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September 13, 2004

VIA HAND DELIVERY

The Honorable Vernon A. Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: STB Docket No. 42084
CF Industries, Inc. v. Kaneb Pipe Line Partners, L.P. and
Kaneb Pipe Line Operating Partnership, L.P.

Dear Secretary Williams:

Enclosed for filing in the above-referenced proceeding please find an original and ten copies of the public version of the Opening Evidence and Argument of Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Operating Partnership, L.P. (collectively, "Kaneb"). Three electronic copies on compact disc containing the text of the Opening Evidence and Argument in Microsoft Word and applicable exhibits in Adobe Acrobat are also enclosed. In addition, Kaneb is submitting one copy of the Confidential Version of its Opening Evidence and Argument, pending Board approval of its Motion for Protective Order.

Please acknowledge receipt of Kaneb's Opening Evidence and Argument by stamping and returning to our Paralegal the enclosed duplicate copy of this filing.

Sincerely,

Kathrine L. Henry
Kathrine L. Henry

Enclosures

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PUBLIC

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**



**CF INDUSTRIES, INC.,
Complainant,**

**ENTERED
Office of Proceedings**

v.

SEP 13 2004

KANEB PIPE LINE PARTNERS, L.P., Part of
Public Record

Docket No. 42084

and

**KANEB PIPE LINE OPERATING
PARTNERSHIP, L.P.,
Defendants.**

**KANEB PIPE LINE PARTNERS, L.P.'S
AND KANEB PIPE LINE OPERATING PARTNERSHIP, L.P.'S
OPENING EVIDENCE AND ARGUMENT**

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AND KANEB PIPE LINE OPERATING
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ATTORNEYS FOR KANEB PIPE LINE
PARTNERS, L.P. AND KANEB PIPE
LINE OPERATING PARTNERSHIP, L.P.

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**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

**KANEB PIPE LINE PARTNERS, L.P.'S
AND KANEB PIPE LINE OPERATING PARTNERSHIP, L.P.'S
OPENING EVIDENCE AND ARGUMENT**

PREFACE

In accordance with the Board's August 11, 2004 Decision¹ requesting additional information in order to determine whether to vacate the rate prescription it imposed in CF Industries, Inc. v. Koch Pipeline Company, L.P.,² Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Operating Partnership, L.P. (collectively, "Kaneb")³ hereby submit their

¹ CF Industries, Inc. v. Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Operating Partnership, L.P., STB Docket No. 42084 (STB served August 12, 2004) ("August 11 Decision").

² CF Industries, Inc. v. Koch Pipeline Company, L.P., 4 S.T.B. 637 (2000) ("Koch"), aff'd sub nom. CF Industries, Inc. v. STB, 255 F.3d 816 (D.C. Cir. 2001).

³ Kaneb Pipe Line Partners, L.P. is a publicly-traded company which owns Kaneb Pipe Line Operating Partnership, L.P., the owner and operator of the pipeline at issue. Kaneb Pipe Line Company, LLC, which is not a named party to this proceeding, is the general partner of Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Operating Partnership, L.P.

Opening Evidence and Argument in support of their claim of materially changed circumstances.

Kaneb's Opening Evidence and Argument is comprised of the Argument and Summary of Evidence, as well as the following verified statements addressing the specified subjects:

<u>Witness:</u>	<u>Subject:</u>
Joseph Graham Controller, Kaneb Pipe Line Company, LLC	Assets Kaneb Purchased from Koch; Itemized Values of Those Assets; Comparison to the Assets the Board Examined in <u>Koch</u> ; Operating Costs; Capital Expenditures; Revenues
Edward Doherty Chairman of the Board and Chief Executive Officer, Kaneb Pipe Line Company, LLC	Arm's Length Nature of Koch/Kaneb Asset Purchase and Sale Transaction
Robert A. McElroy, Jr. Vice-President, Kaneb Pipe Line Company, LLC	Volumes
Robert G. Van Hoecke Principal, Regulatory Economics Group, LLC	Return on Investment

In addition, pursuant to the August 11 Decision, Kaneb has attached, as Exhibit E, the Koch/Kaneb Asset Purchase and Sale Agreement.

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

**ARGUMENT AND SUMMARY OF EVIDENCE
OF KANEB PIPE LINE PARTNERS, L.P.
AND KANEB PIPE LINE OPERATING PARTNERSHIP, L.P.**

I. INTRODUCTION

Kaneb requested in its August 21, 2003 Motion to Dismiss the Complaint filed by CF Industries, Inc. ("CF Industries")⁴ in this proceeding that the Board lift the rate prescription it imposed in CF Industries, Inc. v. Koch Pipeline Company, L.P.⁵ on the basis of materially changed circumstances. In its August 11, 2004 Decision, the Board directed the parties to submit further information regarding materially changed circumstances in order to determine whether to vacate the existing rate prescription for transportation service on the anhydrous ammonia pipeline Kaneb purchased from Koch

⁴ Motion to Dismiss Complaint, or, in the Alternative, for Summary Judgment, STB Docket No. 42084 (filed Aug. 21, 2003).

⁵ CF Industries, Inc. v. Koch Pipeline Company, L.P., 4 S.T.B. 637 (2000) ("Koch"), aff'd sub nom. CF Industries, Inc. v. STB, 255 F.3d 816 (D.C. Cir. 2001).

Pipeline Company, L.P. and Koch Fertilizer Storage and Terminal Company in November 2002.

In the Koch case, the Board applied the revenue adequacy approach of the Constrained Market Pricing (“CMP”) principles articulated in Coal Rate Guidelines, Nationwide, 1 I.C.C. 520 (1985) (“Rate Guidelines”), aff’d sub nom. Consolidated Rail Corp. v. United States, 812 F.2d 1444 (3d Cir. 1987).⁶ Under the revenue adequacy approach used in Koch, the Board examined Koch’s existing system to determine whether it was earning sufficient funds to cover its costs and provide a sufficient return on investment, the “revenue adequacy constraint” test.⁷ The Board reviewed various analyses that were developed using data presented in the Koch case and determined that Koch would earn adequate revenues at the pre-rate increase levels. Therefore, the Board prescribed the rates that had been in effect on March 31, 1996, for 19 of the destinations at issue in that case. Those prescribed rates are at issue here.

In determining whether to vacate a prescription, and thus restore ratemaking initiative to the carrier, the Board must assess whether the factual and legal bases of the prescription remain valid.⁸ The Board should have no difficulty concluding that the Koch rate prescription should be vacated because the factual underpinnings of the Koch decision no longer have validity.

As demonstrated in the attached verified statements, there has been a material change of circumstances since the Board addressed Koch’s rates in May 2000, when it

⁶ Koch, 4 S.T.B. at 642.

⁷ Id. at 656 (citing Rate Guidelines, 1 I.C.C. 2d at 535-36).

⁸ San Antonio, TX v. Burlington Northern, Inc., 364 I.C.C. 887, 896 (1981); Arizona Public Service Co. v. Burlington N. & Santa Fe Ry. Co., STB Docket No. 41185 (STB served May 12, 2003).

prescribed Koch's rates to the pre-increase (March 31, 1996) level. As discussed in more detail below, the Board should lift the rate prescription because: (1) Kaneb's acquisition costs for the pipeline assets substantially exceed the pipeline valuation underlying the Koch prescription; (2) Kaneb's average operating costs and capital expenditures exceed the average operating costs and capital expenditures the Board examined in Koch; (3) volumes on the pipeline have decreased since the Board examined them in Koch; and (4) revenues generated from the pipeline have decreased since the Board imposed the Koch rate prescription. Based on the foregoing changed circumstances, Kaneb's return on investment, when compared to a conservative cost of capital benchmark, would be substantially different from the similar comparison which underlies the Board's determination in Koch. Therefore, the factual underpinnings of the Koch decision no longer have validity, and the Board must lift the rate prescription and restore ratemaking authority to Kaneb.

II. BACKGROUND

On September 17, 2002, Kaneb Pipe Line Operating Partnership, L.P. entered into an Asset Purchase and Sale Agreement with Koch Pipeline Company, L.P. and Koch Fertilizer Storage and Terminal Company (collectively, "Koch"), whereby Kaneb agreed to purchase Koch's anhydrous ammonia pipeline effective November 1, 2002. On October 30, 2002, Kaneb published its tariff adoption notice applicable to the pipeline, and on March 10, 2003, Kaneb published new tariff sheets reflecting a general increase of 7% to interstate tariff movements on the pipeline system.

On August 1, 2003, CF Industries filed a complaint with the Board, alleging that Kaneb violated 49 U.S.C. § 15503(a) by charging CF Industries illegal rates in excess of

the rate prescription imposed upon Kaneb's predecessor. In response, Kaneb filed a Motion to Dismiss CF Industries' Complaint. Kaneb argued, among other things, that even assuming that Kaneb was required to seek approval from the Board prior to raising its rates, the Board should vacate the rate prescription imposed in Koch because the factual underpinnings of the Koch decision no longer have validity.

The rate prescription at issue arose in a separate, earlier proceeding involving a CF Industries complaint against Koch in which the Board evaluated the reasonableness of Koch's rate increase by applying the revenue adequacy constraint. In its May 2000 decision in the Koch case, the Board applied the revenue adequacy constraint and determined that the pipeline was earning adequate revenues at pre-rate increase levels. The Board therefore restricted Koch's rates to the prescribed rates.

In its August 11 Decision addressing Kaneb's Motion to Dismiss CF Industries' Complaint, the Board noted Kaneb's position that the rate prescription should be vacated due to changed circumstances. The Board found that it could not determine "based on the record before [it] whether the bases for the original prescription remain valid,"⁹ and stated that without additional information it could not determine whether it "can or should alter or lift the Koch prescription."¹⁰ Consequently, the Board directed Kaneb to submit a verified statement to support its claim of materially changed circumstances. Specifically, the Board ordered that:

[The] submission should include, but need not be limited to: a list of the assets Kaneb purchased from Koch and an itemized valuation of those assets; a comparison to the assets that the Board examined in Koch; the complete Koch/Kaneb asset purchase and sale agreement; a statement setting forth facts sufficient to establish whether or not the purchase was

⁹ August 11 Decision at 3.

