

RUBY PIPELINE, L.L.C.  
DOCKET NO. CP09-\_\_\_\_-000  
REVENUES-EXPENSES-INCOME  
EXHIBIT N

**Ruby Pipeline, L.L.C.**  
**Cost of Service**

<b>Line No.</b>	<b>Description</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Operation & Maintenance Expenses 1/	\$ 32,262,016	\$ 33,036,304	\$ 33,829,176	\$ 34,641,076	\$ 35,472,462	\$ 36,323,801	\$ 37,195,572	\$ 38,088,266	\$ 39,002,384	\$ 39,938,441
2	Depreciation Expense 2/	84,742,578	84,742,578	84,742,578	84,742,578	84,742,578	84,742,578	84,742,578	84,742,578	84,742,578	84,742,578
3	Other Taxes: Property Tax	28,664,586	29,352,536	30,056,997	30,778,365	31,517,046	32,273,455	33,048,018	33,841,170	34,653,358	35,485,039
4	Pre Tax Return	429,235,974	414,112,998	392,359,733	372,006,196	352,905,046	334,938,413	318,003,158	301,554,124	285,105,090	268,641,322
5	Total Cost of Service	<u>\$ 574,905,154</u>	<u>\$ 561,244,417</u>	<u>\$ 540,988,484</u>	<u>\$ 522,168,215</u>	<u>\$ 504,637,132</u>	<u>\$ 488,278,247</u>	<u>\$ 472,989,326</u>	<u>\$ 458,226,138</u>	<u>\$ 443,503,410</u>	<u>\$ 428,807,381</u>
6	Cost of Service Credit for Miscellaneous Services 3/	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258	\$ 28,745,258
7	Total Net Cost of Service	<u>\$ 546,159,897</u>	<u>\$ 532,499,159</u>	<u>\$ 512,243,226</u>	<u>\$ 493,422,957</u>	<u>\$ 475,891,874</u>	<u>\$ 459,532,989</u>	<u>\$ 444,244,069</u>	<u>\$ 429,480,880</u>	<u>\$ 414,758,153</u>	<u>\$ 400,062,123</u>

Footnote:

1/ Includes both direct field related O&M and A&G costs.

2/ Based upon a straight-line depreciation rate of 2.86 percent, which reflects a 35-year useful life.

3/ Cost of Service credits for IT, PAL, and SS-1 service and opportunistic operationally available capacity.

**Ruby Pipeline, L.L.C.**  
**Rate Base and Pre Tax Return**

Line No.	Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Gas Plant in Service	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212
2	Less: Accumulated Depreciation 1/	0	(84,742,578)	(169,485,157)	(254,227,735)	(338,970,313)	(423,712,891)	(508,455,470)	(593,198,048)	(677,940,626)	(762,683,204)
3	Net Plant	<u>\$2,963,027,212</u>	<u>\$2,878,284,634</u>	<u>\$2,793,542,055</u>	<u>\$2,708,799,477</u>	<u>\$2,624,056,899</u>	<u>\$2,539,314,321</u>	<u>\$2,454,571,742</u>	<u>\$2,369,829,164</u>	<u>\$2,285,086,586</u>	<u>\$2,200,344,008</u>
4	Working Capital 2/	17,778,163	17,778,163	17,778,163	17,778,163	17,778,163	17,778,163	17,778,163	17,778,163	17,778,163	17,778,163
5	Less: Deferred Income Taxes	0	(20,278,091)	(86,599,852)	(143,201,282)	(191,105,575)	(231,131,284)	(263,994,644)	(293,481,469)	(322,968,294)	(352,557,438)
6	Rate Base	<u>\$2,980,805,375</u>	<u>\$2,875,784,706</u>	<u>\$2,724,720,367</u>	<u>\$2,583,376,358</u>	<u>\$2,450,729,487</u>	<u>\$2,325,961,200</u>	<u>\$2,208,355,262</u>	<u>\$2,094,125,858</u>	<u>\$1,979,896,455</u>	<u>\$1,865,564,733</u>
7	Pre Tax Return 3/	14.40%	14.40%	14.40%	14.40%	14.40%	14.40%	14.40%	14.40%	14.40%	14.40%
8	Pre Tax Return Allowance	<u>\$ 429,235,974</u>	<u>\$ 414,112,998</u>	<u>\$ 392,359,733</u>	<u>\$ 372,006,196</u>	<u>\$ 352,905,046</u>	<u>\$ 334,938,413</u>	<u>\$ 318,003,158</u>	<u>\$ 301,554,124</u>	<u>\$ 285,105,090</u>	<u>\$ 268,641,322</u>

