

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

Gas Transmission Northwest Corporation        ) Docket Nos.    RP06-   -000

**Prepared Direct Testimony of Leslie Ferron-Jones**

1    **Q:    What is your name and business address?**

2    **A:**    My name is Leslie Ferron-Jones. My business address is Gas Transmission  
3        Northwest Corporation (“GTN”), 1400 SW Fifth Avenue, Suite 900, Portland,  
4        Oregon, 97201.

5    **Q:    What is your occupation?**

6    **A:**    I am employed by Gas Transmission Northwest Corporation as Director of  
7        Marketing & Analysis.

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

10  
11   **A:**    I graduated from the University of Oregon in 1989 with a Bachelor of Arts degree  
12        in Journalism, and I later returned to the University of Oregon for an MBA,  
13        graduating in June 1994. I have been employed at GTN since September 1994 in  
14        various positions, including Market Analyst, Account Manager, Senior Pricing  
15        Planner, Manager of Corporate Communications, Director of Marketing, Director  
16        of Pricing and Business Analysis, and in my current role as Director of Marketing  
17        and Analysis. My responsibilities include the valuation and sales of GTN  
18        transportation.

19   **Q:    Have you ever testified before the Federal Energy Regulatory Commission or**  
20        **any other energy regulatory commission?**

21  
22   **A:**    No.

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

2   **A:**   My testimony will have two parts. In Part I, I discuss GTN's current commercial  
3       environment and how it has changed in the past few years. I also discuss GTN's  
4       largely unsuccessful efforts to sell its unsubscribed firm capacity at or near its  
5       recourse rate during the base and test periods. In Part II, I describe GTN's outlook  
6       for capacity sales in coming years.

7   **Q:     Would you summarize your overall conclusions?**

8   **A:**   Yes. GTN is unable to remarket its unsubscribed long-term firm capacity because  
9       of persistent, poor market conditions. The value of GTN's system is dependent on  
10      the market's outlook of the difference, or differential, between the anticipated cost  
11      of gas from GTN's major supply source, the Western Canada Sedimentary Basin  
12      (sometimes referred to as the "WCSB"), and the anticipated value of that gas in  
13      GTN's major market area, California. The quantity of gas supply from the WCSB  
14      appears to have peaked, and there is now more pipeline capacity available to take  
15      gas out of the basin than production from the basin, including ample pipeline  
16      capacity to deliver gas to Midwestern and Eastern markets. Generally, WCSB  
17      producers make more money selling gas to these Midwestern and Eastern markets  
18      than to GTN's markets. Consequently, many of the producers that held expiring  
19      GTN contracts in 2005 and 2006 did not renew their contracts, despite GTN's  
20      willingness to steeply discount its rates.

21           Similarly, there is significantly more pipeline capacity into GTN's  
22      California market than demand within that market, which has created intense  
23      competition for sellers of gas into California. Following the energy crisis of 2000-

1        2001, the state has greatly benefited by the expansions of interstate pipelines and  
2        gas storage operations, and it now pays less for gas than other major markets in  
3        the United States. Each day, gas buyers in California have several options from  
4        which to source their supplies. Each day, therefore, brings keen competition  
5        among shippers at California's borders, with netforwards<sup>1</sup> from the Rockies,  
6        WCSB, and San Juan basins often pricing within 15 cents of one another.

7                Simply put, GTN is caught between suppliers with better options to sell  
8        gas and markets with better options to buy gas. Given that the WCSB producers  
9        earn more money selling gas to Midwest and Eastern markets than to California  
10       (which has the effect of supporting basin prices), and given that California buyers  
11       often have better options than WCSB-sourced gas due to vigorous competition  
12       from other basins (which has the effect of depressing market prices), the value of  
13       GTN transportation is very low. These poor transportation market fundamentals  
14       are expected to continue for several years.

15

16                        **PART I: GTN COMMERCIAL ENVIRONMENT**

17    **Q:     Please describe GTN's current commercial environment.**

18    **A:**     GTN is unable to sell its long-term firm capacity because the market simply does  
19       not require it. As such, unsubscribed capacity is often valued by the market at less  
20       than zero. In addition, the credit quality of GTN shippers has deteriorated, which  
21       means that fewer shippers are capable of purchasing firm capacity.

22    **Q:     What has created this environment?**

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<sup>1</sup> Netforward: the total cost to buyers at a designated point within their market if they were to purchase supplies within a producing basin and then bear the cost of transportation to the designated point.

1   **A:**     Three fundamental drivers have created significant downward pressure on the  
2           value of GTN capacity in the marketplace. These fundamentals are 1) flat-to-  
3           declining gas demand in GTN’s major markets; 2) flat to declining gas supply  
4           from GTN’s major supply basin; and 3) increasing competitive alternatives to  
5           GTN capacity for both producers and markets that formerly relied on the GTN  
6           system.

7   **Q:**     **What has happened to gas demand in markets that GTN serves?**

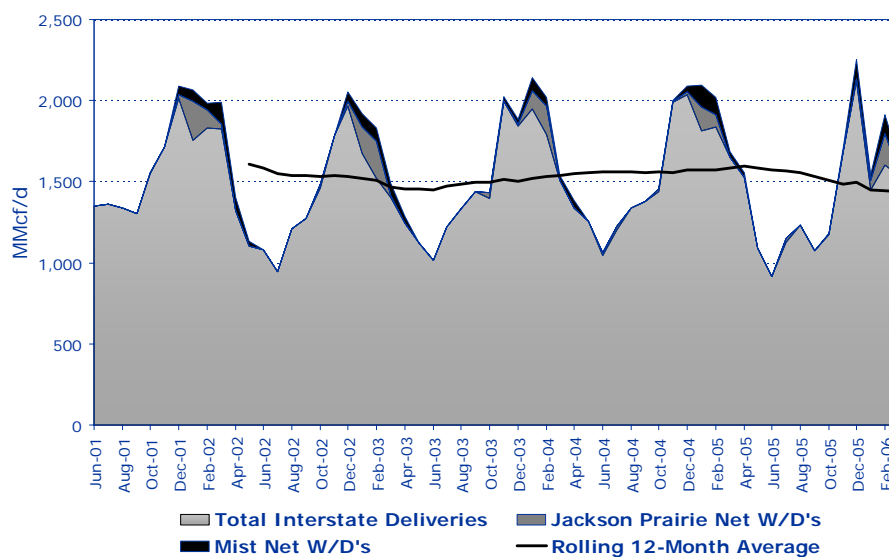
8   **A:**     Demand growth in GTN’s market areas has remained flat or even decreased.  
9           Exhibit Nos. GTN-27<sup>2</sup> and GTN-28<sup>3</sup> illustrate the deliveries from interstate  
10          pipelines, net withdrawals from market-area storage, and any indigenous  
11          production in GTN’s Pacific Northwest and California markets over the past  
12          several years. By aggregating these supply sources, the Exhibits illustrate how  
13          different supply types cumulate to meet average monthly demand in these regions.

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<sup>2</sup> GLJ Energy Publications, Inc. (“GLJ”), the Energy Information Administration (“EIA”), and GTN. Interstate deliveries consist of Northwest Pipeline Receipts at Sumas plus deliveries through Kemmerer plus GTN total deliveries less GTN Malin and Tuscarora deliveries. Net storage withdrawals from the state of Oregon from the EIA are used as a proxy for Mist Net Withdrawals.

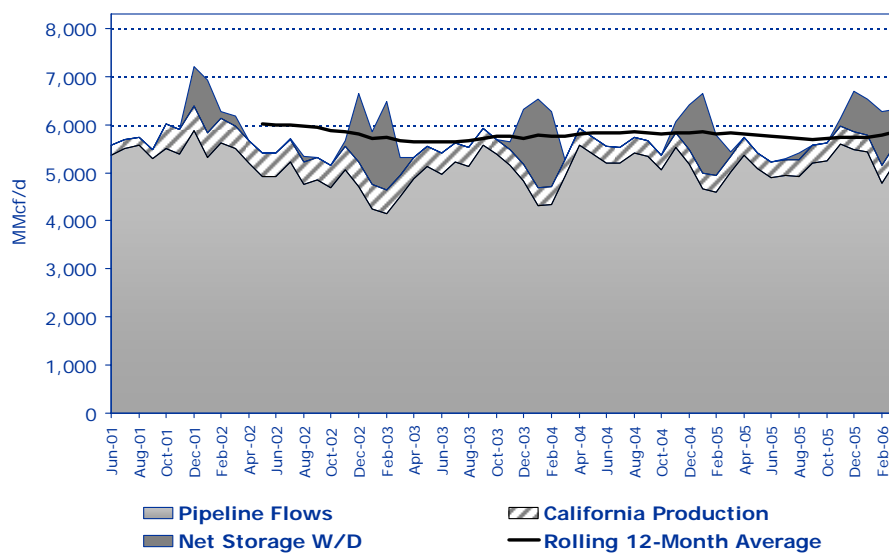
<sup>3</sup>GLJ and GTN. Interstate deliveries consist of GTN deliveries (non-u-turn, *see* testimony below, pages 28-29) at Malin, El Paso deliveries at Topock and Ehrenberg, Transwestern deliveries at Topock and Needles, Kern River deliveries at the Goodsprings Compressor, and Southern Trails deliveries at Essex and Needles.