¹⁰ Id. at 4.

an arm's length transaction; and any other information relevant to [Kaneb's] claim of materially changed circumstances.¹¹

III. SUMMARY OF EVIDENCE AND ARGUMENT

Consistent with the Board's directives, Kaneb herein provides evidence to demonstrate that the rate prescription imposed by the Board in Koch should be lifted based on materially changed circumstances. Kaneb's evidence shows major changes to circumstances forming the basis for the Koch rate prescription. First, Kaneb's acquisition cost of \$140 million for the pipeline assets substantially exceeds the \$77.2 million pipeline valuation underlying the Koch prescription. Second, Kaneb's average operating costs and capital expenditures, including its implementation of a Department of Transportation-mandated pipeline integrity program, exceed the average operating costs and capital expenditures the Board examined in Koch. Third, volumes on the pipeline have decreased and are approaching the lowest level that the Board examined in Koch. Finally, revenues generated from the pipeline have decreased to the lowest level that the Board examined when it imposed the Koch rate prescription.

The effect of these changes is that Kaneb's return on investment, as compared with a conservative cost of capital benchmark, would be substantially different from the similar comparison which underlies the Board's determination in Koch, and the factual underpinnings of the Koch rate prescription no longer exist. Therefore, the Board should lift the rate prescription imposed in Koch and restore Kaneb's ratemaking authority.

¹¹ Id.

A. Kaneb's Acquisition Costs Substantially Exceed the Pipeline Asset Valuation Underlying the Koch Prescription.

1. The Assets That Kaneb Acquired from Koch for \$140 Million Are Substantially the Same Assets That the Board Examined in Koch.

The Board used a \$ 77.2 million pipeline asset valuation in the analyses that were the basis of its decision to set the rate prescription in Koch. That asset valuation no longer has validity. Kaneb purchased the anhydrous ammonia pipeline facilities from Koch effective November 2002 for approximately \$140 million.

The Board's August 11 decision ordered Kaneb to submit, among other things, a list of the assets Kaneb purchased from Koch and an itemized valuation of those assets. The Board also directed Kaneb to include in its submission a comparison of the assets Kaneb purchased to the assets that the Board examined in Koch.¹² In addition, the Board directed Kaneb to submit a complete copy of the Koch/Kaneb Asset Purchase and Sale Agreement ("Purchase Agreement").

Kaneb has attached hereto as Exhibit E, the complete Purchase Agreement. Exhibit H to the Purchase Agreement contains an itemized valuation of the assets Kaneb purchased. For the Board's convenience, Kaneb has attached the valuation list separately hereto as Exhibit F. The verified statement of Joseph Graham, Controller of Kaneb Pipe Line Company, LLC, attached hereto as Exhibit A, reflects the investment in these assets as of August 31, 2004. As discussed fully below, based on the Purchase Agreement and the Koch decision, Kaneb believes that the assets it purchased from Koch valued at \$140 million, including \$10 million for the anhydrous ammonia in the pipeline, are

¹² Id.

substantially the same assets that the Board examined when it set the rate prescription in the Koch decision.

As described in Article II of the Purchase Agreement, the assets included in the sale are described in pertinent part as follows:

[

].¹³

The other assets described in the Purchase Agreement, such as [] all expressly relate to the ownership and operation of the pipeline system assets. Article II further describes the “Excluded Assets” as [

].¹⁴

Exhibit A attached to the Purchase Agreement lists the specific Facilities that were acquired by Kaneb. The first facility listed is described as follows:

[

¹³ Exhibit E, Koch/Kaneb Asset Purchase and Sale Agreement at 7.

¹⁴ Id. at 8-9 (emphasis in original).

].¹⁵

The related items described in Exhibit A include [

]. As noted above, a pipeline system map is also attached to Exhibit A.

When these assets are compared to the Koch decision, it is apparent that the assets the Board examined therein are substantially the same assets that Kaneb purchased from Koch. Koch acquired the anhydrous ammonia pipeline in 1988 as part of a \$200 million package that also included the Gulf Central Storage and Terminal Company and a natural gas company.¹⁶ In 1988, when Koch purchased the package, it valued the pipeline assets in regulatory filings at \$77.2 million.¹⁷ Specifically, at the beginning of 1988 on its FERC Form 6, Koch allocated \$69.2 million to net carrier property and approximately \$8 million to the anhydrous ammonia in the pipeline at the time of its purchase. The Board found the \$77.2 million to be a reliable reflection of the value of Koch's investment in the pipeline.¹⁸

¹⁵ Id. at Exhibit A.

¹⁶ Koch, 4 S.T.B. at 657 n.60.

¹⁷ Id. at 657-58.

¹⁸ Id. at 658. Although the \$69.2 million assigned to net carrier property at the beginning of 1988 was approximately \$1.5 million more than the amount allocated at the end of 1988, the Board stated that the \$69.2 million was the more reliable reflection of the value of Koch's investment in the pipeline because it was assigned closer to the time of Koch's acquisition of the assets.

The Koch decision describes the system as follows:

Koch's 1,943-mile pipeline . . . runs from Louisiana north to Hermann, MO, where it splits into two legs. The main stem serves one storage destination point in Arkansas, the eastern leg serves eight destination points in Illinois and Indiana and the western leg serves 15 destinations in Missouri, Iowa and Nebraska. See Appendix 1.¹⁹

Appendix 1 of the Koch decision consists of a map of the pipeline system. This map is virtually identical to the system map which is appended to Exhibit A of the Purchase Agreement. In addition, the length of the pipeline as described in the Koch decision is virtually the same as in Exhibit A of the Purchase Agreement. Therefore, it is clear that the pipeline assets the Board examined in Koch are substantially the same assets that Kaneb purchased from Koch.

2. The Koch/Kaneb Asset Purchase and Sale Was an Arm's Length Transaction.

In accordance with the Board's rate guidelines, the \$140 million cost incurred by Kaneb becomes the investment base for the pipeline assets at issue. Underlying the Board's application of the revenue adequacy constraint in Koch was the 1988 value of the pipeline assets of \$77.2 million. Under the revenue adequacy constraint, a rate increase is unreasonable if the carrier proposing it is already earning sufficient revenues from its existing rate structure to cover all costs and provide a reasonable return on its investment.²⁰ Using several analyses, the Board compared the revenue produced by the pipeline to Koch's capital investment and operating costs, and determined that the pipeline was earning adequate revenues at its pre-rate increase rate levels.²¹ Therefore, it

¹⁹ Id. at 638.

²⁰ Koch, 4 S.T.B. at 656 (citing Rate Guidelines at 535).

²¹ Id. at 661.

found that Koch's 1996 rate increase of approximately 20%—the first substantive increase imposed since its purchase of the pipeline in 1988—was not warranted.²² In deciding that it was appropriate to use the \$77.2 million valuation, the Board stated:

Acquisition cost valuation—the amount paid in an arm's-length transaction—is consistent with 'what other business enterprises use for measuring their investments,' and in testing [Koch's] rates under the revenue adequacy constraint, we may properly use Koch's own \$ 77.2 million valuation as a reliable estimate of its cost of acquiring—and the value of its initial investment in—the pipeline.²³

Acquisition cost valuation is appropriate here because the transaction was conducted at arm's length. As described in more detail in the attached verified statement of Edward Doherty, Chairman of the Board and Chief Executive Officer of Kaneb Pipe Line Company, LLC, regarding the arm's length nature of the Koch/Kaneb transaction, Kaneb does not have and has never had an affiliate relationship with Koch; Kaneb conducted due diligence that included a financial valuation of Koch's assets prior to making its final bid; Koch and Kaneb were of equal bargaining power throughout negotiations; Kaneb believed the purchase price of \$140 million was a fair representation of the market value of the assets; and Koch does not receive a percentage of earnings from the pipeline assets and has not retained an interest in the pipeline assets.

Based on these facts, the Purchase Agreement and the \$140 million Kaneb paid for the assets are the result of an arm's length transaction.²⁴ As Kaneb initially argued in its Motion to Dismiss CF Industries' Complaint, Kaneb's

²² Id.

²³ Id. at 659 (citations omitted).

²⁴ See, e.g., Waterloo Railway Company, STB Docket No. AB-124 (Sub-No. 2) (STB served May 3, 2004) (discussing the attributes that make a transaction arm's length).

acquisition cost is a substantial increase over the valuation Koch reported in 1988, and reflects the need and justification for additional revenues. Therefore, it is appropriate for the Board to compare Kaneb's purchase price of \$140 million in 2002 to the valuation it used in Koch of \$77.2 million and determine that the factual underpinnings of the Koch decision are no longer valid.

B. Kaneb's Average Operating Costs and Capital Expenditures Exceed the Average Operating Costs and Capital Expenditures the Board Examined in Koch.

Kaneb has incurred significant operating costs and capital expenditures since its acquisition of the pipeline assets in 2002 that exceed, on an annual basis, the average operating costs and capital expenditures that the Board examined in Koch. As discussed in more detail in the attached verified statement of Joseph Graham, Kaneb's operating costs include nearly \$1.6 million in 2003 and an estimated \$1.8 million in 2004²⁵ for Kaneb's implementation of a Department of Transportation-mandated pipeline integrity program to conduct corrosion testing on the pipeline, and increased property taxes of nearly \$1.5 million in both 2003 and 2004. Kaneb's cash operating expenses for 2003 total \$9.6 million and at least the same amount is expected for 2004.

After Kaneb acquired the pipeline assets in 2002, production facilities in the State of Louisiana were shut down, which created a bottleneck in the southern end of the pipeline system. Kaneb spent over \$1.3 million in 2003 and has spent nearly \$1 million through August 2004 to alleviate this problem. These costs included the addition of compression, the reconfiguration and conversion of facilities, and the reactivation of pump stations. Kaneb has also invested significant sums in a SCADA conversion.

²⁵ 2004 projected results include forward-looking information. Actual results may differ.

Kaneb's total capital expenditures totaled over \$2.5 million for 2003 and \$833,431 has been spent through August 31, 2004.²⁶ These expenditures are discussed in greater detail in the attached verified statement of Joseph Graham.

When the Board applied the rate prescription in the Koch decision, it examined Koch's cash operating expenses, which steadily increased from \$6.8 million in 1988, to \$10.3 million in 1996, an annual average cash operating cost of \$7.7 million.²⁷ The Board also noted that Koch had made capital investments in the pipeline during the period from 1988 to 1994 that were valued at \$4.9 million, an annual average capital expenditure of \$810,450, and the Board included those investments in its analyses.²⁸ Kaneb has incurred an annual average of at least \$9.6 million for cash operating costs and \$1.8 million in capital expenditures, as compared to the annual averages of \$7.7 million and \$810,450, respectively, that were reviewed by the Board in the Koch decision.

