didn't take into account the Opinion No. 414-A rulings. I think their 12.3 percent pre-tax return is just settlement posturing. Their real answer ought to be 14.3 percent. My biggest challenge will be to get them to adjust for their mistake without treating it as a big concession."

She says, "I hate this FERC stuff. Why do we have to file so high?"

Good question. Your answer: "Well, first, they're going to assume we did anyway, so if we come in for only what we really need, we'll get murdered.

"Second, we don't know how the individual pieces of the case will actually shake out. And we know the best we'll ever do is what we filed for on each individual line item. So when you sum up all these fairly aggressive positions, the answer is higher than rates probably really need to be."

"A good example," you say sagely,"is capital vs. O&M expense. Say you expect to spend some capital to reduce engine maintenance cost, but you don't know where or when you're going to do so. If you reduced your O&M expense, betting on the come that it would happen, but then didn't make the investment, Staff would kick the projected capital out of rate base. But they'd also certainly give you no more O&M expense than the

reduced level you'd included in the filing."

"Oh, I see," she says, "so you have to include <u>both</u> the capital and the O&M, and sort it all out later!"

"Riiiight. But Staff will still call you a double-dipping, investor-owned, toady of the rich guys that own pipelines. Don't worry, boss. I have a thick skin and I know the right answer is less than we asked for. I think we can get where we need to."

Always make a strong show of confidence when you're scared to death.

"I'm not a bit worried," quoth the President. "I hate going through this Kabuki play. But if it doesn't work out, don't worry about how I'll feel about it. I just have to tell the Board I fired the VP of Rates--then everything will be all right for <u>me</u>, anyway."

B. Say you get convinced <u>(and</u> convince your president) that the Staff is going to win. What happens when the rates take effect November 1?

The rates you put in effect November 1 will be <u>subject to refund</u>. So you have to reserve revenues from those rates, reducing earnings to reflect the future refunds. You have to apply your best judgment to determine the post-refund rates, then convince the president to give up earnings based on your judgment. This is a Rate VP's least popular job.

C. Say the outcome is halfway between the filing level and the Top Sheet level, at $584 million. The old rates would have brought in $600 million. What happens to BGT's rates, (1) at November 1? and (2) when the FERC issues its ultimate decision in the case?

After the final outcome (assuming it happens after November 1), and if the outcome is below the <u>pre-existing</u> rates, you'll make refunds <u>only down to your pre-existing rate level</u>. So for the period from November 1 to the date of the FERC order, your post-refund revenue will be based on your old rates. However, from the decision date forward, your rates will actually be reduced to the new, lower level.

D. If you're right in the first place, and the Staff is going to win, what happens to the Vice President of Rates?

Despite the President's whimsical reference to your execution, you couldn't have gotten to this level without knowing how to blame it on the lawyers, on Mr. Whipple, or on a confiscatory FERC. If you did, then Darwin had it wrong.