Exhibit No. GTN-27  
Pacific Northwest Supply Portfolio



1

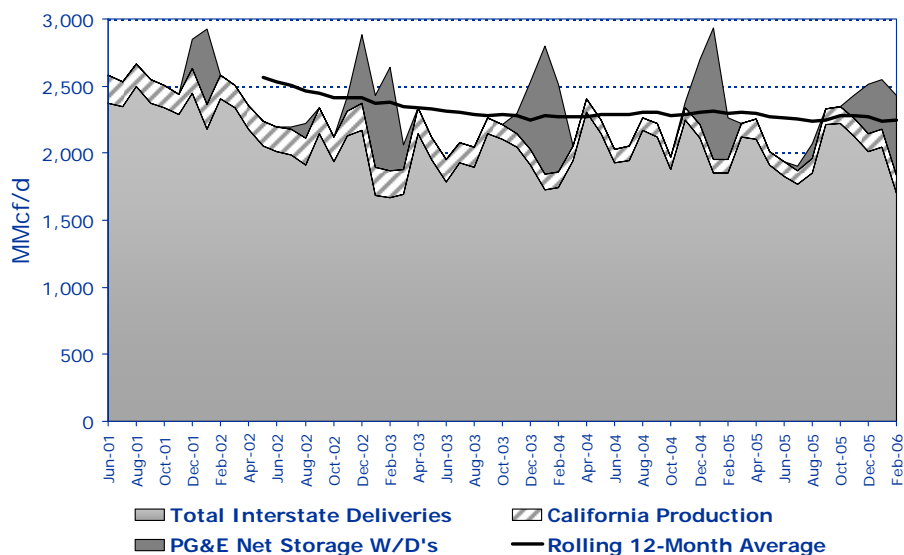
Exhibit No. GTN-28  
California Supply Portfolio



2

1 About 73 percent of GTN's deliveries were to California during the base period.  
 2 Exhibit No. GTN-29<sup>4</sup> depicts the Northern California segment, which is the  
 3 destination of most of GTN's deliveries to the state.

Exhibit No. GTN-29  
 Northern California Supply Portfolio



4  
 5 **Q: What is the source of the gas that GTN transports?**

6  
 7 **A:** GTN shippers received about 92 percent of their gas from the WCSB during the  
 8 base period, which is consistent with the pattern of recent years. About seven  
 9 percent comes to GTN at its Stanfield interconnect with Northwest Pipeline  
 10 Corporation ("Northwest Pipeline"). At Stanfield, gas could be sourced from  
 11 additional WCSB supplies via Sumas, or it could be Rockies or San Juan gas.  
 12 Northwest Pipeline does not make the source of gas supply delivered to GTN at  
 13 Stanfield publicly available. The remaining one percent of gas received by GTN

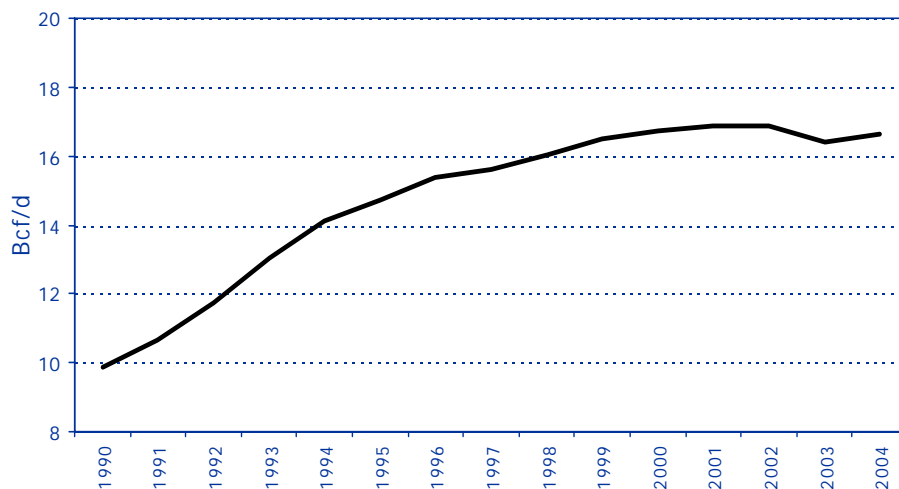
<sup>4</sup> GLJ and GTN. Interstate deliveries consist of GTN deliveries (non-u-turn) at Malin, El Paso deliveries at Topock, Transwestern deliveries at Topock, Kern River deliveries at Daggett and Southern Trails deliveries at Essex.

1 shippers during the base period was at Malin, and that gas could be sourced from  
 2 any of the basins in the West.

3 **Q: What has happened to gas supply in the WCSB?**

4 **A:** Gas supply from the WCSB stopped growing and actually decreased in 2003.  
 5 Exhibit No. GTN-30 illustrates annual production from the WCSB, according to  
 6 the Canadian Association of Petroleum Producers' *2005 Statistical Handbook*.  
 7 Despite relatively high prices for natural gas in 2004, production had not returned  
 8 to its peak level realized in 2001.

Exhibit No. GTN-30  
 WCSB Production



9  
 10 As GTN Witness Walter Haessel's testimony explains, "Total available WCSB  
 11 supply cannot satisfy all-intra WCSB gas requirements and fill the total takeaway  
 12 demand for gas by pipelines moving gas out of the WCSB, including GTN."<sup>5</sup> In  
 13 analyzing his base case export volume, he reports that 9.7 Bcf/d was exported

<sup>5</sup> Prepared Direct Testimony of Walter W. Haessel, Exhibit No. GTN-19 at pages 17-18.

1 from the WCSB in 2005 and goes on to say: “Under this scenario, the volume  
2 available for export declines continuously until a small increase occurs when  
3 Mackenzie Delta gas begins to flow in 2011. The decline resumes in 2012 and  
4 continues until Alaska gas starts flowing in 2017. The available exportable  
5 surplus drops to 6 Bcf/d in 2015, less than two-thirds of the 2005 volume.”<sup>6</sup>

6 **Q: What is the significance of decreasing gas supply?**

7 **A:** Decreasing gas supply creates a greater amount of unutilized export pipeline  
8 capacity from the basin. For example, if daily gas supply in a basin is greater than  
9 the pipeline capacity to transport gas out of the basin, a producer has an incentive  
10 to hold long-term pipeline contracts to assure that its gas will be delivered to  
11 markets. However, that is not the situation out of the WCSB today. Presently, the  
12 opposite is true: Export pipeline capacity out of the WCSB exceeds gas supply  
13 that is available for export. As Exhibit No. GTN-31<sup>7</sup> depicts, on no day during the  
14 past six years did ex-Alberta pipeline utilization approach pipeline capacity.  
15 During the base period for this rate case, the daily unutilized capacity out of the  
16 basin was never less than 747 MMcf/d, and it averaged a substantial 2.47 Bcf/d,  
17 which tends to support increased prices in the basin.

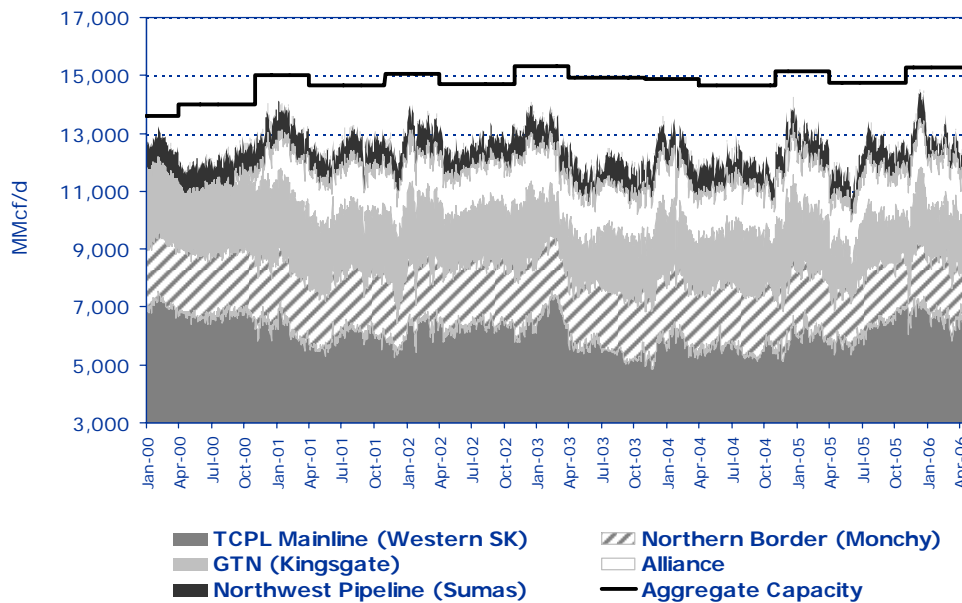
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<sup>6</sup> Prepared Direct Testimony of Walter W. Haessel, Exhibit No. GTN-19 at pages 56-57.

<sup>7</sup> The EIA, TransCanada, Alliance and Duke. TransCanada mainline capacity changes winter to summer due to ambient temperature conditions and the changing physical configurations of the compressor fleet.