Koch did not submit any data after 1996, and did not include any evidence that it made further investments in the pipeline through 1997.²⁹ Instead, Koch attempted to submit evidence of its planned future expenditures in the pipeline, for corrosion testing, new valves, and other investments through the year 2025.³⁰ The Board disallowed as too remote any consideration of Koch's claimed expenditures beyond 2001—including anticipated expenditures for the smart pig program, pump and motor replacements, and

²⁶ \$1.25 million on an estimated annualized basis.

²⁷ Koch's annual cash operating costs were as follows: 1988, \$6.8 million; 1989, \$6.6 million; 1990, \$7.6 million; 1991, \$7.5 million; 1992, \$7.1 million; 1993, \$7 million; 1994, \$7.4 million; 1995, \$8.7 million; and 1996, \$10.3 million. Koch, 4 S.T.B. at 681, app. 11, table 4.

²⁸ Id. at 659-60.

²⁹ Id. at 660.

³⁰ Id. at 661.

the replacement of corroded pipe—in its application of the revenue adequacy constraint.³¹

The Board noted, however, that if Koch were to implement its plans to replace, modernize and maintain the pipeline, the Board would “stand ready to promptly lift the rollback and prescription.”³² As described above, Kaneb has begun implementing the replacement and modernization programs Koch had planned.

The costs of the pipeline modernization programs undertaken by Kaneb, including the smart pig program, implemented by Kaneb to comply with a Department of Transportation-mandated pipeline internal inspection program, were not included in the Board’s determination in Koch regarding the revenue adequacy constraint. Therefore, the additional capital costs associated with the programs are not speculative but have actually been incurred. The cost of Kaneb’s ongoing programs to modernize and maintain the pipeline, in addition to Kaneb’s operating expenses, require a finding that the factual underpinnings related to operating costs and capital expenditures used by the Board in the Koch decision no longer have validity. Therefore, the Board should lift the rate prescription it imposed in Koch.

C. Volumes Shipped on the Pipeline Have Decreased Since the Board Examined Them in Koch.

Economic circumstances, including volumes shipped on the pipeline, have also changed adversely since the Board imposed the rate prescription in Koch. As initially argued in Kaneb’s Motion to Dismiss CF Industries’ Complaint, volumes shipped on the pipeline have decreased significantly since the Board examined the volumes in Koch. As discussed in greater detail in the verified statement of Robert A. McElroy, Jr., Vice-

³¹ Id. at 662.

³² Id.

President of Kaneb Pipe Line Company, LLC, attached hereto as Exhibit C, volumes for 2004 are expected to be approximately 1.2 million tons,³³ about the same as the 2003 volumes, and down slightly from the 2002 volumes of 1.3 million tons.

In contrast, when the Board imposed the rate prescription in Koch, pipeline volumes had increased from a low of 1.1 million tons in 1988, the year of Koch's purchase of the pipeline, to 1.8 million tons in 1996, the last year for which data was submitted in the Koch case.³⁴ However, as discussed in the attached verified statement of Robert A. McElroy, Jr., between 1997 and 2001, after volumes rose slightly to a high of 1.95 million tons in 1998, volumes dropped steadily to 1.75 million tons in 1999, 1.67 million tons in 2000, and 1.4 million tons in 2001.

As noted above, volumes on the pipeline have decreased significantly as compared to the 1996 data that the Board applied in the Koch case. In fact, volumes for 2004 are projected to be nearly as low as in 1988, the lowest year for which the Board examined data in Koch and the year for which the Board determined that Koch was not revenue adequate.³⁵ As discussed in more detail in the attached verified statement of Robert A. McElroy, Jr., this significant change in volumes is attributable to several factors. First, shippers have selected alternative modes of transportation to serve their markets. Second, the market demand for anhydrous ammonia has declined. Third, certain anhydrous ammonia production facilities which are owned by non-affiliated

³³ 2004 projected results include forward-looking information. Actual results may differ.

³⁴ Id. at 661.

³⁵ Id. at 682, app. 11, table 5.

entities and are connected to the pipeline have ceased operations. This material change in volumes is sufficient evidence for the Board to lift the prescription imposed in Koch.

D. Revenues Generated from the Pipeline Have Decreased Since the Board Imposed the Koch Rate Prescription.

The significant decrease in revenue since the Board examined revenues in the Koch case is also justification for the Board to lift the rate prescription. As explained in further detail in the attached verified statement of Joseph Graham, Kaneb's 2004 revenue is projected to be approximately \$20.5 million.³⁶ Kaneb's 2003 revenue was approximately \$21.3 million, and revenues generated from the pipeline in 2002, when Koch owned the pipeline for ten months and Kaneb owned the pipeline for two months, were approximately \$22.7 million.

In contrast, in the analyses used to evaluate revenue adequacy and determine that rates should be prescribed by the Board in the Koch case, revenues from the pipeline began at a low of \$20 million in 1988 and increased to a high of \$33 million in 1996, the last year for which data was submitted.³⁷ However, as discussed in more detail in the verified statement of Joseph Graham, from 1999 to 2001, Koch's revenues decreased steadily from \$35.9 million in 1999 to \$24.6 million in 2001. These later figures, along with Kaneb's data from 2002 – 2004, show that pipeline revenues have been decreasing, contrary to the steady increase of revenues that the Board examined in Koch. The pipeline's revenues have decreased materially since the Board imposed the rate prescription in Koch, primarily because of decreases in volumes, as discussed above. Accordingly, the Board should now lift the prescription it imposed in the Koch decision.

³⁶ 2004 projected results include forward-looking information. Actual results may differ.

³⁷ Id. at 678, app. 11, table 1.

E. Kaneb's Return on Investment Would Be Significantly Lower than the Return on Investment upon Which the Koch Rate Prescription Is Based.

Based on the changed circumstances discussed above, including Kaneb's \$140 million acquisition costs, average operating costs and capital expenditures, decreased volumes and resulting decreased revenues, Kaneb's return on investment would be significantly lower than the return on investment that underlies the Koch rate prescription. For illustrative purposes, Kaneb prepared calculations based on its 2003 operating data, as well as calculations based on its most recent 12 months of operations. As described in more detail in the verified statement of Robert G. Van Hoecke, Principal of Regulatory Economics Group, LLC, attached hereto as Exhibit D, these calculations rely on Kaneb's actual financial information, operating expenses, working capital, acquisition cost, depreciation, retirements and capital additions.

This analysis demonstrates that, as a result of changed circumstances, Kaneb's return on investment, as compared with a conservative cost of capital benchmark, is substantially different from the comparison which underlies the Board's determination in Koch. Specifically, the analysis shows that Kaneb's achieved return on investment for the 2003 calendar year and the most recent 12 months of operations would be 4.45% and 3.16%, respectively. These figures are well below any return on investment or cost of capital figures used by the Board in the Koch decision, and significantly below the 9.4% cost of capital figure the Board used in making its most recent railroad revenue adequacy determination.³⁸ This substantial difference from the similar comparison underlying the Board's decision in Koch shows that the factual underpinnings of the Koch rate

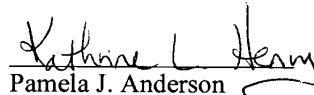
³⁸ Surface Transportation Board Ex Parte No. 558 (Sub-No. 7) (issued June 22, 2004).

prescription no longer have validity. Therefore, the rate prescription should be lifted, and ratemaking initiative returned to Kaneb.

IV. CONCLUSION

As demonstrated above and in the attached verified statements, the rate prescription imposed by the Board in CF Industries, Inc. v. Koch Pipeline Company, L.P. should be vacated based upon changed circumstances.

Respectfully submitted,



Pamela J. Anderson

Kathrine L. Henry

Julia Scarpino Wood

Van Ness Feldman, P.C.

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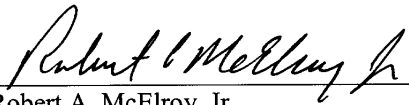
Attorneys for Kaneb Pipe Line Partners, L.P. and
Kaneb Pipe Line Operating Partnership, L.P.

Dated: September 13, 2004

VERIFICATION

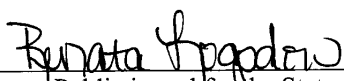
STATE OF TEXAS)
) ss:
COUNTY OF DALLAS)

Robert A. McElroy, being duly sworn, deposes and says that he has read the foregoing, knows the contents thereof, and that the facts stated therein are true and correct to the best of his knowledge, information and belief.

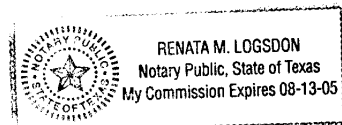


Robert A. McElroy, Jr.
Vice President
Kaneb Pipe Line Company, LLC
The Sole General Partner of Kaneb Pipe Line
Operating Partnership, L.P.

Subscribed and sworn to before me
this 13th day of September 2004.



Notary Public in and for the State of Texas

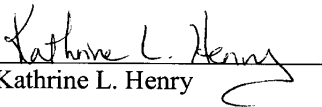


My Commission expires on 8/13/05.

CERTIFICATE OF SERVICE

Pursuant to Rule 1104.12 of the Surface Transportation Board's Rule on Service of Pleadings and Papers, I hereby certify that I have this day served a copy of the foregoing document by hand delivery on all parties of record in this proceeding, Docket No. 42084.

Dated at Washington, D.C., this 13th day of September 2004.


Kathrine L. Henry

Mitchell F. Hertz
Jeffrey J. Williamson
Kirkland & Ellis LLP
655 Fifteenth Street, N.W.
Suite 1200
Washington, D.C. 20005

Counsel for CF Industries, Inc.

A

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

VERIFIED STATEMENT OF JOSEPH GRAHAM

I. INTRODUCTION

My name is Joseph Graham. I am currently the Controller of Kaneb Pipe Line Company LLC ("the Company"), the sole General Partner of Kaneb Pipe Line Operating Partnership, L.P. ("Kaneb Operating"), which owns and operates the anhydrous ammonia pipeline at issue in this proceeding. I have held this position since I joined the Company in June 2001, including in late Fall 2002 when the Company acquired the pipeline. As Controller, I am responsible for all of the Company's internal and external financial reporting. Specifically, I am responsible for capturing financial data and presenting it to management. In addition, I am responsible for all of the Company's tariff filings and tariff reporting requirements.