Footnote:

1/ Based upon a straight-line depreciation rate of 2.86 percent, which reflects a 35-year useful life.

2/ Based upon 0.60% of the gas plant in service.

3/ Pre-tax Return is based upon: 1) 60/40 debt equity ratio, 2) 9.30% estimated cost of debt, 3) 14% return on equity, and 4) 36.44% Federal and State effective total income tax rate.

**Ruby Pipeline, L.L.C.**  
**Deferred Income Tax Calculation**

Line No.	Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Book Depreciable Plant	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212	\$2,963,027,212
2	AFUDC Equity	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)	(155,266,452)
3	Tax Depreciable Plant	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>	<u>\$2,807,760,760</u>
4	Book Depreciation Rate	2.86%	2.86%	2.86%	2.86%	2.86%	2.86%	2.86%	2.86%	2.86%	2.86%
5	Book Depreciation Expense	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578	\$ 84,742,578
6	15-YR MACRS Tax Depreciation Rate	5.00%	9.50%	8.55%	7.70%	6.93%	6.23%	5.90%	5.90%	5.91%	5.90%
7	15-YR MACRS Tax Depreciation Expense	\$ 140,388,038	\$ 266,737,272	\$ 240,063,545	\$ 216,197,579	\$ 194,577,821	\$ 174,923,495	\$ 165,657,885	\$ 165,657,885	\$ 165,938,661	\$ 165,657,885
8	Total Book/Tax Difference	\$ (55,645,460)	\$ (181,994,694)	\$ (155,320,967)	\$ (131,455,001)	\$ (109,835,243)	\$ (90,180,917)	\$ (80,915,307)	\$ (80,915,307)	\$ (81,196,083)	\$ (80,915,307)
9	Tax Rate	36.44%	36.44%	36.44%	36.44%	36.44%	36.44%	36.44%	36.44%	36.44%	36.44%
10	Annual Deferred Income Tax	<u>(\$20,278,091)</u>	<u>(\$66,321,761)</u>	<u>(\$56,601,430)</u>	<u>(\$47,904,293)</u>	<u>(\$40,025,709)</u>	<u>(\$32,863,360)</u>	<u>(\$29,486,825)</u>	<u>(\$29,486,825)</u>	<u>(\$29,589,144)</u>	<u>(\$29,486,825)</u>
11	Accumulated Deferred Income Tax	<u>\$0</u>	<u>(\$20,278,091)</u>	<u>(\$86,599,852)</u>	<u>(\$143,201,282)</u>	<u>(\$191,105,575)</u>	<u>(\$231,131,284)</u>	<u>(\$263,994,644)</u>	<u>(\$293,481,469)</u>	<u>(\$322,968,294)</u>	<u>(\$352,557,438)</u>