Exhibit No. GTN-31  
WCSB Export Pipeline Utilization



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**Q: What makes California a “sub-premium” market?**

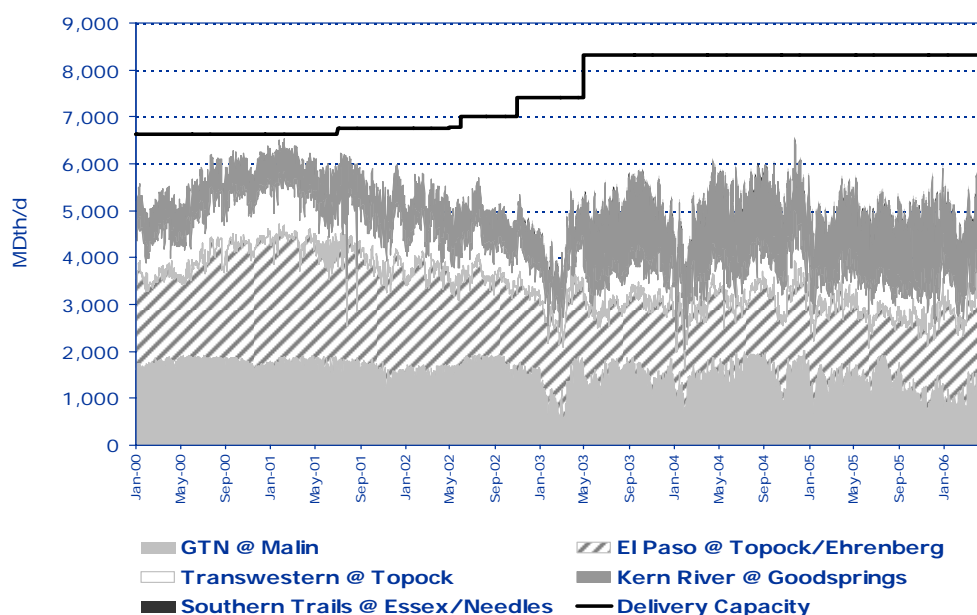
10

**A:** The energy crisis of 2000-2001 sent a very strong signal to interstate pipelines to expand, and inside a two-year period approximately 1.7 Bcf/d of incremental

11

1 pipeline capacity to California was placed in service.<sup>8</sup> In addition, storage  
 2 facilities within the state have added an incremental 46 Bcf of working gas since  
 3 the energy crisis (April 2001), bringing the peak day withdrawal capacity to an  
 4 impressive 5.9 Bcf/d.<sup>9</sup> All this additional infrastructure has been placed in service,  
 5 but demand for the interstate pipeline component of those facilities has actually  
 6 fallen. Exhibit No. GTN-32<sup>10</sup> depicts the daily gas flow on interstate pipelines  
 7 since the energy crisis at their California delivery points and the pipeline capacity  
 8 to the state.

Exhibit No. GTN-32  
 Interstate Capacity Utilization at California Borders



9

<sup>8</sup> Kern River added 135 MDth/d in July 2001, 11 MDth/d in May 2002, and 906 MDth/d in May 2003. El Paso added 230 MDth/d in November 2002. Transwestern added 150 MDth/d in June 2002. Southern Trails was placed in service with 80 MDth/d in November 2002. GTN added 210 MDth/d in November 2002.

<sup>9</sup> California Energy Commission's Natural Gas Infrastructure Issues, October 2001, pages 61-62, the California Energy Commission's Natural Gas Market Assessment, August 2003, page 51, and the joint California Public Utility Commission and Energy Commission Natural Gas Market Study Report to Senator Escutia, February 8, 2006, page 21.

<sup>10</sup> GLJ, CEC, and GTN. GLJ daily data for Transwestern is not available between May 14 and June 30, 2001. GLJ's average daily data from May and June 2001 was inserted.

1 Again, on no day does pipeline utilization come remotely close to the pipelines'  
2 capacity during the base period. The average day unutilized capacity at the  
3 California border during the base period was 3,333 MDth/d, with a minimum day  
4 of 2,346 MDth/d occurring on December 29, 2005. Both numbers are larger than  
5 GTN's entire capacity to deliver to the state at Malin.

6 On its own, either the suppliers' alternatives to GTN capacity or the  
7 markets' alternatives to GTN capacity would depress the value of GTN  
8 transportation. The combination, however (depicted in Exhibit Nos. GTN-31 and  
9 GTN-32) puts a tremendously bearish force on the value of GTN's transportation.

10 **Q: How have these fundamental issues impacted GTN?**

11 **A:** These conditions have been developing for a number of years, but until recently  
12 GTN was largely contracted on a long-term basis. However, when many of  
13 GTN's shippers reached their contract termination dates in 2005 and 2006, they  
14 elected not to renew their contracts given the abundance of capacity in general  
15 and the very low value of GTN capacity in particular. These unrenewed contracts  
16 account for about 16 percent of GTN's total long-term capacity.

17 Table One shows those contracts that were not renewed on GTN during  
18 2005 and 2006.

19

1 Table One  
2 GTN 2005-2006 Unrenewed Capacity

	Shipper	Dth/d	Path	Turnback Date
1.	Sierra Pacific Power Company	24,500	Kg. to St.	Nov. 1, 2005
2.	Burlington Resources Canada	13,392	Kg. to St.	Nov. 1, 2005
3.	Sempra Energy Trading	5,500	Kg. to St.	Nov. 1, 2005
4.	Cargill, Inc.	25,000	Kg. to St.	Nov. 1, 2006
5.	Encana Marketing (USA Inc.)	15,000	Kg. to St.	Nov. 1, 2006
6.	IGI Resources, Inc.	17,000	Kg. to St.	Nov. 1, 2006
7.	Pan-Alberta Gas U.S. Inc.	<u>66,085</u>	Kg. to St.	Nov. 1, 2006
8.	<b>Subtotal, Kingsgate to Stanfield</b>	<b>166,477</b>		
9.	Burlington Resources Canada	13,125	St. to Malin	Nov. 1, 2005
10.	Cargill, Inc.	<u>67,993</u>	St. to Malin	Nov. 1, 2006
11.	<b>Subtotal, Stanfield to Malin</b>	<b>81,118</b>		
12.	BP Canada Energy Mkt. Corp.	15,000	Kg. to Malin	Nov. 1, 2006
13.	Burlington Resources Canada	12,932	Kg. to Malin	Nov. 1, 2005
14.	Chevron USA, Inc.	40,000	Kg. to Malin	Nov. 1, 2005
15.	Crockett Cogeneration	46,575	Kg. to Malin	Nov. 1, 2005
16.	Conoco Phillips Company	5,000	Kg. to Malin	Nov. 1, 2005
17.	Duke Energy Trading & Mkt., LLC	5,000	Kg. to Malin	Nov. 1, 2006
18.	EnCana Energy Marketing USA	10,000	Kg. to Malin	Nov. 1, 2005
19.	EnCana Energy Marketing USA	10,000	Kg. to Malin	Nov. 1, 2005
20.	EnCana Energy Marketing USA	40,000	Kg. to Malin	Nov. 1, 2005
21.	EnCana Energy Marketing USA	18,553	Kg. to Malin	Nov. 1, 2005
22.	EnCana Energy Marketing USA	10,000	Kg. to Malin	Nov. 1, 2006
23.	Nexen Marketing (USA), Inc.	5,000	Kg. to Malin	Nov. 1, 2005
24.	Paramount Resources U.S., Inc.	19,592	Kg. to Malin	Nov. 1, 2005
25.	Petrobank Energy Resources, Ltd.	<u>5,000</u>	Kg. to Malin	Nov. 1, 2005
26.	<b>Subtotal, Kingsgate to Malin</b>	<b>242,652</b>		
27.	<b>Kingsgate Receipt Capacity</b>	<b>409,129</b>		
28.	<b>Malin Delivery Capacity</b>	<b>323,770</b>		

3

4 **Q: Is this all of the unsold long-term firm capacity on GTN?**

5 **A:** No. Although GTN has been able to sell some capacity, albeit at steeply  
6 discounted rates, since the turnback of these contracts, the decrease in unsold  
7 volumes due to such sales is largely offset by including the contracts repudiated  
8 by Calpine, as discussed in GTN Witness Johnson's testimony.<sup>11</sup> The average  
9 amount of unsold long-term firm capacity between November 1, 2006, and  
10 October 31, 2007, is 448,388 Dth/d at Kingsgate and 402,640 Dth/d at Malin.

<sup>11</sup> Prepared Direct Testimony of Benjamin K. Johnson, Exhibit No. GTN-12, page 7.

1 **Q: Why did GTN expand the pipeline in 2002 given that so many contracts were**  
2 **coming up for renewal in 2005 and 2006?**  
3

4 **A:** GTN's 2002 Expansion was in response to tremendous market demand that  
5 occurred at the time of the California Energy Crisis. In 2001, GTN was almost  
6 entirely sold out of its long-term firm capacity, and there was an extremely high  
7 demand for additional capacity. GTN held an open season to construct 210  
8 MDth/d of additional capacity as this was the largest expansion GTN believed it  
9 could certificate and construct in a timely manner. In response to its open season,  
10 GTN received binding bids for more than 2 Bcf/d at an average term length of  
11 more than 20 years for shippers that met GTN's tariff credit requirements. Table  
12 Two shows the bids that GTN received for the 2002 Expansion.

