UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

Prepared Direct Testimony of Benjamin K. Johnson

Q: What is your name and business address?

A: My name is Benjamin K. Johnson. My business address is Gas Transmission Northwest Corporation, 1400 SW Fifth Avenue, Suite 900, Portland, Oregon 97201.

Q: What is your occupation?

A: I am presently employed by Gas Transmission Northwest Corporation ("GTN") as a Senior Regulatory Analyst.

Q: What is your educational background and your occupational experiences as they are related to your testimony in this proceeding?

A: I graduated from Brigham Young University in April 1998, with a Bachelor of Science degree in Microbiology. In May of 2000, I received my MBA from the University of Central Oklahoma. After graduation, I was employed by Oklahoma Natural Gas ("ONG"), a division of ONEOK, Inc. I began my career with ONG as an Accountant in Gas Supply and later moved into the role of Regulatory Analyst in ONG's Rates & Regulatory Affairs group. In this role, I dealt with various intrastate regulatory issues. In July of 2003, I joined GTN as a Regulatory Analyst. In January of 2005, I was promoted to my current position with GTN.

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

A: I have not previously testified before the Federal Energy Regulatory Commission. However, I have filed testimony and testified before the Oklahoma Corporation Commission ("OCC") on behalf of ONG in various regulatory proceedings including OCC Cause Nos. PUD200100625, PUD200200529, and PUD 200300006.

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

A: I am providing testimony regarding various components of Statement G. In particular, my testimony addresses GTN's reporting of actual revenues and billing determinants for the 12-month base period ending March 31, 2006, as adjusted for known and measurable changes anticipated to occur within the following nine-month adjustment period. In addition, I will address GTN's proposal to implement postage-stamp hub services rates that are similar to a 100% load factor Interruptible Transportation ("IT") rate. Finally, I will discuss the elimination of the IT rate floor that was implemented as a result of GTN's settlement agreement in its last section 4 general rate proceeding.

Q: What Statements, Schedules and Exhibits are you sponsoring?

A: I am sponsoring the following Statements, Schedules and Exhibits:

Statement G (Summary Data)

Schedule G-1 (Base Period)

Schedule G-2 (Adjustment Period)

Schedule G-3 (Reconciliation of Base Period to Adjustment Period)

Exhibit No. GTN-13 Derivation of Maximum Rate for Rate Schedules PS-1 and AIS-1

Exhibit No. GTN-14 Comparison of Hub Service Rates

<u>Revenue & Billing Determinant Analysis</u>

Statement G (Summary Data)

Q: What does Statement G contain?

A: Statement G summarizes and compares on a monthly and annual basis the Base Period and Adjustment Period monthly revenue and billing determinant totals as shown in Schedules G-1 and G-2, respectively. An explanation of all differences between the base period and adjustment period totals is provided in detail in Schedule G-3. Other Gas Revenues assigned to FERC Accounts 490-495 are reflected in Schedule G-5, which is supported by GTN Witness Leong.

Schedule G-1 (Base Period)

Q: What does Schedule G-1 contain?

A: Schedule G-1 displays GTN's base period actual revenues and billing determinants on a monthly basis, categorized by rate schedule, and therein grouped by shipper, contract, and transportation path.

Q: How are capacity release revenues and billing determinants treated in Schedule G-1?

A: Reservation quantities and related revenues associated with shippers acquiring released capacity are reinstated to the original transportation holders' contracts in the Mainline Long-Term Firm category. Delivery quantities and related revenues associated with Mainline Long-Term Firm capacity releases are shown with the shippers acquiring released capacity in the Mainline Capacity Release category. Similarly, capacity release transactions on GTN's Medford and Coyote Springs

Laterals are shown separately under those categories. There was no release of capacity associated with Short-Term Firm transportation during the base period.

Q: Were there any discounted contracts in place during the base period?