The purpose of this verified statement is to provide the Surface Transportation Board with a list and itemized valuation of the assets Kaneb purchased from Koch Pipeline Company, L.P. and Koch Fertilizer Storage and Terminal Company

(collectively, “Koch”) in 2002. In addition, this verified statement provides the Board with information regarding the Company’s operating costs, capital expenditures and revenues from the anhydrous ammonia pipeline assets it purchased from Koch. I have attached Exhibit JG-1, which includes income statements for Kaneb’s anhydrous ammonia pipeline assets. The information presented in Exhibit JG-1 is also used by Robert G. Van Hoecke in his verified statement. Because Kaneb acquired many of Koch’s business records when it acquired the pipeline assets, I am able to discuss both Kaneb’s actual financial data and Koch’s historical financial data, where applicable.

II. KANEB'S ANHYDROUS AMMONIA PIPELINE ASSETS

As noted in the chart below, the assets Kaneb purchased from Koch as part of the Koch/Kaneb Asset Purchase and Sale Agreement included: [

The purchase price allocation for each of these asset categories is listed in the chart below.¹

Asset ²	Purchase Price ³	Investment as of 8/31/2004
		\$115,450,072 ⁴
		\$10,000,000
		\$8,873,826
		\$3,873,732
		\$2,365,567 ⁵
		\$1,772,967
		\$684,266
		\$303,720
	Total: \$140,000,000	Total: \$143,324,150

¹ As noted in the footnotes to the chart, Kaneb allocates the assets of the ammonia system among the following 18 categories: pipeline construction; line pipe; pipeline line fill; rights of way; other station equipment; line pipe fittings; pumping equipment; buildings; delivery facilities; vehicles; computers; furniture and equipment; miscellaneous inventory (pumps, motors, etc.); land; tanks; other; tank roofs; and other work equipment.

² For a more detailed list of assets, see Article II of the Koch/Kaneb Asset Purchase and Sale Agreement.

³ Purchase price information is taken from Exhibit H, Purchase Price Allocation, of the Koch/Kaneb Asset Purchase and Sale Agreement.

⁴ This includes \$72,694,541 for pipeline construction; \$22,249,295 for line pipe; \$6,200,589 for line pipe fittings; \$8,221,715 for other station equipment; \$4,220,437 for pumping equipment; \$1,791,309 for delivery facilities; and \$72,186 for other work equipment.

⁵ This includes \$1,297,307 for computers; \$380,962 for miscellaneous inventory, including pumps and motors; \$292,815 for tanks; \$247,545 for "other;" and \$146,938 for tank roofs.

Although the total investment in these assets today is just over \$143 million, the assets have depreciated by approximately \$9,642,000. Therefore, the net book value of the pipeline assets, as of August 31, 2004, is approximately \$133,862,000.

Based on the description of the assets in the Purchase and Sale Agreement and the description of the pipeline assets in the Koch decision, there appear to be no material differences between the assets Kaneb acquired from Koch and the assets that were examined by the Board in the Koch case.

To the best of my knowledge, all of the assets Kaneb acquired from Koch are being used to provide ammonia transportation services to its shippers. Thus, the costs of and revenues generated from all of the facilities are included in Kaneb's income statements.

III. OPERATING COSTS

Beginning in 2003, Kaneb implemented a Department of Transportation-mandated pipeline internal inspection program to conduct corrosion testing on various portions of the pipeline. Kaneb is using smart pig testing to comply with this mandate. During 2003, Kaneb conducted corrosion testing on five sections of the pipeline at a cost of \$1,588,075, and completed testing on two of the five sections. As of August 31, 2004, Kaneb has begun corrosion testing on five additional sections of the pipeline and completed the testing on the three sections of the pipeline for which testing began in 2003. Kaneb's year-to-date smart pig costs for 2004 are \$1,176,717. The smart pig program is an ongoing pipeline integrity program for which Kaneb will continue to incur costs. Prior to November 2002, when Koch owned the pipeline, no money was spent on the smart pig program.

Property taxes are also a major operating cost. In 2003, Kaneb paid \$1.475 million in property taxes. The same amount is estimated for 2004. The amounts paid in property taxes for prior years are as follows: \$1.050 million in 2002; \$1.025 million in 2001; \$1.049 million in 2000; and \$1.273 million in 1999. To the best of my knowledge, Kaneb's management is efficient in its operation of the ammonia pipeline system.

IV. CAPITAL EXPENDITURES

After Kaneb's acquisition of the anhydrous ammonia pipeline assets, production facilities in Louisiana were shut down, which created a bottleneck in the southern end of the system. Kaneb spent over \$1.3 million in 2003 to alleviate this problem. Specifically, these costs included: the addition of compression power and

reconfiguration of facilities at Ramah Station at a cost of \$386,768; investment in additional compressor capacity for the reactivation of the White Castle Pump Station at a cost of \$464,882; and similar investment related to the reactivation of the Vacherie Pump Station at a cost of \$409,354. Kaneb also invested in improvements to its SCADA system at a cost of \$674,769 and spent \$608,617 in 2003 for capital maintenance. Therefore, for 2003, the total capital expenditures for the anhydrous ammonia pipeline were in excess of \$2.5 million.

As of August 31, 2004, Kaneb has spent \$98,582 in 2004 to complete the reactivation of the Vacherie Pump Station. In addition, Kaneb has spent \$734,849 in capital maintenance. Therefore, as of August 31, 2004, capital expenditures for the anhydrous ammonia pipeline were \$833,421 in 2004.

V. REVENUES

Revenues generated from the pipeline have been declining, a trend related largely to decreased volumes. Kaneb's 2004 revenue is projected to be approximately \$20.5 million. Kaneb's 2003 revenue was approximately \$21.3 million, and the revenues generated from the pipeline in 2002 were approximately \$22.7 million. (Kaneb owned the pipeline for the last two months of 2002.)

Revenues generated from the pipeline prior to Kaneb's acquisition also reflect steady decreases. In 1999, Koch's revenues were \$35.9 million; in 2000, \$32.7 million; and in 2001, \$ 24.6 million. Pipeline revenues are reflected in millions in the chart below.

1999	2000	2001	2002	2003	2004 (estimated)
\$35.9	\$32.7	\$24.6	\$22.7	\$21.3	\$20.5

I have been asked by Mr. Van Hoecke to adjust Kaneb's revenues to reflect CF Industries' shipments at the rate in effect prior to Kaneb's April 1, 2003 rate increase in order to reflect the Board's August 11 decision in this docket.⁶ This adjustment is included in Exhibit JG-1; the revenues for 2003 and 2004 in that exhibit are reduced to reflect the reparations Kaneb must pay to CF Industries pursuant to the Board's order.

⁶ CF Industries, Inc. v. Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Operating Partnership, L.P., Docket No. 42084 (STB served Aug. 12, 2004).

VERIFICATION

I, Joseph Graham, verify under penalty of perjury that I have read the foregoing
Verified Statement, that I know the contents thereof, and that they are true and correct.

Further, I certify that I am qualified and authorized to file this statement.



Joseph Graham

Executed on: September 13, 2004

1

Kareb Pipe Line Operating Partnership, L.P.
Ammonia System Financials
(\$000's)

Exhibit No. JG-1
Page 1 of 3

	2002	2002	2002
DESCRIPTION	NOV	DEC	TOTAL
REVENUE:			
Transportation	2,045	1,885	3,930
Rentals ^{/1}	-	-	-
Other - STB Decision ^{/2}	-	-	-
TOTAL REVENUE	2,045	1,885	3,930
EXPENSES:			
Salaries and Wages	130	176	306
Employee Benefits	13	16	29
Material, Supplies and Services	65	108	173
Outside Services	120	348	468
Fuel and Power	86	89	175
Oil Shortage/(Overage)	-	1	1
Rentals	-	-	-
Depreciation/Amortization	435	435	870
Insurance & Casualty Losses	-	-	-
Taxes (Not Income)	70	65	135
Other	50	(49)	1
General & Administrative Expenses	88	88	176 ^{/5}
TOTAL EXPENSES	1,058	1,278	2,336
OPERATING INCOME/(LOSS)	987	607	1,594
Interest Income	-	-	-
Interest Expense	163	1,422	1,585
Income Taxes	-	-	-
Other	-	-	-
NET INCOME/(LOSS)	824	(815)	9
CARRIER PROPERTY			
Purchase Price Property, Plant, & Equip.	129,622	129,622	
Working Inventory ^{/3}	10,321	10,321	
Accumulated Capital Additions ^{/4}	103	139	
Accumulated Depreciation Expense	(435)	(870)	
NET CARRIER PROPERTY	139,943	139,611	139,212

^{/1} Revenues associated with Herman loading facility

^{/2} Revenues associated with refunds ordered by the STB without interest

^{/3} Excludes Cash and Cash Equivalents

^{/4} Excludes Interest During Construction

^{/5} Estimated based on 2003 costs

/1 Revenues associated with Herman loading facility
 /2 Revenues associated with refunds ordered by the STB with-
 /3 Excludes Cash and Cash Equivalents
 /4 Excludes Interest During Construction
 /5 Estimated based on 2003 costs

Kaneb Pipe Line Operating Partnership
Ammonia System Financials
(\$000's)