1

Table Two  
2002 Expansion Qualified Bidder List

	Shipper	Bid Dth/d	Term (Years)
1.	Avista Corporation	10,000	36.41
2.	Avista Corporation	10,000	36.41
3.	Avista Corporation	10,000	31.41
4.	Avista Corporation	13,000	30.41
5.	Avista Corporation	5,000	29.41
6.	Avista Energy	13,000	29.58
7.	Avista Energy	10,000	28.58
8.	Avista Energy	10,000	27.58
9.	Avista Energy	10,000	26.58
10.	Avista Energy	5,000	25.58
11.	BP Canada Energy Marketing	80,000	17.0
12.	Calpine Energy Services, LP	200,000	40.08
13.	Cascade Natural Gas Corp.	15,000	9.0
14.	CEG Energy Options, Inc.	100,000	21.08
15.	City of Redding	5,000	25.0
16.	Coral Energy Resources	150,000	15.16
17.	CPN Gas Marketing Co.	200,000	40.08
18.	Dynegy Marketing & Trade	10,000	11.0
19.	Dynegy Marketing & Trade	190,000	10.49
20.	Engage Energy America	5,000	10.41
21.	Engage Energy America	5,000	10.41
22.	Engage Energy America	5,000	10.41
23.	Engage Energy America	5,000	10.41
24.	Enron North America	200,000	21.08
25.	Equilon Enterprises, LLC	35,000	20.0
26.	Morgan Stanley Capital Group	50,000	16.0
27.	Morgan Stanley Capital Group	50,000	18.0
28.	Newport Northwest, LLC	175,000	52.0
29.	Northern California Power Agency	20,000	21.0
30.	PacifiCorp Power Marketing, Inc.	80,000	21.0
31.	PanCanadian Energy Services	5,000	15.0
32.	PanCanadian Energy Services	5,000	15.0
33.	PanCanadian Energy Services	5,000	15.0
34.	PanCanadian Energy Services	5,000	15.0
35.	PanCanadian Energy Services	5,000	15.0
36.	PanCanadian Energy Services	5,000	15.0
37.	PPL EnergyPlus, LLC	100,000	10.0
38.	Sacramento Municipal Utility District	28,000	31.0
39.	Sempra Energy Trading Corp.	50,000	15.0
40.	Sempra Energy Trading Corp.	15,000	3.33
41.	Turlock Irrigation District	5,000	20.0
42.	United States Gypsum Company	8,800	15.0
43.	WPS Northern Nevada, LLC	25,000	20.41
44.	UtilitiCorp United, Inc.	<u>200,000</u>	16.0
45.	<b>Kingsgate-to-Malin Total</b>	<b>2,137,800</b>	

2

1 **Q: Did GTN consider the potential for turnback on its system in 2005 when it**  
2 **decided to expand in 2002?**

3  
4 **A:** Yes. GTN mitigated that risk in two ways. First, the winning bids were of term  
5 lengths of 40 and 52 years, which was considerably longer than any existing  
6 contract on the system. GTN allowed ample time following the receipt of bids for  
7 any existing shipper to release capacity to the successful bidders, which would  
8 have been relatively easy given the long dates of the expansion shippers.  
9 However, at the time, all shippers valued GTN's capacity highly, and no such  
10 releases took place.

11 In addition, as mentioned above, GTN limited the project to a size that  
12 resulted in it being just one-tenth of the binding bids it received. GTN limited the  
13 size of the expansion primarily to ensure the project could be certificated and  
14 placed into service quickly. GTN followed this limited expansion with an open  
15 season for an unlimited expansion to be subsequently constructed, if supported by  
16 the market.

17 **Q: Did the market support another expansion?**

18 **A:** Yes, and GTN began planning a further expansion for 2003 service. GTN  
19 conducted an open season and rationalization process and then filed with the  
20 FERC requesting a certificate of public convenience and necessity. After  
21 receiving preliminary approval for the 2003 Expansion from the FERC, GTN  
22 withdrew its 2003 Expansion application given the default of the largest 2002  
23 Expansion shipper, Gas Path South, an affiliate of Newport Northwest.

24 The size of the 2003 Expansion was 143,000 Dth/d of annual capacity  
25 with an additional 20,000 Dth/d of winter-only capacity. Table Three shows the

1 shippers, paths, volumes, and term lengths of the 2003 Expansion, which was to  
 2 be priced at incremental rates.

Table Three  
 2003 Expansion Qualified Bidder List

Shipper	Dth/d	Path	Winter- Only/Annual	Term (Years)
Avista	33,000	Kingsgate to Coyote Sp.	Annual	25
Calpine	50,000	Kingsgate to Stanfield	Annual	25
Cascade Nat. Gas	20,000	Kingsgate to Malin	Winter Only	25
PacifiCorp	50,000	Kingsgate to Malin	Annual	25
Turlock Irrigation Dis.	10,000	Kingsgate to Malin	Annual	30

3

4 **Q: Did limiting GTN expansions decrease the amount of turnback?**

5 **A:** Possibly. During the period June 2001 to May 2003, the total interstate pipeline  
 6 capacity serving the California market increased about 1.7 Bcf/d to approximately  
 7 8,321 MDth/d from 6,625 MDth/d. GTN's 210 MDth/d expansion was just a  
 8 small portion of this. All of the pipelines that served the state expanded,  
 9 increasing access to the WCSB, the Rockies, and the San Juan basin. In addition,  
 10 storage capacity was also expanded. Such increased access to natural gas, when  
 11 combined with both flat California demand and WCSB production, pushed  
 12 GTN's transportation value downward. It is possible that if GTN had expanded to  
 13 a greater extent, the volume of unrenewed contracts would have been greater, and  
 14 new sales would have been even less and at even lower discounted rates.

15 **Q: What efforts has GTN made to sell its unsubscribed capacity?**

16 **A:** In accordance with FERC policy and its tariff, GTN uses a variety of tools to  
 17 make sure that the market is aware that GTN has capacity available. These tools  
 18 include GTN's website postings for available capacity, a regular series of general  
 19 open seasons, additional open seasons associated with specific contracts engaged



1 in the Right-Of-First Refusal process, and the regular, timely reporting of  
2 discounted and negotiated rate transactions.

3 **Q: What else does GTN do to sell capacity?**

4 **A:** GTN has aggressively pursued new markets for its mainline capacity through  
5 proposals for laterals to reach new markets. GTN has investigated adding storage  
6 to its system near Stanfield, Oregon, and it has also proposed laterals westward  
7 from its mainline across both the states of Washington and Oregon, but these  
8 proposals have yet to receive sufficient interest to move forward with a project.  
9 As shown earlier in Exhibit No. GTN-27, demand in the Pacific Northwest has  
10 remained flat. Such conditions do not support the addition of significant new  
11 infrastructure in this region, unless such infrastructure was sought by suppliers in  
12 order to increase their access to the Pacific Northwest market. However, in GTN's  
13 case, its present suppliers have access to much more lucrative Midwestern and  
14 Eastern markets, and thus far they have demonstrated no desire to further  
15 penetrate into the Pacific Northwest.

16 **Q: Has GTN created new services to try to compete more effectively?**

17 **A:** Yes. For example, in an effort to generate greater interruptible transportation  
18 ("IT") sales, GTN offers a blanket discount where any shipper that nominates IT  
19 on a major GTN path is automatically granted the discounted rate posted on  
20 GTN's website each day. GTN has also steadily added new tariff provisions to  
21 better its ability to compete for transportation sales, including creating the IT  
22 credit bank, creating a Limited Firm Service, generating a fuel roll-down  
23 mechanism to lower new-shipper fuel costs, creating a pre-arranged capacity sales

1 mechanism, adding the ability to sell discounted index deals, and also adding the  
2 ability to vary the maximum daily quantity for firm transportation sales.

3 **Q: Why haven't GTN's sales efforts been more successful?**

4 **A:** As stated previously, on most days GTN is caught between suppliers with better  
5 options to sell gas and markets with better options to buy gas. Consequently,  
6 many shippers that have an opportunity to exit their firm contracts do so, because  
7 they simply prefer buying or selling elsewhere given these underlying economic  
8 fundamentals.

9 **Q: Can GTN do anything to alter these circumstances?**

10 **A:** Unfortunately, no. As noted earlier, shippers obtain about 92 percent of the gas  
11 supplied on GTN from the WCSB. This gas supply is priced at a virtual point  
12 called Nova Inventory Transfer ("NIT"). NIT is arguably the largest and most  
13 liquid gas trading hub on the continent, and suppliers have access from NIT to a  
14 variety of market prices, including markets throughout Canada and the major  
15 market hubs of Boston, New York, and Chicago in the United States. Relatively  
16 higher transportation costs to move gas from NIT to Chicago or New York rather  
17 than to California are no deterrent to sellers because they can usually get a much  
18 better price for their delivered gas in Midwestern and Eastern markets. One of  
19 GTN's key competitive *disadvantages* is that its major supply basin, the WCSB,  
20 has such excellent access to markets across the continent.

21 **Q: How is this manifested in producers' long-term contracting behavior?**

1    **A:**     Supplies that are not committed to long-term contract obligations simply fill the  
2           pipes in order of the greatest netbacks,<sup>12</sup> and GTN is often last in that calculation.  
3           In fact, netback analysis (Exhibit No. GTN-33<sup>13</sup>) indicates that the PG&E  
4           Citygate was the best netback to NIT less than three percent of the time during the  
5           base period, and it was the worst netback about 39 percent of the time. This shows  
6           that producers are most often better off financially if they sell at NIT or into other  
7           markets than to purchase GTN capacity and sell into California.

---

<sup>12</sup> Netback: the net effective price producers would receive for their product if they were to bear the cost of transportation from the producing basin to the market area where the gas is sold.