**Ruby Pipeline, L.L.C.**  
**Revenues Compared to Cost of Service by Year**

Line No.	Description	MDQ (Mdt/d)	Rate 1/	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
<b>Cost of Service</b>													
1	Net Cost of Service	2/		\$ 546,159,897	\$ 532,499,159	\$ 512,243,226	\$ 493,422,957	\$ 475,891,874	\$ 459,532,989	\$ 444,244,069	\$ 429,480,880	\$ 414,758,153	\$ 400,062,123
<b>Revenue</b>													
2	Pacific Gas & Electric Company												
3	7-1-2011 to 10-31-2011	250,000	\$0.6800	\$ 20,683,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	11-1-2011 to 10-31-2026	375,000	\$0.6800	31,025,000	93,075,000	93,075,000	93,075,000	93,075,000	93,075,000	93,075,000	93,075,000	93,075,000	93,075,000
5				\$ 51,708,333	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000	\$ 93,075,000
6	Anadarko Energy Services Company	200,000	\$0.8850	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000
7	BP Energy Company	95,000	\$0.9500	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250	\$ 32,941,250
8	Shipper A	3/	200,000	\$0.8850	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000	\$ 64,605,000
9	Shell Energy North America, (US) L.P.	75,000	\$0.9500	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250	\$ 26,006,250
10	Bill Barrett Corporation	50,000	\$0.9500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500
11	Berry Petroleum Company	25,000	\$0.9500	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750
12	Marathon Oil Company	40,000	\$0.9500	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000	\$ 13,870,000
13	Antero Resources Piceance Corp.	25,000	\$0.9500	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750
14	Occidental Energy Marketing, Inc.	50,000	\$0.9500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500
15	Shell Energy North America, (US) L.P.												
16	4-1-2012 to 3-31-2013	25,000	\$0.9500	\$ -	\$ 7,946,354	\$ 722,396	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	4-1-2013 to 3-31-2021	50,000	\$0.9500			15,892,708	17,337,500	17,337,500	17,337,500	17,337,500	17,337,500	17,337,500	17,337,500
				\$ -	\$ 7,946,354	\$ 16,615,104	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500	\$ 17,337,500
18	Nexen Marketing U.S.A. Inc.	25,000	\$0.9500	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ -	\$ -	\$ -	\$ -	\$ -
19	El Paso Marketing, L.P.	25,000	\$0.9500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750	\$ 8,668,750
20	Berry Petroleum Company	12,857	\$0.9500	\$ -	\$ -	\$ 4,458,165	\$ 4,458,165	\$ 4,458,165	\$ 4,458,165	\$ 4,458,165	\$ 4,458,165	\$ 4,458,165	\$ 4,458,165
21	Total Contract Revenue			\$ 314,417,083	\$ 363,730,104	\$ 376,857,019	\$ 377,579,415	\$ 377,579,415	\$ 377,579,415	\$ 377,579,415	\$ 377,579,415	\$ 377,579,415	\$ 377,579,415
22	Uncommitted Firm Revenue	4/	\$ 1.0296	\$ 173,415,730	\$ 102,169,026	\$ 87,942,108	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178
23	Total Firm Revenue			\$ 487,832,813	\$ 465,899,130	\$ 464,799,127	\$ 464,738,592	\$ 464,738,592	\$ 464,738,592	\$ 464,738,592	\$ 464,738,592	\$ 464,738,592	\$ 464,738,592
<b>Net Revenue</b>													
24	(Under) Over Cost of Service			\$ (58,327,083)	\$ (66,600,029)	\$ (47,444,099)	\$ (28,684,365)	\$ (11,153,282)	\$ 5,205,603	\$ 20,494,524	\$ 35,257,712	\$ 49,980,440	\$ 64,676,470

**Footnotes:**

1/ Negotiated daily equivalent rate.

2/ See Exhibit N, page 1, line 7.

3/ The Shipper's name is redacted. 125,000 of the 200,000 Mdt/d is subject to the Shipper Board approval.

4/ See Exhibit N, page 5, for the derivation of uncommitted volumes and revenues.