Exhibit No. JG-1
Page 3 of 3

	2004	2004	2004	2004	2004	2004	2004	2004	2004	YTD
DESCRIPTION	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	TOTAL	
REVENUE:										
Transportation	1,400	1,760	2,201	2,161	1,632	1,391	1,301	1,352	13,198	
Rentals ^{1/}	-	-	11	37	-	7	-	-	55	
Other - STB Decision ^{2/}	(27)	(19)	(37)	(39)	(44)	(17)	(23)	(15)	(221)	
TOTAL REVENUE	1,373	1,741	2,175	2,159	1,588	1,381	1,278	1,337	13,032	
EXPENSES:										
Salaries and Wages	155	153	219	162	174	182	184	237	1,466	
Employee Benefits	48	49	54	51	64	50	65	47	428	
Employee Related	9	7	4	7	7	8	5	9	56	
Material, Supplies and Services	70	49	73	61	117	48	66	71	555	
Outside Services	82	221	181	327	231	244	84	237	1,607	
Fuel and Power	45	43	65	106	116	98	56	47	576	
Oil Shortage/(Overage)	-	-	-	-	-	-	-	-	-	
Rentals	2	9	10	21	4	15	2	9	72	
Depreciation/Amortization	440	440	442	441	441	443	445	446	3,538	
Insurance & Casualty Losses	19	19	19	12	15	14	14	14	126	
Taxes (Not Income)	122	122	127	127	127	127	111	111	974	
Other	2	(2)	(3)	-	1	1	1	-	-	
General & Administrative Expenses	88	88	88	88	88	88	88	88	704	^{5/}
TOTAL EXPENSES	1,082	1,198	1,279	1,403	1,385	1,318	1,121	1,316	10,102	
OPERATING INCOME/(LOSS)	291	543	896	756	203	63	157	21	2,930	
Interest Income	-	-	-	-	-	-	-	-	-	
Interest Expense	434	437	437	437	437	437	437	437	3,493	
Income Taxes	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	
NET INCOME/(LOSS)	(143)	106	459	319	(234)	(374)	(280)	(416)	(563)	
CARRIER PROPERTY										
Purchase Price Property, Plant, & Equip.	129,622	129,622	129,622	129,622	129,622	129,622	129,622	129,622	129,622	
Working Inventory ^{3/}	10,321	10,321	10,321	10,321	10,321	10,321	10,321	10,321	10,321	
Accumulated Capital Additions ^{4/}	2,588	2,693	2,850	3,181	3,301	3,353	3,379	3,379	3,381	
Accumulated Depreciation Expense	(6,544)	(6,984)	(7,426)	(7,867)	(8,308)	(8,751)	(9,196)	(9,642)	(9,642)	
NET CARRIER PROPERTY	135,987	135,652	135,367	135,257	134,936	134,545	134,126	133,682	133,682	

^{1/} Revenues associated with Herman loading facility
^{2/} Revenues associated with railroads ordered by the STB with
^{3/} Excludes Cash and Cash Equivalents
^{4/} Excludes Interest During Construction
^{5/} Estimated based on 2003 costs

B

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

VERIFIED STATEMENT OF EDWARD DOHERTY

My name is Edward Doherty. I am Chairman of the Board and Chief Executive Officer of Kaneb Pipe Line Company LLC (the "Company"), the General Partner of Kaneb Pipe Line Operating Partnership, L.P. ("Kaneb Operating"), which owns and operates the anhydrous ammonia pipeline at issue in this proceeding. I have been employed at the Company in my current position since 1989. As Chairman of the Board and Chief Executive Officer, I am responsible to the Board of Directors for all operations of the Company. I am also head of the Company's acquisition team, which reviews potential acquisition candidates and makes recommendations for Board approval of such acquisitions.

The purpose of this verified statement is to provide the Surface Transportation Board with facts relating to the execution of the September 2002 Asset Purchase and Sale Agreement ("Purchase and Sale Agreement") between Koch Pipeline Company, L.P.

("Koch Pipeline"), Koch Fertilizer Storage and Terminal Company ("Koch Fertilizer"), and Kaneb Operating, to establish that the purchase and sale were conducted at arm's length.

It is important to note, at the outset, that there is no affiliate relationship between Kaneb Operating, the purchaser under the Purchase and Sale Agreement, and either Koch Pipeline or Koch Fertilizer, the sellers under the Purchase and Sale Agreement, or any of their affiliates. In addition, neither the Company nor Kaneb Pipe Line Partners, L.P., the publicly-traded limited partner of Kaneb Operating, has or ever has had, an affiliate relationship with Koch Pipeline or Koch Fertilizer.¹

The sale of the pipeline assets was conducted in an arm's length manner as between Koch and entities like the Company, from whom Koch solicited indications of interest. By letter dated March 26, 2002, Koch solicited the Company's indication of interest for its anhydrous ammonia pipeline assets and forwarded to the Company a Confidential Descriptive Memorandum. The March 26, 2002 letter accompanying the Confidential Descriptive Memorandum indicated that interest was also being solicited from other potential purchasers. Koch stated in the letter that it was reserving the right to pursue further discussions with one or more of the contacted parties, pursue a full competitive auction, or retain the business itself.

Based on the Confidential Descriptive Memorandum, the Company submitted a preliminary non-binding cash bid for the assets in the amount of \$160 million on or about April 11, 2002. Following its preliminary bid, the Company was invited to make a final bid for the assets and to conduct due diligence.

¹ Koch Pipeline and Koch Fertilizer are jointly referred to herein as "Koch."

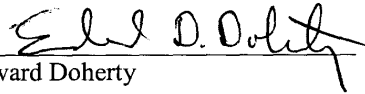
Based on the information it obtained while conducting due diligence, the Company was made aware of additional facts regarding the costs and benefits associated with the purchase of Koch's pipeline assets. The Company made a financial valuation of the assets to estimate the fair value of the pipeline assets. Based on its due diligence review and financial valuation, the Company made a final bid for the assets by letter dated May 31, 2002 in the amount of \$125 million, exclusive of line fill.

After the Company submitted its final bid for the assets, it entered into additional negotiations with Koch. I believe that the Company and Koch were of equal bargaining power throughout these negotiations. The Company and Koch ultimately agreed upon a purchase price of \$140 million, including \$10 million for line fill. The Company believed that \$140 million was a fair representation of the market value of the Koch pipeline assets.

The Company entered into the Purchase and Sale Agreement with Koch on September 17, 2002, and took over ownership and operation of the pipeline assets effective November 1, 2002. Koch does not receive a percentage of the earnings from the pipeline assets, and has not retained any interest in the assets.

VERIFICATION

I, Edward Doherty, verify under penalty of perjury that I have read the foregoing
Verified Statement, that I know the contents thereof, and that they are true and correct.
Further, I certify that I am qualified and authorized to file this statement.


Edward Doherty

Executed on: September 3, 2004

C

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

**VERIFIED STATEMENT OF
ROBERT A. McELROY, JR.**

My name is Robert A. McElroy, Jr. I am currently a Vice-President of Kaneb Pipe Line Company LLC (the "Company"), the sole General Partner of Kaneb Pipe Line Operating Partnership, L.P., which owns and operates the anhydrous ammonia pipeline at issue in this proceeding. I have held this position since July 2004. As Vice-President, I am responsible for the overall operation of Kaneb's pipelines, including the anhydrous ammonia pipeline at issue here.

The purpose of this verified statement is to provide the Surface Transportation Board with information regarding the volumes of anhydrous ammonia shipped on the Company's pipeline. Based on Koch's business records that Kaneb acquired when it acquired the pipeline assets, I am able to discuss volumes shipped on the pipeline when Koch owned and operated it.

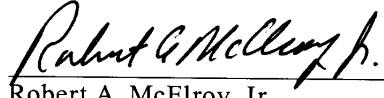
Volumes for 2004 are estimated to be approximately 1.2 million tons. This number is approximately the same as the 2003 volume, but slightly less than the 2002 volume of 1.3 million tons. Prior to Kaneb's purchase of the pipeline, the pipeline volumes were as follows: in 2001, 1.4 million tons; in 2000, 1.67 million tons; in 1999, 1.75 million tons; in 1998, 1.95 million tons, and in 1997, 1.87 million tons. Volumes of anhydrous ammonia shipped on the pipeline, in millions of tons, are reflected in the chart below.

1997	1998	1999	2000	2001	2002	2003	2004 (estimated)
1.87	1.95	1.75	1.67	1.4	1.3	1.2	1.2

This data demonstrates that the volumes of anhydrous ammonia shipped on the pipeline have substantially declined since 1999. There are three principal reasons for the decline. First, shippers have selected alternative modes of transportation, including other pipelines, barge and rail transportation, to serve their markets for some portion of the volumes that they used to ship on Kaneb's pipeline. Second, the market demand for anhydrous ammonia is declining. Third, certain anhydrous ammonia production facilities which are owned by non-affiliated entities and connected to the pipeline have ceased operations.

VERIFICATION

I, Robert A. McElroy, Jr., verify under penalty of perjury that I have read the foregoing Verified Statement, that I know the contents thereof, and that they are true and correct. Further, I certify that I am qualified and authorized to file this statement.


Robert A. McElroy, Jr.

Executed on: September 13, 2004

D

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

**VERIFIED STATEMENT
OF
ROBERT G. VAN HOECKE**

September 13, 2004

**UNITED STATES OF AMERICA
BEFORE THE
SURFACE TRANSPORTATION BOARD**

CF INDUSTRIES, INC.,	)	
Complainant,	)	
	)	
v.	)	
	)	
KANEB PIPE LINE PARTNERS, L.P.,	)	Docket No. 42084
	)	
and	)	
	)	
KANEB PIPE LINE OPERATING	)	
PARTNERSHIP, L.P.,	)	
Defendants.	)	

**VERIFIED STATEMENT
OF
ROBERT G. VAN HOECKE**

My name is Robert G. Van Hoecke. I am a Principal with Regulatory Economics Group, LLC ("REG"), a firm specializing in economic, financial and regulatory consulting for the pipeline industry. My business address is 12010 Sunset Hills Road, Suite No. 730, Reston, VA 20190. I have 20 years of experience working directly in the oil pipeline industry and as a consultant. I have presented testimony on several occasions regarding the economic regulation of oil pipelines and pipeline ratemaking. I have attached a more detailed statement of my qualifications as Exhibit No. RGV-1.

Kaneb Pipe Line Partners, L.P. ("Kaneb") has asked me to prepare a verified statement to support its claim of materially changed circumstances which would permit the Surface Transportation Board ("Board") to vacate its prior rate prescription in Koch¹

¹ CF Industries, Inc. v. Koch Pipeline Company, L.P., 4 S.T.B. 637 (2000) ("Koch"), aff'd sub nom. CF Industries, Inc. v. STB, 255 F.3d 816 (D.C. Cir. 2001).

and thus restore ratemaking initiatives to Kaneb.² In its August 11, 2004 Decision in this proceeding (August 11 Decision), the Board held that it required further information to determine whether the prescription in the Koch decision should be altered or lifted.³ More specifically, the Board stated that it could not determine on the current record whether or how the purchase price for the pipeline “may affect the factual underpinnings of the Koch prescription.”⁴

In Koch, the Board found the carrier to be revenue adequate, indicating that “[w]ith the exception of its first year of ownership in 1988, Koch’s ROI has exceeded its cost of capital in all years and by increasingly larger margins so that by 1996 its ROI (21.52%) was almost twice the cost of capital (11.80%).”⁵ The following verified statement will illustrate how the materially changed circumstances since the Koch decision, including the purchase price paid by Kaneb for the pipeline assets and the decrease in transportation volumes, among other factors, affect the factual underpinnings of the Koch prescription. Specifically, the analysis contained herein, based on the most recent data available, demonstrates that, as a result of the changed circumstances, Kaneb’s return on investment as compared with a conservative cost of capital benchmark

² CF Industries, Inc. v. Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Operating Partnership, L.P., STB Docket No. 42084 (STB served August 12, 2004) (“August 11 Decision”). According to the August 11 Decision, Kaneb acquired the anhydrous ammonia pipeline system from Koch Pipeline Company, L.P. in the fall of 2002, thus stepping into Koch’s shoes as the carrier providing the transportation at issue subject to the same regulatory requirements that applied to Koch, including the outstanding rate prescription for providing transportation to CF Industries, Inc.