<sup>13</sup> *Gas Daily* & GLJ. Transportation paths are as follows:

PG&E: TransCanada Alberta, B.C., and GTN Systems, plus PG&E's Redwood On-system

Chicago 1: TransCanada Alberta and Foothills Systems, Northern Border (Manhattan)

Chicago 2: TransCanada Alberta and Mainline (Emerson), GLGT (West to Central), ANR

Chicago 3: TransCanada Alberta and Mainline (Emerson) Systems, Viking (1 to 2), ANR

Chicago 4: TransCanada Alberta and Foothills, Northern Border (Ventura), Northern Natural, ANR

Chicago 5: TransCanada Alberta and Foothills, Northern Border (Harper), Natural

New York 1: TransCanada Alberta and Mainline, Iroquois (1 to 2)

New York 2: TransCanada Alberta and Mainline (Niagara), Tennessee (5)

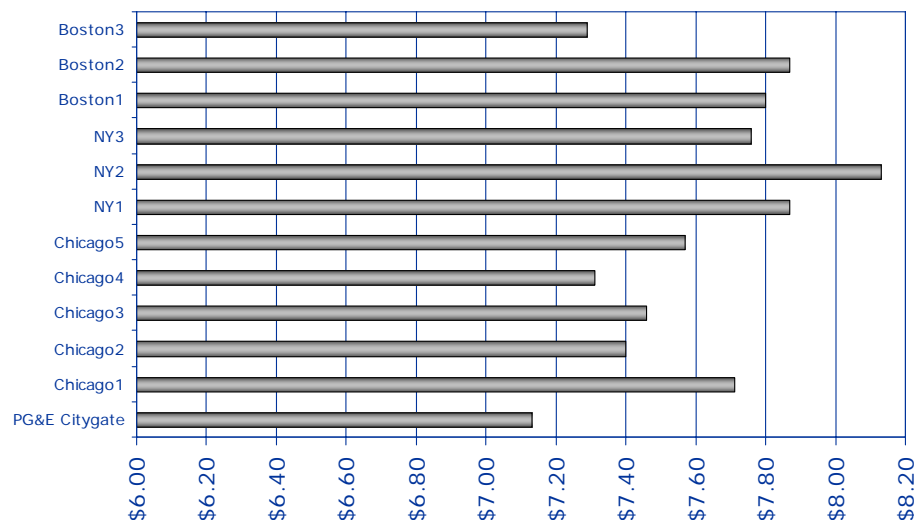
New York 3: TransCanada Alberta and Mainline, Iroquois (1 to 2), Algonquin

Boston 1: TransCanada Alberta and Mainline Iroquois (1 to 2), Algonquin

Boston 2: TransCanada Alberta and Mainline (Niagara), Tennessee (5 to 6)

Boston 3: TransCanada Alberta and Mainline, PNGTS.

Exhibit No. GTN-33  
Average Netbacks to NIT  
Market Price Less Full Tport Costs, April 2005 – March 2006



**Q: How do these netbacks impact GTN capacity sales?**

**A:** They have made capacity sales extremely difficult because it is uneconomic for shippers to pay demand charges for GTN capacity. Exhibit No. GTN-34<sup>14</sup> shows that even if GTN discounted its capacity to zero, GTN might have had to *actually pay shippers* to contract for capacity 79 percent of the time. The shaded area is the differential between NIT and Malin less the cost of fuel between NIT and Malin, the cost of GTN's commodity rate, and the full upstream transportation costs on the Alberta and B.C. Systems. As the chart shows, the resulting value is insufficient, on average, to cover the non-discountable upstream tolls and fuel on the NIT-to-Malin path on many days, meaning the value of GTN capacity is negative. The chart shows that the capacity was worth more than GTN's maximum recourse rate of about \$0.26 for 13 individual days during the base

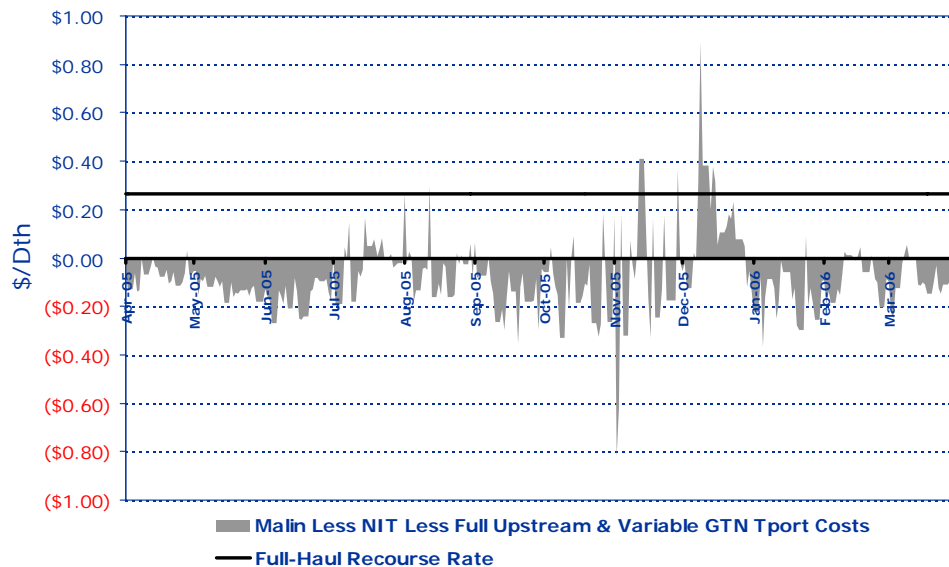
<sup>14</sup> GLJ and GasDat.

1 period and was worth an amount between zero and GTN's maximum recourse  
 2 rate on 62 days during the base period. But for 290 days of the base period, which  
 3 is about 79 percent of the time, *the capacity was worth less than zero*. On those  
 4 days, GTN could not compete at any price. The average market value of GTN  
 5 capacity during the base period was a negative \$0.086.

## Exhibit No. GTN-34

## Malin-NIT Differential Less Full Upstream &amp; Variable GTN Costs

April 1, 2005 – March 31, 2006



6

7 **Q: Why does GTN deduct the full costs of the two upstream pipelines in the**  
 8 **shaded area of Exhibit No. GTN-34 above?**

9

10 **A:** The Alberta System is regulated by the Alberta Energy Utilities Board, and the  
 11 B.C. System is regulated by Canada's National Energy Board. In sharp contrast to  
 12 FERC policy, both regulators forbid discounting on the pipelines they regulate.  
 13 Because these pipelines are necessary links to WCSB production, the effect on  
 14 GTN cannot be over-emphasized. When the market values the NIT-to-Malin path  
 15 at less than the combined maximum recourse rates of the Alberta, B.C., and GTN

1 systems (which is most of the time), it is GTN that must bear all of the  
2 discounting to try to bring the value of its portion of the path back into positive  
3 territory.

4 Even though the shaded area in Exhibit No. GTN-34 above is a negative  
5 number, it could realistically be worse. In addition to not discounting any  
6 services, both of the upstream systems are required to charge a premium price for  
7 interruptible transportation that is 110 percent of their long-term firm rates, so the  
8 shaded area of Exhibit No. GTN-34 overstates the market value of GTN  
9 transportation for those shippers that rely on interruptible upstream transportation.

10 In addition, both of these upstream systems offer short-term firm  
11 transportation service. However, these short-term firm services are biddable from  
12 a floor rate of 100 percent of long-term firm service rates. Therefore, the shaded  
13 area shown in Exhibit No. GTN-34 above, even with its average *negative* value,  
14 may overstate the GTN value if that shipper subscribes to either interruptible or  
15 short-term firm transportation on either one of the upstream pipelines.

16 **Q: Is the base period depicted in the above Exhibit No. GTN-34 a one-time event**  
17 **due to especially poor weather or other unusual circumstances?**

18  
19 **A:** No, it is not. As Exhibit No. GTN-35<sup>15</sup> depicts, the pattern of the base period has  
20 been persistent. Here, the black line depicts the gross differential between the  
21 market value of gas at NIT and the market value of gas at Malin as reported daily  
22 by *Gas Daily* since January 2003. The shaded area depicts that same differential  
23 less the full cost of transportation at maximum recourse rates across the three  
24 pipeline systems between NIT and Malin. In other words, this is the amount that

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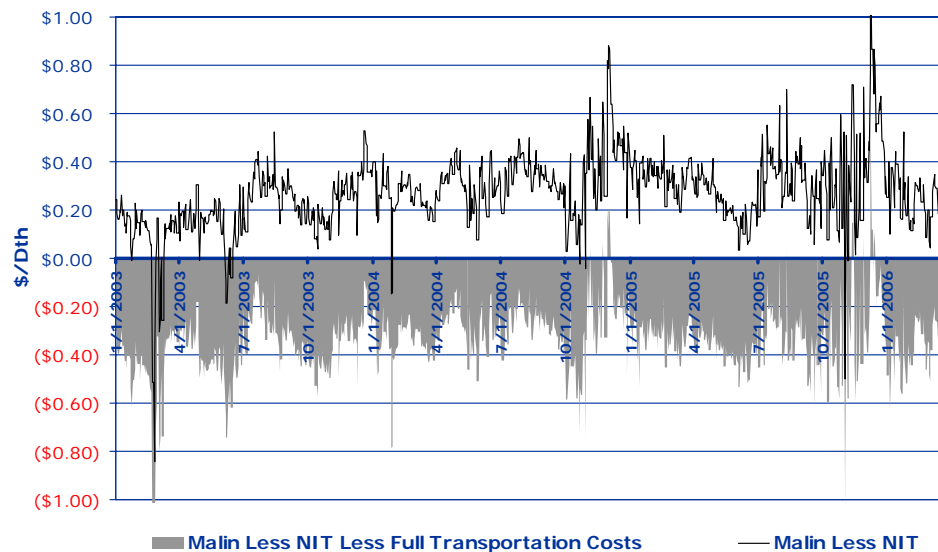
<sup>15</sup> GLJ and GasDat.

1 existing, recourse-rate, full-haul customers could lose every day compared to  
 2 simply purchasing gas at Malin.

## Exhibit No. GTN-35

## NIT-Malin Differential Less Full Tport Costs

January 2003 – March 2006



3  
 4  
 5 In short, the value of GTN transportation has been consistently poor for several  
 6 years. In fact, in those instances where the gross market value (depicted by the  
 7 black line) falls below zero, the market sent a signal, however brief, that NIT and  
 8 Malin should switch roles, and gas should move northward from Malin to the  
 9 supply hub in Alberta.