A: Yes. There were a number of discounted Firm and Interruptible contracts in place during the base period as discussed below:

Long-Term Firm Discounts (Base Period)

During the base period, GTN had five discounted Long-Term Firm contracts in place as summarized below. These contracts are listed in chronological order with respect to the day they were consummated. The discounted rate, illustrated as a percentage of the maximum applicable reservation rate, is shown for each contract. The discounted rate applicable to IGI Resources increased during the base period, to the level shown.

	Quantity	Transport Path	Contract Term	% of Max
IGI Resources	15,000	KING – STAN	11/1/03 – 4/30/13	53%
Duke Energy	30,000	KING – STAN	11/1/04 – 10/31/09	43%
BP Canada	15,000	KING – MALI	11/1/05 – 10/31/06	30%
Sempra Energy	40,000	KING – MALI	11/1/05 – 10/31/08	18%
Occidental Energy	30,000	STAN – MALI	11/1/05 – 10/31/06	32%

Short-Term Firm Discounts (Base Period)

All of GTN's approximately fifty Short-Term Firm capacity sales in place during the base period were discounted, of which the average rate earned on the Kingsgate-to-Malin and Stanfield-to-Malin primary path contracts was approximately 20 percent and 46 percent of the paths' respective tariff rates.

IT Discounts (Base Period)

In response to prevailing basis differentials, GTN discounted IT service during the base period. The following is a summary by path of the IT volumes that were discounted during the base period:

Path	Annual Delivery Quantity	Average % of Max
KING-MALI	2,239,506	26%
KING-STAN	2,677,557	14%
STAN-MALI	487,557	16%
KING-TUSC	49,471	26%
STAN-TUSC	25,000	16%

Q: Were there any negotiated rate transportation contracts in place on the mainline during the base period?

A: Yes. During the base period, GTN had six negotiated rate Short-Term Firm contracts in place.

Q: How would you summarize the revenues GTN received from its negotiated rate Short-Term Firm contracts?

A: Five of the six negotiated rate contracts provided for a steeply discounted reservation rate in conjunction with a delivery rate in excess of GTN's maximum tariff delivery rate. These negotiated rate options were available to all customers in GTN's effort to realize some fixed cost recovery and revenue certainty while allowing for potential revenue upside to the extent the contracts were utilized. For the most part, these contracts were infrequently utilized and the resulting revenues were comparable to those received from GTN's discounted transportation contracts.

The remaining negotiated rate contract is based in part on a daily index, and provided total base period revenue equivalent to approximately eight percent of the equivalent volume at GTN's maximum tariff rate.

Q: Were there any negotiated rate hub service contracts in place on the mainline during the base period?

A: Yes. There were seven negotiated rate hub service contracts in place on the mainline during the base period.

Q: How would you characterize the revenues received from these hub service contracts?

A: These contracts were considered negotiated rate contracts as a result of a modified payment schedule. The rate charged and the associated revenues for these contracts, on average, were at a discount when compared to GTN's existing maximum tariff rate.

Q: Did GTN publicly post all of its discounted and negotiated rate agreements?

A: Yes, GTN posted all of its discounted and negotiated rate agreements consistent with Sections 284.13(b) and 358.5(d) of the Commission's Regulations.

Schedule G-2 (Adjustment Period)

Q: What does Schedule G-2 contain?

A: Schedule G-2 displays GTN's base period revenues and billing determinants, adjusted for known and measurable changes that are expected to occur during the adjustment period. In this Exhibit, adjustments have been made to Reservation Quantities, Delivery Quantities, transportation rates, and associated revenue.

Q: What adjustments were made to the mainline Long-Term Firm Reservation Quantities during the adjustment period?

A: Reservation Quantities associated with mainline Long-Term Firm Contracts have been adjusted to reflect four known and measurable developments that took place during the base period, or will take place prior to the end of the adjustment period, as discussed below:

1. Contract Turnback

   As explained in GTN Witness Ferron-Jones' testimony, shippers holding 15 Long-Term Firm contracts with expiration dates of October 31, 2005, did not renew their contracts with GTN. GTN Witness Ferron-Jones further explains that shippers holding eight Long-Term Firm contracts with expiration dates of October 31, 2006, did not renew all or a portion of their contracts prior to the end of the Right of First Refusal ("ROFR") process that was completed in May 2006. The Reservation Quantities associated with these 23 contracts have been removed in the adjustment period since resubscription of these quantities is not known or measurable.