³ August 11 Decision at 4.

⁴ Id.

⁵ Koch, 4 S.T.B. at 661.

is substantially different from the similar comparison which underlies the Board's determination in Koch.

As the Board explained, "[a]dequate revenues are those which cover all costs and provide a rate of return on investment equal to the current cost of capital (i.e., the level of return available on alternative investments), so that the carrier can compete equally with other firms for available financing in order to maintain, replace and, if necessary, expand its facilities and services."⁶

Under the Board's procedures, a carrier is considered revenue adequate if it achieves a rate of return on net investment ("ROI") equal to at least the current cost of capital for its industry. In Ex Parte No. 393, the Board concluded "that revenue adequacy should be determined on the basis of data for the most recent single calendar year."⁷ Historically, the Board has determined the revenue adequacy of rail carriers on an annual calendar year basis.⁸

For illustrative purposes, I have prepared a revenue adequacy calculation for the Ammonia System based on the "most recent single calendar year" (i.e., 2003). In addition, I have also examined the most recent 12 months of operations (i.e., September 2003 through August 2004) to determine Kaneb's achieved ROI. For each period I analyzed, Kaneb's achieved ROI is well below a conservative cost of capital benchmark.

My analysis, set forth on the schedule attached as Exhibit No. RGV-2, relies on Kaneb's actual financial information relating to carrier revenues, operating expenses,

⁶ August 11 Decision at 2.

⁷ Standards for Railroad Revenue Adequacy, Ex Parte No. 393 (Sub-No. 1), 3 I.C.C. 2d 261 (1986).

⁸ See, e.g., STB Ex Parte No. 552 (Sub-No. 8) (STB served Aug. 12, 2004).

working capital, acquisition cost, depreciation, retirements and capital additions. This information is being sponsored in a concurrent verified statement being submitted by Mr. Joe Graham, Controller for Kaneb Pipe Line Company, LLC.

The first step in performing the revenue adequacy calculations is to determine Kaneb's Net Operating Income ("NOI"). Given the fact that the Board will be determining whether the existing rate prescription should be vacated, Kaneb's revenues, for purposes of determining an NOI, should reflect the revenues that Kaneb collected less any revenues refunded pursuant to the Board's August 11 Decision. Therefore, the revenues I used in my calculations are exclusive of any refunds made to CF Industries, Inc.⁹

The operating expenses I used reflect Kaneb's actual historical operating costs, which include general and administrative costs associated with the Ammonia System. These operating expenses do not include income tax expenses because Kaneb is organized as a partnership, which is not subject to income taxation. Kaneb's NOI is determined by subtracting its operating expenses from its revenues, as described above. The result appears on line 1 of Exhibit No. RGV-2.

There are no cash or cash equivalents in the working capital allowance I used to determine net investment base ("NIB"). Therefore, there is no need to make any adjustments to the Net Operating Income on line 2 of Exhibit No. RGV-2 for interest income related to cash working capital.¹⁰

⁹ The revenues reflected in Kaneb's NOI include loading fees associated with the loading facility at Hermann, MO.

¹⁰ Kaneb's working capital allowance consists of line fill, and materials and supplies inventory. Due to the acquisition, these items were valued at \$10 million and \$321 thousand, respectively.

Mr. Graham has informed me that the revenues, expenses and investment which he has provided are directly related to Kaneb's jurisdictional Ammonia pipeline service. Therefore, I found no need to perform any sort of separation to adjust for non-pipeline income and deductions on line 3 of Exhibit No. RGV-2.

In calculating the NIB for the ROI determination, an average of the beginning and end-of-period investment is used, as reflected on lines 6, 7 and 8 of Exhibit No. RGV-2. In Koch, the Board confirmed that an owner's acquisition cost establishes a new investment base for purposes of determining revenue adequacy.¹¹ The calculations in Exhibit No. RGV-2 reflect Kaneb's acquisition cost in determining the net investment base of the Ammonia System. This figure was allocated to various property accounts based on a third-party appraisal which was conducted at the time of the acquisition. Mr. Graham has provided the gross investment, its associated depreciation, retirements and additions, as appropriate, to determine the net investment on a monthly basis.¹²

Kaneb's NIB also includes a working capital allowance for its line fill, and materials and supplies inventory, as reflected on lines 18, 19 and 20 of Exhibit No. RGV-2. Typically, the Board's revenue adequacy calculations reflect adjustments in the carrier's NIB for Interest During Construction ("IDC") and Accumulated Deferred Income Taxes ("ADIT").¹³ However, since Kaneb acquired the vast majority of the assets from Koch instead of constructing them, there is no IDC associated with the

¹¹ Koch, 4 S.T.B. at 658-59.

¹² See Exhibit No. JG-1.

¹³ See, e.g., Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes, Ex Parte No. 393 (Sub-No. 2), 5 I.C.C. 2d 65 (1988).

acquisition cost. In addition, the post-acquisition capital expenditures provided by Mr. Graham in Exhibit No. JG-1 do not include any IDC. Given that Kaneb is a partnership and is not subject to income taxation, there is no ADIT recorded on its books and, therefore, there is no need to adjust the NIB for ADIT.

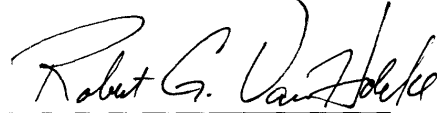
For purposes of computing Kaneb's achieved ROI, I divided the NOI by the average NIB for the period being examined, as reflected on line 30 of Exhibit No. RGV-2. Kaneb's achieved ROI for the 2003 calendar year and the most recent 12 months of operations are 4.45% and 3.16% respectively. Both of these figures are well below any ROI or cost of capital figures cited by the Board in Koch. In addition, both ROIs are significantly below the 9.4% cost of capital figure the Board used when examining whether railroads were revenue adequate in 2003.¹⁴

This analysis demonstrates as a result of the changed circumstances, including Kaneb's capital investment in the pipeline, as well as a decrease in volumes and revenues, Kaneb's return on investment as compared with a conservative cost of capital benchmark is substantially different from the similar comparison which underlies the Board's determination in Koch.

¹⁴ STB Ex Parte No. 588 (Sub-No. 7) (STB served June 28, 2004). Kaneb believes that the railroad industry cost of capital is a conservative cost of capital benchmark and therefore does not adequately reflect the actual cost of capital required to attract investors in the pipeline industry. For example, Kaneb's actual cost of debt is well above the figure the STB used to establish the railroad industry benchmark. Kaneb reserves the right to use a more relevant cost of capital for the pipeline industry in determining or defending challenges to any future rates.

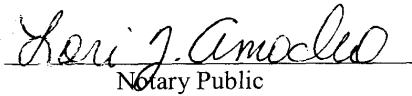
VERIFICATION

I, Robert G. Van Hoecke, verify under penalty of perjury that I have read the foregoing Verified Statement, that I know the contents thereof, and that they are true and correct. Further, I certify that I am qualified and authorized to file this statement.

A handwritten signature in cursive script, reading "Robert G. Van Hoecke", written over a horizontal line.

Robert G. Van Hoecke

Executed on: September 13, 2004

A handwritten signature in cursive script, reading "Keri J. Amodeo", written over a horizontal line.
Notary Public

My Commission Expires: January 31, 2005

1

ROBERT G. VAN HOECKE*Principal*

Mr. Van Hoecke has twenty years experience in the oil pipeline business. For twelve years, Bob held various positions with Williams Pipe Line Company ("WPL"), most recently as Manager of Regulatory Affairs. Since leaving WPL, Bob has provided consulting services to industry, primarily relating to cost of service, market studies and business planning. Bob has provided expert testimony in numerous matters relating to pipeline tariffs, cost of service and business practices.

Relevant Experience**Rates and
Regulation**

- ◆ For WPL, directed company's Phase II defense in rate case before the FERC (IS-90-21-000 et. al.). Responsible for developing the course of defense and selecting appropriate expert witnesses to testify on the company's behalf. Supervised development of various stages of discovery, direct testimony, rebuttal testimony and case preparation. Served as chief company witness and performed short-run marginal cost analysis of integrated pipeline network containing more than 40,000 distinct routes.
- ◆ Presented testimony in a FERC complaint proceeding to determine whether certain bookkeeping services provided by a common carrier pipeline were jurisdictional.
- ◆ Expert testimony regarding the proper method for determining just and reasonable transportation charges for unregulated carbon dioxide pipelines in two separate class action disputes initiated by royalty interest owners in the Federal District Court of New Mexico and Colorado.
- ◆ Expert testimony regarding rate reasonableness and revenue adequacy on behalf of an anhydrous ammonia pipeline at the Surface Transportation Board (STB).
- ◆ Expert testimony regarding just and reasonable rates for the Trans Alaska Pipeline Settlement ("TAPS") under various alternative cost of service methodologies.
- ◆ Prepared market evaluation, laid-in cost data, and testimony for market-based rate applications at the FERC.

**Economics and
Finance**

- ◆ Assisted in the financial and regulatory evaluation of potential acquisition opportunities.
- ◆ Participated in the development of a historical cost trend analysis for the oil pipeline industry.
- ◆ Provided expert testimony regarding the reasonableness of certain decisions made by a majority partner in a joint venture pipeline in a dissolution action initiated by a minority partner before the Federal District Court of Missouri.

Commercial Analysis

- ◆ Market evaluations and determining appropriate competitive tariff structures to maximize a pipeline's profitability. Conducting competitive analysis of potential market encroachments and assisting pipeline clients in developing a series of strategic and tactical responses. Developing the data and testimony required for market-based rate applications at the FERC.
- ◆ Performing economic analysis of proposed business development projects to assist pipeline management in evaluating various business strategies.
- ◆ While with WPL, responsible for performing market evaluations and establishing competitive tariff rates and ancillary fees to maximize profitability. Worked closely with Marketing and Business Development groups to develop and implement market-based, negotiated rates with strategic shippers and joint pipeline carriers.