**Ruby Pipeline, L.L.C.**  
**Derivation of Uncommitted Firm Revenues**

Line No.	Description	Firm Capacity			Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
		Total Firm	Contracted	Uncommitted											
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
				1/	2/	3/									
<b>Year 1</b>															
1	3/1/2011 to 6/30/2011	1,454,783	785,000	669,783	\$ 1.0296	\$ 83,902,937									
2	7/1/2011 to 10/31/2011	1,454,783	1,035,000	419,783	\$ 1.0296	52,585,705									
3	11/1/2011 to 2/28/2012	1,454,783	1,160,000	294,783	\$ 1.0296	36,927,088									
						\$ 173,415,730									
<b>Year 2</b>															
4	3/1/2012 to 3/31/2012	1,454,783	1,160,000	294,783	\$ 1.0296		\$ 9,231,772								
5	4/1/2012 to 2/28/2013	1,454,783	1,185,000	269,783	\$ 1.0296		92,937,254								
							\$ 102,169,026								
<b>Year 3</b>															
6	3/1/2013 to 3/30/2013	1,454,783	1,197,857	256,926	\$ 1.0296			\$ 8,046,196							
7	4/1/2013 to 2/28/2014	1,454,783	1,222,857	231,926	\$ 1.0296			79,895,913							
								\$ 87,942,108							
<b>Year 4</b>															
8	3/1/2014 to 2/28/2015	1,454,783	1,222,857	231,926	\$ 1.0296				\$ 87,159,178						
<b>Year 5</b>															
9	3/1/2015 to 2/28/2016	1,454,783	1,222,857	231,926	\$ 1.0296					\$ 87,159,178					
<b>Year 6</b>															
10	3/1/2016 to 2/28/2017	1,454,783	1,222,857	231,926	\$ 1.0296						\$ 87,159,178				
<b>Year 7</b>															
11	3/1/2017 to 2/28/2018	1,454,783	1,222,857	231,926	\$ 1.0296							\$ 87,159,178			
<b>Year 8</b>															
12	3/1/2018 to 2/28/2019	1,454,783	1,222,857	231,926	\$ 1.0296								\$ 87,159,178		
<b>Year 9</b>															
13	3/1/2019 to 2/28/2020	1,454,783	1,222,857	231,926	\$ 1.0296									\$ 87,159,178	
<b>Year 10</b>															
14	3/1/2020 to 2/28/2021	1,454,783	1,222,857	231,926	\$ 1.0296										\$ 87,159,178
15	<b>Total Revenue</b>					\$ 173,415,730	\$ 102,169,026	\$ 87,942,108	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178	\$ 87,159,178

**Footnote:**

- 1/ Uncommitted firm capacity is total capacity less committed and interruptible services capacity.
- 2/ The 100% load factor equivalent firm service recourse rate, which equals the interruptible services rate as shown on Line 6, Page 6, of Exhibit N.
- 3/ Revenue is calculated by multiplying uncommitted capacity for each period by the rate.

**Ruby Pipeline, L.L.C.**  
**Calculation of Rates**

Line No.	Description (a)	Commodity (b)	Demand (c)	Total (d)
1	First Year Net Cost of Service	\$ 5,015,203	\$ 541,144,694	\$ 546,159,897
<u>Rate Schedule FT Service</u>				
2	Billing Determinants (Dth)	1/ 477,896,051	1,454,783	
3	Monthly Maximum Reservation Rate	2/	\$ 30.9980	
4	Monthly Minimum Reservation Rate		\$0.000	
5	Commodity Rate (minimum & maximum)	3/ \$ 0.0105		
6	<u>Interruptible Service Rate</u>	4/ \$ 1.0296		

Footnotes:

1/ Commodity quantities are shown at a 90% utilization, based on expected customer activity.

2/ Column ( c ) Line 1 divided by column ( c ) line 2 divided by 12 months.

3/ Column ( b ) Line 1 divided by column ( b ) line 2. This amount represents Ruby's estimate of variable costs.

4/ Derivative rate based on the 100% load factor Rate Schedule FT rate.