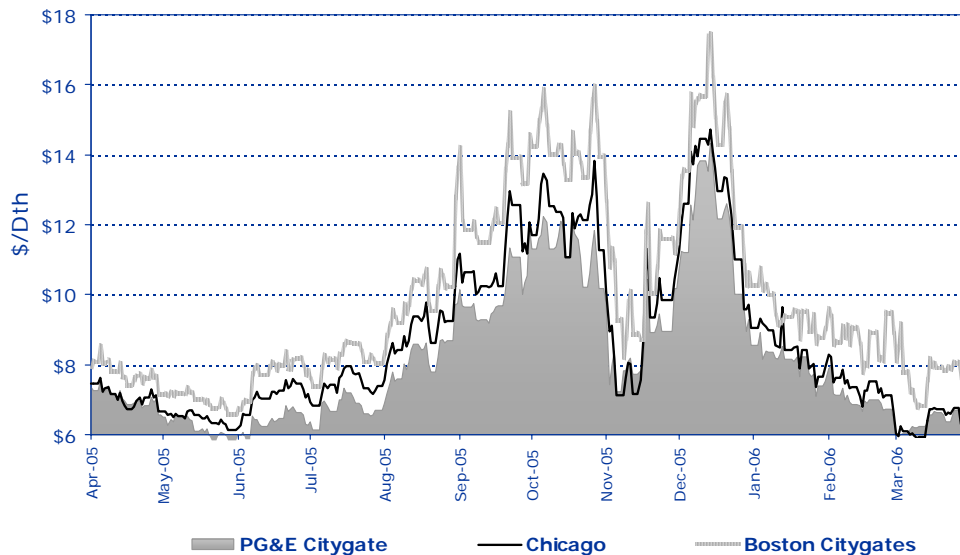
10 **Q: What additional challenges does GTN face on the market side of its system?**

11 **A:** The issues are similar to those in the WCSB. Exhibit No. GTN-36<sup>16</sup> illustrates  
 12 PG&E Citygate prices versus prices in Eastern Canada, Boston, and Chicago

<sup>16</sup> Platts' GasDAT.

1 during the base period. As is shown, the PG&E Citygate, GTN's largest market,  
2 pays some of lowest gas prices for major markets on the continent.

Exhibit No. GTN-36  
Natural Gas Prices  
April 2005 – March 2006



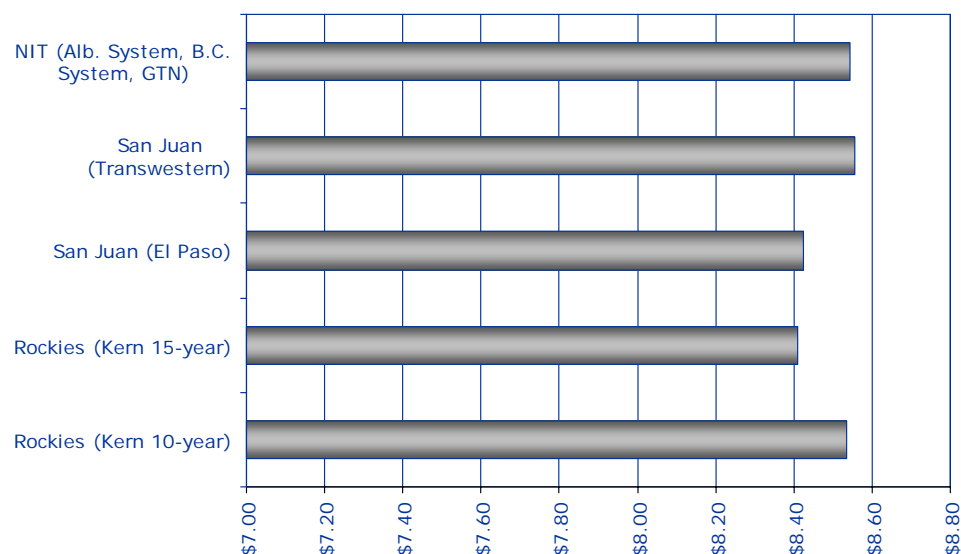
3 California is second only to Texas in gas market size in the United States, but  
4 unlike Texas, it must import about 85 percent of its natural gas to meet its needs.  
5 But despite its size and dependency, California pays less for natural gas than other  
6 major markets. California prices are lower because it has a variety of options from  
7 which to purchase gas every day, and these options are in intense competition  
8 with each other.  
9

10 **Q: How has this impacted capacity sales?**



1    **A:**    It has made sales extremely difficult. Exhibit No. GTN-37<sup>17</sup> depicts the average  
 2    annual netforwards from five pipe and basin supply options to the PG&E  
 3    Citygate.<sup>18</sup>

Exhibit No. GTN-37  
 Average Netforwards to PG&E Citygate  
 Basin Price Plus Full Tport Cost, April 2005 – March 2006



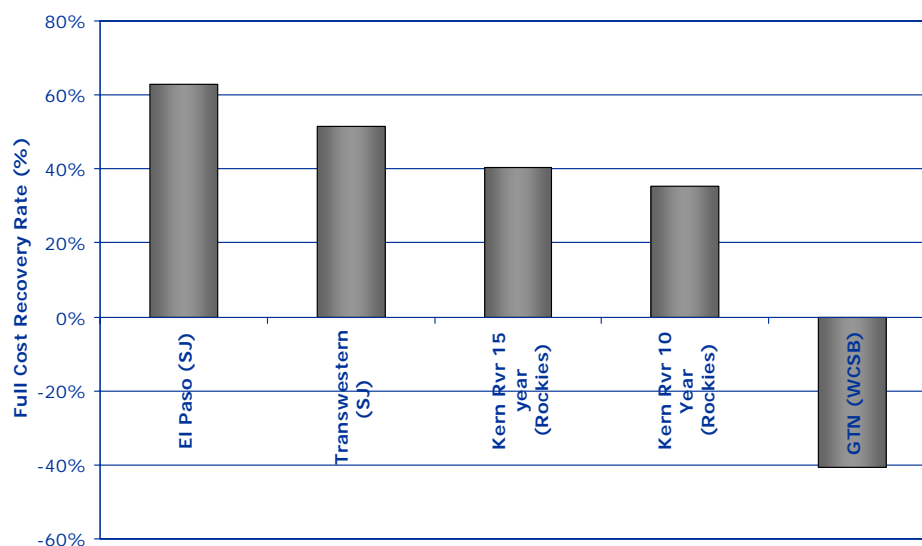
4  
 5            In the detailed data for Exhibit No. GTN-37 above, paths other than GTN  
 6    via the WCSB provide the best netforward on about 72 percent of the days. It is  
 7    also apparent that paths from the WCSB, Rockies, and San Juan are in close  
 8    competition, pricing within \$0.15 of one another on an average basis. This reflects  
 9    the competition that California has fostered between these major basins.

<sup>17</sup> *Gas Daily* and GLJ.

<sup>18</sup> The state of California also receives a small amount of gas supply from the Permian basin via El Paso and Transwestern, which comprises less than one percent of the state's gas supply portfolio during the base period. In addition, California receives additional WCSB, Rockies, and/or San Juan gas via the GTN system's interconnect with Northwest Pipeline at Stanfield, but similar to the Permian, these volumes comprise less than three percent of the state's supply portfolio during the base period (Lippman's and GTN).

Just as with the earlier netback Exhibit No. GTN-33, the full cost of GTN transportation from the WCSB as reflected in the netforward Exhibit No. GTN-37 was recovered on only 13 days. As Exhibit No. GTN-38 depicts below, none of the major interstate pipeline capacity to California is worth 100 percent of its respective costs of providing service on an average annual basis, but all others besides GTN are at least in positive territory.

Exhibit No. GTN-38  
Full Pipeline Cost Recovery To the California Border  
April 2005 – March 2006



**Q: Why does anyone hold GTN firm capacity?**

**A:** First, many shippers simply have not yet had the opportunity to terminate their contracts. In addition, many end users contract for capacity to ensure security and diversity of gas supply. Even though the capacity is not valued at, or even near, its full cost, and even though a shipper would save money purchasing gas supply at Malin rather than transporting it there itself, it is perceived as too risky to do so for at least some volume in that user's portfolio. However, these same end users

1 have figured out that transportation capacity is just as firm at a discounted rate as  
2 at a maximum recourse rate. El Paso and Transwestern have both discounted to  
3 retain loads from Pacific Gas & Electric Company (“PG&E”) and SoCalGas, and  
4 both Transwestern and GTN have had to discount capacity to retain the loads of  
5 the Sacramento Municipal Utility District (“SMUD”) as well.

6 Similarly, producers may wish to hold long-term firm capacity that is  
7 valued at less than its cost on an average basis just to guarantee access to a  
8 particular market. Unlike a typical end user, however, a WCSB supplier is  
9 motivated far more by profits than by security, so it demands a very steep  
10 discount to reflect the risk that it may not use the capacity unless the end market  
11 ultimately pays a higher-than-expected price.

12 **Q: Do you know of other examples that illustrate the impacts of competition on**  
13 **GTN’s value of transportation?**

14  
15 **A:** Yes. My understanding is that GTN may contractually deliver Rockies, Permian,  
16 and/or San Juan gas to Malin – separate and apart from any gas GTN receives  
17 from these three basins via Northwest Pipeline at Stanfield. This is gas that GTN  
18 contractually receives at Malin from PG&E’s pipeline from the south, and then  
19 immediately delivers back to California markets.

20 **Q: Why would anyone contract to transport gas to Malin from California only**  
21 **to send it right back to California?**

22  
23 **A:** There may be other explanations, but my understanding is that PG&E will not  
24 discount transportation to its on-system delivery points. It would be irrational to  
25 do so given that it is the monopoly provider of transportation to its service  
26 territory inside the state’s borders. However, PG&E will discount its

1 transportation to off-system delivery points – such as Malin. Such off-system  
2 discounting was used historically to deliver Canadian gas supply from PG&E's  
3 northern system south to shippers on the SoCalGas system.<sup>19</sup> Now, however,  
4 PG&E may discount to deliver Southwestern supplies to Malin. In other words,  
5 sometimes it may be more economical for *Southwestern* gas supply to be  
6 contractually delivered to Malin rather than *Canadian* gas supply.