Testimony

- | | |
|---------------|---|
| April 5, 2004 | Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Frontier Pipeline Company to the request for rehearing of Big West Oil Company and Chevron Products Company. Docket No. OR01-02-000 and OR01-04-000. |
| Dec. 11, 2003 | Presented Oral Testimony and Cross Examination on behalf of the TAPS Carriers in the matter of Tariff Rates To Be Effective January 1, 2003 for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System and the Investigation Into the 2001 and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska. P-03-4. |
| Oct. 15, 2003 | Submitted Rebuttal on behalf of the TAPS Carriers in the matter of Tariff Rates To Be Effective January 1, 2003 for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System and the Investigation Into the 2001 and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska. P-03-4. |
| Sep. 10, 2003 | Filed Affidavit at the Federal Energy Regulatory Commission in support of Shell Pipeline Company LP's motion to compel discovery in OR02-10. |
| Aug. 29, 2003 | Submitted Prepared Direct Testimony at the Federal Energy Regulatory Commission on behalf of Shell Pipeline Company LP in support for its application for authority to charge market-based rates. Docket No. OR02-10. |
| Jul. 24, 2003 | Filed Affidavit at the Federal Energy Regulatory Commission in support of Shell Pipeline Company LP's motion to extend the procedural schedule in OR02-10. |

Jun 10, 2003	Submitted Prepared Answering and Rebuttal Testimony at the Federal Energy Regulatory Commission supporting Platte FERC Tariff No. 1474 in Docket No. IS02-384-000 <i>et al.</i>
Jun. 3, 2003	Submitted Prepared Direct Testimony on behalf of the TAPS Carriers in the matter of Tariff Rates To Be Effective January 1, 2003 for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System and the Investigation Into the 2001 and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska. P-03-4.
Dec. 20, 2002	Submitted Prepared Direct Testimony at the Federal Energy Regulatory Commission supporting Platte FERC Tariff No. 1474 in Docket No IS02-384-0000 <i>et al.</i>
Oct. 28, 2002	Submitted Reply Testimony at the Federal Energy Regulatory Commission on behalf of Shell Pipeline Company in response to protest by Phillips Petroleum Co., Tosco Corporation, and ToscoPetro Corp. Docket No. OR02-10-000.
Aug. 9, 2002	Submitted Testimony at the Federal Energy Regulatory Commission in support of reparations calculations proposed by Frontier Pipeline Company in Docket Nos. OR01-2-00 and OR01-4-000.
Jul. 9, 2002	Submitted Testimony at the Federal Energy Regulatory Commission on behalf of Shell Pipeline Company in support for its application for authority to charge market-based rates. Docket No. OR02-10-000.
Jan. 11-31, 2002	Cross-examination in complaint of ARCO Products Company <i>et al</i> vs. SFPP, LP in Docket Nos. OR96-2-000, <i>et al</i> before the Federal Energy Regulatory Commission.
Nov. 2, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting Plantation Pipe Line Company's Petition for Declaratory Order regarding initial rates for proposed new pipeline service from Bremen, Georgia to Chattanooga and Knoxville, Tennessee OR02-1-000.
July 31, 2001	Filed Prepared Reply Testimony on behalf of SFPP in response to complaint of ARCO Products Company <i>et al</i> in Docket Nos. OR96-2-000, <i>et al.</i>
May 15, 2001	Filed Prepared Answering Testimony on behalf of SFPP in response to complaint of ARCO Products Company <i>et al</i> in Docket Nos. OR96-2-000, <i>et al.</i>
April 23-26, 2001	Presented Oral Testimony on behalf of TAPS CARRIERS in the matter of the correct calculation and use of acceptable input data to calculate the 1997, 1998 1999, and 2000 tariff rates for the intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the Regulatory Commission of Alaska P97-4 and P97-7.
April 2, 2001	Filed an affidavit with the Superior Court of Arizona, Tax Court discussing Commission regulations regarding the concept of Original

Cost in SFPP, L.P. v. Arizona Department of Revenue No. TX 1999-00532.

March 29, 2001	Filed Rebuttal Report on behalf of Cortez Pipeline Company in CO ₂ Claims Coalition, <i>et. al.</i> , vs. Shell Oil Company, <i>et. al.</i> in the United States District Court for the State of Colorado CIV NO. 96-Z-2451.
March 26, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Anschutz Ranch East Pipeline to the complaint made by Chevron Products Company. Docket No. OR01-05-000.
March 20, 2001	Submitted Testimony at the Federal Energy Regulatory Commission on behalf of West Shore Pipe Line Company in support for its application for authority to charge market-based rates. Docket No. OR01-06-000.
March 14, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Frontier Pipeline Company to answer of complaint made by Chevron Products Company. Docket No. OR01-04-000.
March 13, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Anschutz Ranch East Pipeline Inc. to the amended complaint made by Big West Oil Company. Docket No. OR01-03-000.
March 5, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Frontier Pipeline Company to answer of complaint made by Big West Oil Company. Docket No. OR01-02-000.
Feb 26, 2001	Rebuttal Testimony on behalf of TAPS CARRIERS in the matter of the correct calculation and use of acceptable input data to calculate the 1997, 1998, 1999 and 2000 tariff rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the State of Alaska, Regulatory Commission of Alaska, P-97-4.
Feb. 6, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Anschutz Ranch East Pipeline Inc. to the complaint made by Big West Oil Company. Docket No. OR01-03-000.
Jan. 29, 2001	Filed Affidavit at the Federal Energy Regulatory Commission supporting the response of Frontier Pipeline Company to the complaint made by Big West Oil Company. Docket No. OR01-02-000.
Dec. 20, 2000	Prepared Direct Testimony, filed with the FERC, in support of Chase Transportation Company's application for authority to charge market-based rates OR01-1-000.
Nov. 14, 2000	Presented oral testimony on behalf of Kinder Morgan Energy Partners, L.P. before the state of Arizona, Board of Equalization regarding the proper valuation of SFPP's pipeline assets in the state of Arizona.
July 12, 2000	Second Prepared Direct Testimony on behalf of TAPS CARRIERS in the matter of the correct calculation and use of acceptable input data to calculate the 1997, 1998, 1999 and 2000 tariff rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System before the State of Alaska, Regulatory Commission of Alaska, P-97-4.

May 9, 2000	Submitted second report to the American Arbitration Association regarding oil pipeline tariff regulations rebutting testimony of Marcum Midstream-Farstad, LLC in the arbitration between Marcum Midstream-Farstad, LLC et .al. vs. Amoco Oil Company. Case No. 70 198 00294-99.
May 5, 2000	Filed Affidavit at the Federal Energy Regulatory Commission supporting the Response of ExxonMobil Pipeline Company to the Motion to Intervene of BP Exploration & Oil, Inc. in Opposition to ExxonMobil Pipeline Company's Petition for Declaratory Order and Petition for Discovery regarding initial transportation rates on the Hoover Offshore Oil Pipeline System ("HOOPS") OR00-2-000.
May 2, 2000	Submitted Testimony at the Federal Energy Regulatory Commission on behalf of Equilon Pipeline Company, LLC in support of its cost-of-service filing in IS00-208-000.
March 20, 2000	Submitted report to the American Arbitration Association regarding oil pipeline tariff regulations in support of Amoco Oil, Company's position in the arbitration between Marcum Midstream-Farstad, LLC et. al. vs. Amoco Oil Company. Case No. 70 198 00294-99.
March 9, 2000	Filed Affidavit at the Federal Energy Regulatory Commission supporting ExxonMobil Pipeline Company's Petition for Declaratory Order regarding initial transportation rates on the Hoover Offshore Oil Pipeline System ("HOOPS") OR00-2-000.
Feb. 15, 2000	Submitted Testimony at the Federal Energy Regulatory Commission on behalf of Marathon Ashland Pipe Line LLC in support of its application for the authority to charge Market-Based Rates in OR00-1-000.
June 16, 1999	Submitted Testimony at the Federal Energy Regulatory Commission on behalf of Amoco Pipeline Company in support of its cost-of-service filing in IS99-268-000.
April 30, 1999	Supplemental Testimony on behalf of Cortez Pipeline Company in CO ₂ Claims Coalition, <i>et. al.</i> , vs. Shell Oil Company, <i>et. al.</i> in the United States District Court for the State of Colorado CIV NO. 96-Z-2451.
Feb. 19, 1999	Supplemental Testimony on behalf of Explorer Pipeline Company as part of its Motion for Summary Disposition in its Application for Market-Based Rates at the Federal Energy Regulatory Commission, OR99-1-000.
Jan. 29, 1999	Oral testimony and cross-examination in Conoco Pipeline Company, Inc. vs. Transmontaigne Pipeline, Inc. in the United States District Court for the Western District of Missouri, Southwest Division, Case No. 97-5085-CV-SW-1.
Jan. 13, 1999	Deposition in CO ₂ Claims Coalition, <i>et. al.</i> , vs. Shell Oil Company, <i>et. al.</i> in the United States District Court for the State of Colorado CIV NO. 96-Z-2451.