**Ruby Pipeline, L.L.C.**  
**Calculation of Electric and Fuel Percentages**

Line No.	Description	(a)	(b)	(c)	(d)
			<b>Load Factor</b>	<b>Dth/d</b>	<b>Annual Dth</b>
1	<b><u>Pipeline throughput (net delivery)</u></b>	1/	90%	1,378,215	503,048,475
<b><u>Gas Compressor Fuel and Miscellaneous Utility Uses</u></b>					
2	Quarter Point - Wildcat Hills			2,953	1,077,686
3	Midpoint - Weiland Flat			2,494	910,258
4	Westernmost - Desert Valley			2,198	802,429
5	Total Gas Fuel			<u>7,645</u>	<u>2,790,374</u>
6	Gross Receipts			<u>1,385,860</u>	<u>505,838,849</u>
7	Transport Fuel Percentage (line 5 divided by line 6)				0.552%
8	L&U	2/			0.150%
9	Total Fuel and L&U				<u><u>0.702%</u></u>
<b><u>Electric Power Cost ("EPC")</u></b>					
	Opal Head Station - Roberson Creek	3/			
10	Annual energy charge - \$/kWh	4/	\$ 0.0241	423,538,713	\$ 10,211,518
11	Annual demand charge - \$/kw/month	4/	\$ 11.30	48,349	6,556,147
12	Annual energy cost				<u>\$ 16,767,666</u>
13	Annual utility customer charge				<u>\$ 43,260</u>
<b>Greenhouse gas - direct emissions</b>					
14	- Emission offset price, \$/metric ton	5/	\$ 16.00		
15	- Annual direct CO2 equivalent, metric ton			213,567	\$ 3,417,066
16	- Annual indirect CO2 equivalent, metric ton			162,755	\$ 2,604,076
17	Annual emission offset cost				<u>\$ 6,021,142</u>
18	Total Annual Electric Power Cost	6/			<u><u>\$ 22,832,068</u></u>

**Footnote:**

- 1/ Compressor fuel calculated at a 90% load factor. Total capacity at a 90% load factor equals 1,378,215 Dth/d.
- 2/ The Lost and Unaccounted for Gas percent of receipts is based on the low end of the L&U typically experienced in pipeline operations.
- 3/ EPC are collected in addition to FL&U and the transportation tariff rate.
- 4/ Per electric provider tariff.
- 5/ The emission offset price is based on internal and external estimates.
- 6/ EPC shall be paid by Shippers on a pro rata basis based on the quantity of Gas delivered by Transporter to Shippers.

**RUBY PIPELINE, L.L.C.**  
**RUBY PIPELINE PROJECT**

**Exhibit N**  
**Explanatory Statement**

**Proposed Services**

Ruby proposes to offer firm (under Rate Schedule FT), interruptible transportation (under Rate Schedule IT), interruptible parking and lending (under Rate Schedule PAL), and interruptible swing service (under Rate Schedule SS-1) on an open-access, non-discriminatory basis. Ruby has designed rates for Rate Schedule IT, PAL, and SS-1 using the 100% load factor equivalent of the firm recourse reservation rate plus the commodity rate. These services are fully described in the *pro forma* tariff filed under Exhibit P in this application.

**Cost of Service**

The total first year annual cost-of-service for Ruby is \$574,905,154. The major elements of this cost-of-service are:

- Total pre-tax return allowance of \$429,235,974, reflecting total capital costs (gas plant in service) of \$2,963,027,212 as detailed at Exhibit K to this application, and non-cash working capital (materials and supplies) of \$17,778,163, which is 0.6 percent of gas plant in service;
- Depreciation expense of \$84,742,578, reflecting book depreciation of transmission plant on a straight-line basis over a 35-year period (or 2.86% per year);
- Other taxes estimated at \$28,664,586; and
- Operations and maintenance (O&M) expenses estimated at \$32,262,016.

**RUBY PIPELINE, L.L.C.  
RUBY PIPELINE PROJECT**

**Exhibit N  
Explanatory Statement**

Ten years of Ruby' projected costs of providing service are detailed in the schedule at Page 1 of 7 of Exhibit N. The cost-of-service is exclusive of fuel, lost and unaccounted-for (“FL&U”) gas, and electric power costs (“EPC”). Ruby will cover the costs for FL&U gas through in-kind retention and the EPC by a monthly charge determined by Shipper’s pro rata share of throughput, which are described later in this explanatory statement.