7 **Q: What is the magnitude of these volumes?**

8 **A:** Some of this gas, which may originate from the San Juan or Rockies basins or  
9 from California storage, is backhauled northward to delivery points on the GTN  
10 system. Much of the gas, however, contractually makes the long trip up to Malin,  
11 enters the GTN system, and then immediately makes a u-turn back on to the  
12 PG&E system. These u-turn volumes averaged about eight percent of all GTN  
13 deliveries at Malin during the base period, with the peak month totalling just over  
14 19 percent of deliveries. This example depicts how the market has adapted and  
15 evolved over the past few years. The efficiency of the market takes advantage of  
16 any price spread between Topock and Malin to yield seemingly illogical results  
17 such as the u-turn.

18 **Q: Have all of these issues impacted shippers' contracting behavior?**

19 **A:** Yes. By November 2004, 12 shippers holding 876,012 Dth/d<sup>20</sup> of firm contracts  
20 were obligated to inform GTN if they wanted to renew their contracts, terminate  
21 their contracts, or enter the Right-Of-First-Refusal process to renew their  
22 contracts (set to expire on October 31, 2005). One shipper, Sierra Pacific

---

<sup>19</sup> The delivery of Canadian gas to Southern California has all but disappeared in recent months.

<sup>20</sup> Kingsgate receipt contract volume. Malin delivery volumes were 845,745 Dth/d.

1 Resources, terminated its contract without entering the ROFR process. Two  
2 shippers, PG&E and SMUD, each renewed for one-year terms. In mid-2005,  
3 GTN ran the ROFR open season on the remaining 231,544 Dth/d<sup>21</sup> that elected  
4 this free option to value their capacity. GTN received *no bids* for the capacity. By  
5 August 2005, all of the remaining nine shippers had turned back all of the  
6 capacity, despite GTN's efforts to discount the capacity to keep them on the  
7 system. The fact that no bids were received was not surprising because GTN  
8 already had 107,571 Dth/d<sup>22</sup> of long-term firm capacity that it had been unable to  
9 sell, at steeply discounted prices, before the ROFR auction was held.

10 **Q: How did the next set of renewing contracts handle their renewal processes?**

11 **A:** Of the nine shippers with contracts expiring October 31, 2006, the BP Canada  
12 Energy Marketing Corp. and Occidental Energy Marketing, Inc. contracts were at  
13 discounted rates, and these shippers have not renewed their contracts. Two  
14 additional shippers paying recourse rates, Pan-Alberta Gas and IGI Resources,  
15 elected to terminate contracts rather than participate in the ROFR process. Once  
16 again, the lone 2006 expiring shippers that renewed contracts at recourse rates  
17 were PG&E and SMUD. Again, they both renewed for one-year terms.  
18 Subsequently, GTN sold incremental capacity at a discounted rate to SMUD to  
19 serve its new power plant load. As part of the transaction, SMUD agreed to  
20 extend the contract noted above through October 31, 2009. The PG&E contract  
21 now extends through October 31, 2007, and PG&E will notify GTN once again if

---

<sup>21</sup> Kingsgate receipt contract volume. Malin delivery contract volume was 225,777 Dth/d.

<sup>22</sup> Kingsgate receipt contract volume. Malin delivery contract number was 139,744 Dth/d.

1 it will extend, terminate, or participate in a ROFR process by October 31, 2006,  
2 during the test period.

3 In April 2006, GTN once again ran a ROFR open season for the remaining  
4 four shippers with October 31, 2006 expiring contracts. The contract volumes  
5 totalled 145,715 Dth/d.<sup>23</sup> Again, GTN received *no bids* for capacity, which  
6 continued to be valued at less than its variable cost by fundamental forecasters as  
7 well as the forward market. Again, the lack of bids was expected as GTN had  
8 continually been in contact with potential markets for its existing unsubscribed  
9 capacity, with very poor results. After the ROFR auction, EnCana and Duke let all  
10 of their eligible contracts expire. IGI extended its contract until October 31, 2011,  
11 and Cargill extended a portion of its contracts until October 31, 2008. Both the  
12 Cargill and IGI contracts were extended at discounted rates.

13 **Q: Please summarize the value of GTN's transportation capacity today.**

14 **A:** The value of GTN's capacity is outside of GTN's control. With the possible  
15 exception of small quantities to Pacific Northwest markets, GTN will not be able  
16 to sell long-term firm capacity at or near its tariff rate for the foreseeable future.  
17 In order to sell capacity, the market must get a signal that it will be worth at least  
18 some positive number either presently or in the near future, and both fundamental  
19 forecasters and forward marks continue to place the value of GTN's capacity at  
20 such a low level that GTN is unable to recover its fixed costs.

21

---

<sup>23</sup> Kingsgate receipt contract volume. Malin delivery contract volume was 156,708 Dth/d.

1                                   **PART II: CAPACITY SALES OUTLOOK**

2   **Q:     What will you address in this part of your testimony?**

3   **A:     I will describe GTN's outlook for future capacity sales, and the value of those**  
4           sales, based on the current and anticipated market.

5   **Q:     When is the value of GTN transportation expected to improve?**

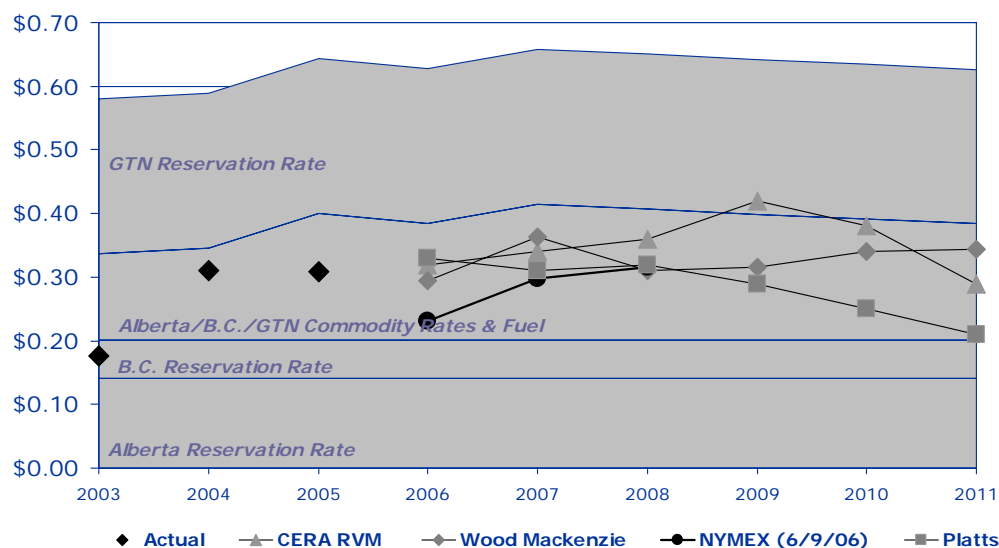
6   **A:     The value of GTN's transportation capacity is not expected to improve in the**  
7           foreseeable future. GTN's primary suppliers and markets have numerous  
8           alternatives to GTN's system, and they are seeking yet more options. Exhibit No.  
9           GTN-39 <sup>24</sup> illustrates the value of GTN's capacity according to vendors that have  
10          allowed GTN to utilize their forecasts in this proceeding.<sup>25</sup>

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<sup>24</sup> Cambridge Energy Research Associates, April 2006, Wood Mackenzie, May 2006 for 2006-2007 and November 2005 for 2008-2011, Platts, First Quarter 2006, NYMEX on June 9, 2006. Actuals are from *Gas Daily*. A NIT-to-Malin fuel rate of 2.45 percent was used, which is the average for the B.C. and GTN systems from April 2005 through March 2006.

<sup>25</sup> With regard to CERA: The accompanying materials were prepared by Cambridge Energy Research Associates, Inc ("CERA"), and are intended for the sole purpose and evaluation in connection with the Client's internal business purposes of FERC and is not for public use. Any use of the accompanying materials for other than that which is approved by CERA will be punishable by law. The accompanying materials are and shall remain the property of CERA and are protected by U.S. and international copyright law and other intellectual property laws.

Exhibit No. GTN-39  
Historical and Forecasted GTN Market Value



1  
2

3 As the chart depicts, the forecasters and the current forward market can  
4 see that the historical value of GTN is less than the cost to transport gas on GTN  
5 on an average basis, and the same is expected to continue, if not worsen, in the  
6 near future. Until exterior market signals such as these consistently place the  
7 value of GTN transportation as making at least a contribution to its reservation  
8 rate, GTN will sell little or no long-term firm transportation.

9 **Q: Forecasts are wrong all the time. Are you sure that circumstances will not**  
10 **change?**

11 **A:** Even with a substantial change in market conditions, which is unlikely, GTN  
12 anticipates having a significant amount of unsubscribed capacity. Exhibit No.  
13 GTN-40,<sup>26</sup> which I refer to as the “Tsunami Chart,” depicts GTN’s situation.

<sup>26</sup> Historical prices to calculate market value and fuel costs from *Gas Daily*.