Nov. 23, 1998	Prepared Testimony on behalf of Cortez Pipeline in CO ₂ Claims Coalition, <i>et. al.</i> , vs. Shell Oil Company, <i>et. al.</i> in the United States District Court for the State of Colorado CIV NO. 96-Z-2451.
Oct. 15, 1998	Submitted Testimony on behalf of Explorer Pipeline Company as part of its Application for Market-Based Rates at the Federal Energy Regulatory Commission, OR99-1-000.
Oct. 8, 1998	Prepared Direct Supplemental Testimony on behalf of the TAPS Owners in the Alaska Public Utilities Commission Docket No. P-97-4, the protest of the 1997 and 1998 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System (revised Oct. 15, 1999).
Sept. 25, 1998	Deposition in Conoco Pipeline Company, Inc. vs. Transmontaigne Pipeline, Inc. in the United States District Court for the Western District of Missouri, Southwest Division, Case No. 97-5085-CV-SW-1.
Aug. 14, 1998	Testimony in Conoco Pipeline Company, Inc. vs. Transmontaigne Pipeline, Inc. in the United States District Court for the Western District of Missouri, Southwest Division, Case No. 97-5085-CV-SW-1.
Mar. 2, 1998	Rebuttal Testimony in CF Industries, <i>et al.</i> , vs. Koch Pipeline Company, LP. at the Surface Transportation Board, STB Docket No. 41685.
Dec. 17, 1997	Deposition in Doris Feerer, <i>et al.</i> , vs. AMOCO Production Company in the United States District Court for the State of New Mexico CIV NO. 95-00012-JC/WWD.
Nov. 10, 1997	Direct Testimony in CF Industries vs. Koch Pipeline Company, LP. at the Surface Transportation Board, STB Docket No. 41685.
May 5, 1997	Doris Feerer, <i>et al.</i> , vs. AMOCO Production Company in the United States District Court for the State of New Mexico CIV NO. 95-00012-JC/WWD.
Dec. 1995	Cross-examination in Phase II of Williams Pipe Line Company, IS90-21-000 <i>et. al.</i> , before the Federal Energy Regulatory Commission.
Oct. 26, 1995	Rebuttal Testimony in Phase II of Williams Pipe Line Company, IS90-21-000 <i>et. al.</i> , before the Federal Energy Regulatory Commission.
July 21, 1995	Supplemental Direct Testimony in Phase II of Williams Pipe Line Company, IS90-21-000 <i>et. al.</i> , before the Federal Energy Regulatory Commission.
July 1995	Deposition in Phase II of Williams Pipe Line Company, IS90-21-000 <i>et. al.</i> , before the Federal Energy Regulatory Commission.
Jan. 23, 1995	Direct Testimony in Phase II of Williams Pipe Line Company, Docket No. IS90-21-000 <i>et. al.</i> , before the Federal Energy Regulatory Commission.

July 30, 1993

Verified Statement in Kerr-McGee Refining Corporation and Texaco
Refining and Marketing, Inc. vs. Williams Pipe Line Company, Docket
No. OR91-01-000, before the Federal Energy Regulatory Commission.

Presentations

- ♦ **FERC Jurisdictional and Non-Jurisdictional Services (May 2004).** Association of Oil Pipelines, Annual Business Conference, St. Petersburg, Florida.
- ♦ **Who Cares About the Form 6? (May 2004)** Association of Oil Pipelines, Annual Business Conference, St. Petersburg, Florida.
- ♦ **FERC Jurisdictional and Non-Jurisdictional Services (May 2003).** Association of Oil Pipelines, Annual Business Conference, Baltimore, Maryland.
- ♦ **FERC Form 6 – Page 700 (May 2002).** Association of Oil Pipelines, Accounting and Regulatory Workshop, St. Petersburg, Florida.
- ♦ **FERC Jurisdictional and Non-Jurisdictional Services (May 2002).** Association of Oil Pipelines, Accounting and Regulatory Workshop, St. Petersburg, Florida.
- ♦ **Market-based Rates for Oil Pipelines (May 2001).** Association of Oil Pipelines, Accounting and Finance Workshop, New Orleans, Louisiana.
- ♦ **Market-based Rates for Oil Pipelines (May 2000).** Association of Oil Pipelines, Accounting and Finance Workshop, San Antonio, Texas.
- ♦ **Market-based Rates (May 1999).** Association of Oil Pipelines, Accounting and Finance Workshop, San Antonio, Texas.
- ♦ **FERC Form 6 (May 1998).** Association of Oil Pipelines, Accounting and Finance Workshop, Atlanta, Georgia.
- ♦ **FERC's Indexation of Oil Pipeline Rates (April 1998).** American Petroleum Institute, Pipeline Conference, Houston, Texas.
- ♦ **Applying for Market-based Rates (May 1997).** Association of Oil Pipelines, Accounting and Finance Workshop, Atlanta, Georgia.
- ♦ **Oil Pipeline Rate Regulation (March 1997).** Executive Enterprises, Oil Pipeline Regulation, Houston, Texas.
- ♦ **Pipeline Economics (1992 – 1996).** American Petroleum Institute, School of Pipeline Technology, Harris College, Houston, Texas.
- ♦ **Overview of Current Oil Pipeline Regulations (May 1996).** Association Of Oil Pipelines, Accounting and Finance Workshop, St. Louis, Missouri.

- ♦ **Oil Pipeline Rate Regulation (October 1995).** Executive Enterprises, Alternative Ratemaking and Gas Price Methodologies, Houston, Texas.
- ♦ **Challenges Facing Oil Pipelines (June 1995).** Executive Enterprises, Oil Pipeline Ratemaking Strategies for the 90s, Houston, Texas.
- ♦ **Recent FERC Rulemakings (May 1995).** Association of Oil Pipelines, Accounting and Finance Workshop, St. Louis, Missouri.
- ♦ **Quantifying Competition in the Quest for Market-Based Rates (May 1994).** Association of Oil Pipelines, Accounting and Finance Workshop, Dallas, Texas.
- ♦ **The Future of Oil Pipeline Ratemaking (May 1993).** Association of Oil Pipelines, Accounting and Finance Workshop, San Antonio, Texas.

Prior Experience

<i>Klick, Kent & Allen, Inc. (1997 – 1998)</i>	Senior Consultant Led client engagements regarding oil pipeline regulatory matters; provided financial and economic consulting services to clients regarding strategic planning, market analysis, ratemaking and litigation support.
<i>Williams Pipe Line Company (1993 – 1997)</i>	Manager, Tariffs and Regulatory Affairs Directed company's Phase II defense in rate case before the FERC (IS-90-21-000 et.al.).
<i>Williams Pipe Line Company (1990 – 1993)</i>	Manager, Strategic Planning and Tariffs. Supervised the preparation of monthly, annual and long-range forecasts of volumes, revenues and related variance comments.
<i>Williams Pipe Line Company (1987 - 1990)</i>	Supervisor, Health and Safety. Responsible for establishing system-wide health and safety programs for approximately 700 employees in 10 states.
<i>Williams Pipe Line Company (1986 - 1987)</i>	Operations Supervisor. Responsible for supervising all aspects of pipeline terminal and pump station operations for terminal complex handling refined petroleum, fertilizer, asphalt and LPG.
<i>Williams Pipe Line Company (1984 - 1986)</i>	Various Positions in Field Operations Responsible for various aspects of pipeline operation and administration at the terminal, station and regional field office level.

Education

<i>Northwestern University</i>	Pipeline Economics and Management Program
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Kaneb Pipe Line Operating Partnership, L.P.
Ammonia System
Revenue Adequacy Determination
(\$000's)

Exhibit No. RGV-2
Page 1 of 1

Line No.	Description (b)	Source (c)	For the Period	
			January 1, 2003 to December 31, 2003 (d)	September 1, 2003 to August 31, 2004 (e)
1	Combined/Consolidated Net Pipeline Operating Income	J. Graham V.S.	\$6,128	\$4,280
2	Interest Income From Working Capital Allowance - Cash Portion	1/	\$0	\$0
3	Income Taxes Associated with Non-Pipeline Income and Deductions	J. Graham V.S.	\$0	\$0
4	Gain or (Loss) From Transfer/Reclassification to Non-Pipeline Status	J. Graham V.S.	\$0	\$0
5	Adjusted Net Pipeline Operating Income	Line (1 + 2 + 3 + 4)	\$6,128	\$4,280
6	Combined Net Investment in Pipeline Property Used in Transportation Service - Beginning of Period	J. Graham V.S.	\$128,891	\$126,920
7	Combined Net Investment in Pipeline Property Used in Transportation Service - End of Period	J. Graham V.S.	\$126,066	\$123,361
8	Combined Net Investment in Pipeline Property Used in Transportation Service - Average for Period	Line (6 + 7) / 2.0	\$127,479	\$125,141
9	Interest During Construction - Beginning of Period	J. Graham V.S.	\$0	\$0
10	Interest During Construction - End of Period	J. Graham V.S.	\$0	\$0
11	Interest During Construction - Average for Period	Line (9 + 10) / 2.0	\$0	\$0
12	Other Elements of Investment - Beginning of Period	Company Records	\$0	\$0
13	Other Elements of Investment - End of Period	Company Records	\$0	\$0
14	Other Elements of Investment - Average for Period	Line (12 + 13) / 2.0	\$0	\$0
15	Net Pipeline Assets of Pipeline-Related Affiliates - Beginning of Period	Company Records	\$0	\$0
16	Net Pipeline Assets of Pipeline-Related Affiliates - End of Period	Company Records	\$0	\$0
17	Net Pipeline Assets of Pipeline-Related Affiliates - Average for Period	Line (15 + 16) / 2.0	\$0	\$0
18	Working Capital Allowance - Beginning of Period	J. Graham V.S.	\$10,321	\$10,321
19	Working Capital Allowance - End of Period	J. Graham V.S.	\$10,321	\$10,321
20	Working Capital Allowance - Average for Period	Line (18 + 19) / 2.0	\$10,321	\$10,321
21	Net Investment Base Before Adjustment for Deferred Taxes - Beginning of Period	Line (6 - 9 - 12 + 15 + 18)	\$139,212	\$137,241
22	Net Investment Base Before Adjustment for Deferred Taxes - End of Period	Line (7 - 10 - 13 + 16 + 19)	\$136,387	\$133,682
23	Net Investment Base Before Adjustment for Deferred Taxes - Average for Period	Line (8 - 11 - 14 + 17 + 20)	\$137,800	\$135,462
24	Accumulated Deferred Income Tax Credits - Beginning of Period	Company Records	\$0	\$0
25	Accumulated Deferred Income Tax Credits - End of Period	Company Records	\$0	\$0
26	Accumulated Deferred Income Tax Credits - Average for Period	Line (24 + 25) / 2.0	\$0	\$0
27	Net Investment Base - Beginning of Period	Line (21 - 24)	\$139,212	\$137,241
28	Net Investment Base - End of Period	Line (22 - 25)	\$136,387	\$133,682
29	Net Investment Base - Average for Period	Line (23 - 26)	\$137,800	\$135,462
30	Return on Investment	Line (5 / 29)	4.45%	3.18%
31	Cost of Capital	2/	9.40%	9.40%
32	Revenue Adequacy	Adequate if Line 30 > Line 31	Inadequate	Inadequate

1/ Working Capital Allowance reflects Line Fill and Materials and Supplies.
2/ Cost of Capital reflects a benchmark based upon the railroad industry composite after-tax cost of capital determined in STB Ex Parte No. 558 (Sub-No. 7) -- Railroad Cost-of-Capital - 2003 (June 22, 2004).