Underlying the pre-tax return allowance is a capital structure of 40% equity and 60% debt, assuming a 14% return-on-equity and 9.3% cost-of-debt. The derivation of total pre-tax return is demonstrated below:

**Ruby Pipeline Company, L.L.C.  
Calculation of Pre-Tax Return**

<b>Line No.</b>	<b>Particulars</b>	<b>Capital Structure</b>	<b>Cost</b>	<b>Weighted Cost</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
1	Long-Term Debt	60.00%	9.30%	5.58%
2	Equity	40.00%	14.00%	5.60%
3	Total Return			11.18%
4	Federal Income Tax Allowance		35.00%	3.02%
5	State Income Tax Allowance		2.22%	0.20%
6	Total Income Tax Allowance			3.22%
7	Total Pre-Tax Return			14.40%

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The calculation of the pre-tax return allowance of \$429,235,974 is detailed on Page 2 of 7 of Exhibit N. Financing details are provided at Exhibit L to this application.

Depreciation expense is estimated using the proposed straight-line book depreciation rate of 2.86 percent, reflecting the assumption of a 35-year useful asset life. The Ruby Project will be supplied by significant Rocky Mountain region natural gas supplies that, at flat production rates, are forecast to last for 68 years, as detailed in Exhibit H. In keeping with long-standing Commission practice, Ruby has “truncated” the indicated supply life to 35 years for the purpose of deriving its proposed depreciation rate. The 35-year useful life underlying Ruby’s proposed depreciation rate is consistent with other Commission approved decisions for pipelines that depend upon Rocky Mountain area supplies. See for example the Commission’s Order Issuing Certificate in Rockies Express Pipeline LLC issued May 30, 2008, in Docket No. CP07-208 (123 FERC ¶ 61,234) at paragraphs 54 and 55. The calculation of the annual book depreciation expense of \$84,742,578 is shown on Page 3 of 7 of Exhibit N.

Other taxes, which represent property taxes, are estimated using the ad valorem tax rates by county and by state applied to the gas plant that will be applicable to such taxing locations. The annual other taxes amount of \$28,664,586 is displayed on Page 1 of 7 of Exhibit N.

The operation and maintenance expense estimate included in the cost-of-service is based upon direct operating experience with similar facilities and includes an allocated

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portion of corporate and Western Pipeline Division office overhead. The annual O&M estimates are displayed on Line 1 of Page 1 of 7 of Exhibit N.

**Cost Allocation and Rate Design**

Ruby is proposing to use the Straight Fixed-Variable (SFV) method to design the *pro-forma* firm transportation rate with a reservation rate covering fixed costs and a commodity rate covering variable costs. The vast majority of Ruby' costs other than FL&U, however, are fixed costs. As a result, variable costs (such as lubricants and desiccants) make up only a very small portion of the total cost-of-service – approximately five million dollars in total per year.

The recourse rate for the firm transportation service reflects a “postage stamp” rate design, since the pipeline system is like a soda straw, with receipts on one end, one interim delivery point in western Nevada, and with the vast majority of deliveries at the terminus of the pipeline near Malin, Oregon. No receipts occur in the middle. The postage stamp recourse rate reasonably reflects the fact that virtually all facilities are used to transport gas from one end of the system to the other. The pipeline system does not “telescope” in size from receipt to delivery. There is no scale or scope cost savings associated with shorter hauls at this time. Further, the initial facilities will support both the Initial Shippers and future contract holders. Thus all shippers will benefit from the integrated facilities of the initial project.

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Currently, the only service to which shippers have subscribed is for firm transportation under Rate Schedule FT. In determining the cost of service to be used to compute the firm recourse rate, Ruby has first reduced the total cost of service by a cost of service credit which reasonably reflects an at-risk revenue that Ruby may realized from all three interruptible services and from time-to-time very short-term sales based upon operationally availability capacity. The remaining cost of service, after this cost of service credit, is used to compute such firm rates. The net cost of service is \$546,159,897, of which \$541,144,694 is fixed cost and \$5,015,203 is variable cost. Total sustainable average annual capacity is predicted to be 1,531,350 Dth per day. This capacity has been determined by considering the sustainable summer capacity (approximately 1.506 MDth per day) for seven months and the sustainable winter capacity (approximately 1.566 MDth per day) for five months. Ruby believes that a subscription level of 95 percent of firm available annual average capacity reasonably is in keeping with prior Commission precedent and reasonably reflects a fully subscribed pipeline. Thus, Ruby has used 95 percent of this annual average capacity to design firm rates. This level of sustainable capacity is 1,454,783 Dth per day and the resulting monthly maximum reservation charge is \$31.9980 per Dth, calculated as follows:

$$\$541,144,694 \div 1,454,783 \div 12 \text{ months} = \$30.9980 \text{ per Dth}$$

The maximum recourse rate for Rate Schedule FT service has not been adjusted for the impacts of discounting. While the Commission has said such an adjustment could be

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made, the recourse rate proposed in this application does not include a discount adjustment.

The commodity rate of \$0.0105 per Dth is calculated as follows:

$$\$5,015,203 \div 477,896,051 = \$0.0105 \text{ per Dth}$$

where the commodity units are the demand units annualized at a 90 percent load factor ( $1,454,783 \times 365 \times 90\% = 477,896,051$ ). The calculation of these rates is displayed on Page 6 of 7 of Exhibit N.

The recourse rates for the proposed interruptible services are derivative of the Rate Schedule FT rate. Thus, the maximum interruptible services rate of \$1.0296 per Dth is displayed on Page 6 of 7 of Exhibit N and is derived as follows:

$$\$30.9980 \times 12 \div 365 = \$1.0192 + \$0.0105 = \$1.0296 \text{ per Dth}$$

Though the interruptible services rates for Rate Schedules IT, PAL and SS-1 are derivative of the Rate Schedule FT rates, Ruby has used a cost of service credit to reflect a reasonable level of future revenues for such services and to take an at-risk position. This cost of service credit is directly related to the annual revenue crediting provision discussed by Mr. Richard Derryberry in his affidavit at Exhibit P. Therefore, \$28,745,258 of the total cost of service is allocated to the three proposed interruptible services and the remainder of the cost of service is allocated to firm service. Ruby is at risk to collect the portion of its cost of service attributable to these interruptible services. This amount is a reasonable estimate of what Ruby might be expected to attain for such

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interruptible service, particularly in light of the level of open capacity remaining at this time.

The authorized daily overrun rates reflected in the *pro forma* tariff are based upon the 100% load factor rates for service under Rate Schedule FT. This is supported by the fact that daily overruns which are authorized for one shipper are operationally feasible without degrading the service of any other shipper and that such service should be priced similarly to Rate Schedule IT service.

The unauthorized daily overrun rates are also operationally based, and are proposed in three tiers. Consistent with Order 637, the unauthorized daily overrun rate will vary depending on system operations. For the first tier, unauthorized daily overruns of less than three percent of a shipper's Maximum Daily Quantity (MDQ) are treated as if the overrun is authorized. This is to provide the shippers with a so-called "safety zone," and is assumed at this point to have little or no detrimental operational impact on other shippers and reasonably will be handled by Ruby out of available line pack.

Second, unauthorized daily overruns of equal to or greater than three percent of MDQ during non-critical conditions will be charged two times the applicable authorized daily overrun rate. Ruby has no storage, and must replace such overruns not just with line pack but with other assets such as OBA loans or purchased gas.

Third, unauthorized daily overruns of equal to or greater than three percent of MDQ during critical operating conditions will be charged ten times the cashout index

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price. These price levels are consistent with those approved by the Commission in other proceedings. This is to provide the appropriate financial incentives to firmly dissuade such overruns during these critical operating conditions.

Unauthorized daily overrun revenues that are in excess of the cost of providing transportation service associated with an unauthorized daily overrun event will be credited to all firm shippers. This is detailed in Section 6.2 of Rate Schedule FT and Footnote No. 2 to the Statement of Rates of the *pro forma* tariff included at Exhibit P to the application.