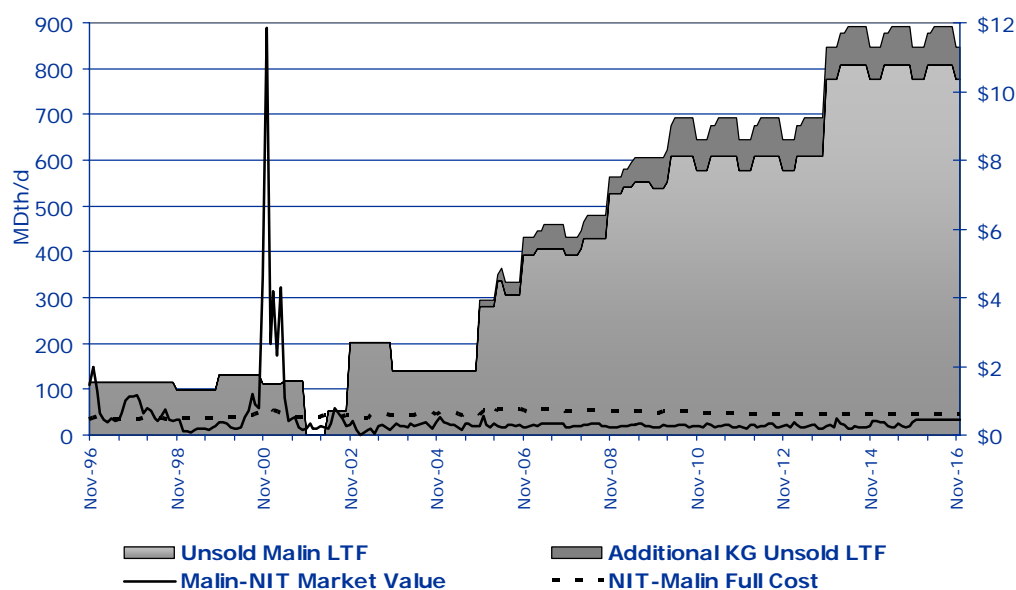


1 GTN has always had some long-term firm capacity for sale on its system, going  
 2 back to its settlement of its 1994 rate case. At the time that GTN nearly sold out  
 3 of its long-term firm capacity, it modestly expanded given appropriate market  
 4 signals and support.<sup>27</sup>

## Exhibit No. GTN-40

## GTN Unsold Long-Term Firm Capacity &amp; Market Value

November 1996 – December 2016



5  
6

7 The 100,000-200,000 Dth/d of long-term firm capacity that GTN usually had  
 8 available on its system between 1996 and 2005 was somewhat manageable in  
 9 prior years. GTN aggressively marketed the capacity in the short-term market,  
 10 and it periodically sold capacity for longer terms as well. Now, however,  
 11 substitutes for GTN capacity continue to evolve and develop, the market value of  
 12 GTN transportation has worsened, and the amount of GTN capacity available for

<sup>27</sup> Calpine's repudiated contracts, totalling 75,800 Dth/d, are included as unsold long-term firm capacity in Exhibit No. GTN-40.

1 sale has dramatically increased. GTN does not expect the situation to improve  
2 over the next five years given the efficiency of the market and its numerous  
3 competitive alternatives.

4 **Q: Is there additional downside to the Tsunami Chart?**

5 **A:** Yes. The Tsunami Chart depicted in Exhibit No. GTN-40 assumes that PG&E  
6 continues to roll its contract on GTN annually, for the same path and the same  
7 volume, until 2013. This is an optimistic contracting assumption given present  
8 and expected market conditions and PG&E's own plans to effectively bypass its  
9 need for GTN capacity either from the North, via its Redwood path, or from the  
10 South, via its Baja path.

11 Although PG&E is GTN's largest shipper with an annual rolling contract,  
12 several other shippers will also reach their contract termination dates during the  
13 next ten years. In general, GTN assumes that utilities and power generators will  
14 renew their contracts, although they will likely try to trade rate for term length.  
15 As with PG&E, this is an optimistic assumption. (GTN assumes that Calpine will  
16 ultimately reject at least 75,800 Dth/d of contracted capacity. As noted in GTN  
17 Witness Johnson's testimony,<sup>28</sup> Calpine stopped paying invoices for these  
18 contracts effective for April 2006 business. However, Calpine could well reject a  
19 greater portion or all of its contracts via its current bankruptcy process.)

20 Conversely, GTN assumes that producers and marketers will allow contracts  
21 to expire. Nonetheless, GTN has assumed incremental capacity sales to its  
22 California and Pacific Northwest markets. There is no rationale to support such an  
23 optimistic assumption given internal and external forecasts, other than the fact

---

<sup>28</sup> Prepared Direct Testimony of GTN Witness Benjamin K. Johnson, Exhibit No. GTN-12 at page 8.

1       that GTN has historically been able to sell at least some discounted, long-term  
2       firm capacity for terms of one year or greater despite a very low market value for  
3       capacity. At no time in GTN's forecast does the value of GTN transportation  
4       approach its existing maximum recourse rate on an annual-average basis. In  
5       general, GTN expects that capacity sales to Malin will be largely of a short-term  
6       duration rather than as long-term firm.

7       **Q:    What will prevent PG&E from bypassing GTN?**

8       **A:**    GTN believes that one of the reasons that PG&E is contracted at its present level  
9       is because current rate treatment for expansions of utility pipelines in California is  
10      on a case-by-case basis, whereas if the benefits of an expansion are expected to  
11      outweigh the costs of that expansion, its rates may be rolled in. As noted in GTN  
12      Witness Levine's testimony,<sup>29</sup> both PG&E and the Sempra Utilities have made  
13      recent efforts to achieve rolled-in treatment for new expansions of their gas  
14      pipeline systems. If they are successful, PG&E is likely to decrease its reliance on  
15      GTN.

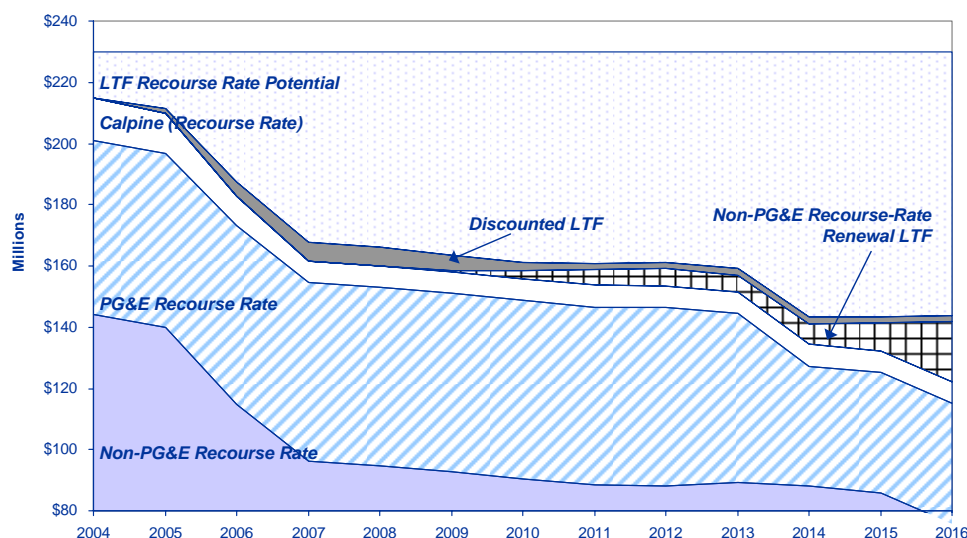
16      **Q:    How does this impact future revenue?**

17      **A:**    Exhibit No. GTN-41 contains GTN's revenue and throughput forecast, assuming  
18      GTN did not file this rate case. PG&E is shown as a separate wedge to depict the  
19      impact of a 200 MDth/d decrease in its contract in 2013 should it achieve rolled-  
20      in treatment of its own system's expansion from the south and subsequently shift  
21      contracts away from GTN.

---

<sup>29</sup> Prepared Direct Testimony of Steven H. Levine, Exhibit No. GTN-42 at page 30.

Exhibit No. GTN-41  
GTN Mainline LTF Tport Revenues & Total Throughput  
(No Rate Case)



1  
2

3 In addition, PG&E may succeed in bypassing GTN at Malin without any  
4 expansion of its system if it successfully develops its Pacific Connector Pipeline,  
5 as noted in GTN Witness Levine's testimony.<sup>30</sup> Should this project proceed as  
6 scheduled, PG&E would begin to unwind GTN contracts sooner and to a greater  
7 magnitude than depicted above in Exhibit No. GTN-41.

8 **Q: Do you expect throughput to also decrease?**

9 **A:** Even though the market has not produced growth in the past five years, GTN  
10 optimistically expects that gas demand will grow over the long term, which will  
11 increase throughput. Given the present firm load factors of GTN shippers, GTN  
12 expects that most of the increased throughput will go to its long-term firm  
13 shippers over time. This is partially offset by a decreasing amount of long-term

<sup>30</sup> Prepared Direct Testimony of Steven H. Levine, Exhibit No. GTN-42 at page 29.

1 firm contracts over time as producers and marketers do not renew contracts at  
2 their termination dates. Although GTN will aggressively compete to capture its  
3 share of the expected market growth, it will not be able to do so through  
4 significant sales of long-term firm capacity given the persistent low value for its  
5 transportation services. GTN expects to sell an increasing amount of short-term  
6 firm volumes as long-term firm contracts increase load factors or expire and leave  
7 the system.

8 **Q: Is this your most probable revenue and throughput forecast?**

9 **A:** In the absence of filing this rate case, yes, this is the most probable forecast.

10 **Q: How would you summarize GTN's revenue potential without this rate case?**

11 **A:** Given the decontracting wave depicted in the Tsunami Chart (Exhibit No. GTN-  
12 40), GTN faces an annual revenue shortfall from its fully-subscribed revenue  
13 potential of more than \$60 million, which is about 27 percent of GTN's potential  
14 revenue from its long-term firm capacity at existing recourse rates. If market  
15 conditions were expected to be stronger, GTN could perhaps delay a future rate  
16 filing while it made incremental short-term capacity sales. Unfortunately, poor  
17 market conditions are expected to persist, and shippers are not renewing contracts.

18 **Q: Does this conclude your testimony?**

19 **A:** Yes.