**Fuel, Lost and Unaccounted For Gas, and Electric Power Costs**

As shown at Exhibit G to this application, the fuel used for the gas compressors (two Mars 100s at Wildcat Hills, Utah, two Solar Titan 130s at Wieland Flat, Nevada, and two Solar Titan 130s at Desert Valley, Nevada) will be reimbursed to Ruby in-kind. Additionally, any miscellaneous system operations gas uses such as building heat, vehicle refueling, and the like, will also be included in such computation. The initial in-kind fuel retention percentage is proposed to be 0.552%. This percentage is derived by dividing the anticipated gas fuel consumption (numerator) by the receipt quantities of the pipeline represented as the throughput at a 90% load factor (denominator).

A reasonable but conservative quantity of Lost and Unaccounted For gas (“L&U”) equal to 0.15% of receipts has been included as an initial estimate. This

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amount is based on the low end of the L&U typically experienced in pipeline operations. The calculation of the initial fuel and L&U reimbursement percentages of 0.552% and 0.15% are included on Page 7 of 7 of Exhibit N.

After the first six months of operation the in-kind FL&U will be recomputed at least quarterly (through a quarterly compliance filing), and will be adjusted by actual experience. That is, should the actual fuel used and/or L&U vary from the actual reimbursement, the recalculated FL&U will include an adjustment for that variance. A complete description of the FL&U mechanism is included in Section 26 of the *pro forma* tariff at Exhibit P to this application and is generally explained in the affidavit of Mr. Richard Derryberry.

The electric power costs are related to the operation of the three electric drive compressors at the pipeline's head station at Roberson Creek, Wyoming. These costs include the charges of the electric provider, such as a connection fee and demand and usage charges. Furthermore, the EPC charge includes the operating costs that Ruby will incur to be carbon-neutral as Ruby will purchase offsets and allowances (as well as using other listed available tools) to offset the carbon produced at its gas burning compressors and in other system operations. The EPC charge also includes the cost and revenue true-up related to fuel imbalances and related to gas balancing items. This is also discussed by Mr. Derryberry in his affidavit. Rather than convert these dollar costs to a Dth equivalent quantity to pass on costs through the in-kind FL&U rate, Ruby created a

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separate EPC mechanism which will be invoiced monthly on an allocated lump-sum basis. In this mechanism electric power costs are paid by shippers on a pro rata basis based upon the quantity of gas received by Ruby from the shippers and after the first six months of operation will be adjusted every quarter. It is paid in addition to in-kind fuel and L&U.

A complete description of the EPC charge mechanism is included in Section 27 of the *pro forma* tariff at Exhibit P to this application. Also, the calculation of the initial estimated annual EPC amount of \$22,832,068 is included on Page 7 of 7 of Exhibit N.

**Revenues**

In bidding for capacity on the Ruby system during the open seasons, shippers had the opportunity to choose either a negotiated rate or the maximum recourse rate. To aid the shippers in that decision, Ruby provided anchor shippers with initial good faith estimates of the expected firm service rate based upon estimated costs at that time. The shippers were aware at that time the estimated recourse rate was subject to Commission review and approval. Every shipper to date has chosen the negotiated rate option and has contracted for capacity on the system on that basis. Ruby believes that the shippers favored the certainty of the negotiated rate option as compared to the recourse rate.

Exhibit N, Page 4 of 7, details the contracted quantities, negotiated rate, and annual revenues for each shipper. Also provided are the revenues which Ruby hopes to

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achieve by marketing the capacity on a firm basis which is uncommitted at the time of this filing. Ruby assumed it will market such currently uncommitted capacity at the maximum Rate Schedule FT rate (for ease of display, Ruby has shown the negotiated rate shipper revenues and the uncommitted revenues on a one-part rate equivalent). Page 5 of 7 of Exhibit N details the supporting calculation for the uncommitted firm revenues displayed on Page 4. Page 4 of 7 of Exhibit N also shows a comparison of the total of committed and uncommitted revenues to the cost of service allocated to firm service for the first ten years following the in-service date. Resulting revenues are less than the cost-of-service in early years and exceed the cost-of-service in later years.