2. Contract Default

   On April 7, 2006, Calpine Corporation ("Calpine") filed its Debtors' Objection to Motion of Gas Transmission Northwest Corporation, Portland Natural Gas Transmission System, and TransCanada Pipelines Limited to Enforce Stipulation and to Compel Debtors to Replenish Assurances ("Objection") in the United States Bankruptcy Court, Southern District of New York. As part of its Objection, Calpine indicated its intent to repudiate three of its Long-

Term Firm contracts on GTN. The three contracts listed in Calpine's objection are:

Contract No.	MDQ	Path	Contract Term
07357	15,000	King-Mali	11/1/02 - 10/31/23
08096	35,800	King-Mali	11/1/02 - 11/30/42
08429	25,000	King-Mali	11/1/03 - 10/31/28

Beginning with the April 2006, invoice which was due on May 12, 2006, Calpine has not paid for charges related to these three contracts. GTN anticipates that Calpine will terminate these contracts in the bankruptcy. Therefore, the Reservation Quantities associated with these three contracts have been removed from the adjustment period.

3. Contract Expiration

Two discounted Long-Term Firm contracts, with BP Canada and Occidental Energy, do not contain ROFR provisions and will expire on October 31, 2006. The Reservation Quantities associated with these two contracts have been removed in the adjustment period.

4. New Contracts

Four discounted Long-Term Firm contracts that will begin during the adjustment period have been annualized in the adjustment period. These new contracts are summarized below:

	Quantity	Transport Path	Contract Term	% of Max Rate
Nexen Marketing	20,000	KING – MALI	4/1/06 – 3/31/18	14%
Sacramento Muni.	20,000	KING – MALI	6/1/06 – 12/31/09	20%
Sacramento Muni.	11,742	KING – MALI	6/1/06 – 10/31/09	20%
Sempra Energy	40,000	KING-MALI	11/1/06 – 3/31/10	59%

The rate applicable to Sacramento Municipal Utility District's 20,000 Dth/d contract increases annually; the percent of maximum rate shown is reflective of the discounted rate that will be in effect at the end of the adjustment period.

In addition to reflecting these new contracts that began during the adjustment period, the discounted contract for Sempra Energy listed on page four of my testimony, which began during the base period, has been annualized in the adjustment period to reflect a full year of subscribed quantities.

Lastly, the adjustment period reflects the renewal of portions of contracts held by Cargill and IGI that were renewed during the ROFR process. As stated in GTN Witness Ferron-Jones' testimony, the capacity associated with these renewals was renewed at discounted rates.

Q: What adjustments were made to the Short-Term Firm Reservation Quantities during the adjustment period?

A: The adjustment period utilizes actual Short-Term Reservation Quantities for the months in which actuals are available. For all other months, base period Reservation Quantities have been apportioned equally between the Kingsgate-Stanfield and Stanfield-Malin paths in the adjustment period. The adjustment period also assumes the continuation of a monthly negotiated rate Short-Term Firm backhaul agreement with Coral that has been extended pursuant to evergreen provisions on a monthly basis since the end of April 2003. GTN has included this contract because it is not aware of any changed circumstances that would cause GTN to assume that Coral would not continue this contract on a monthly basis.

Q: What impact do the adjustments discussed above have on adjustment period Reservation Quantities?

A: As a result of the adjustments to Long-Term Firm and Short-Term Firm Reservation Quantities discussed above, the total reservation quantities have decreased by approximately 11 percent in the adjustment period.

Q: How was base period capacity release associated with expiring contracts treated in the Reservation Quantity adjustments?

A: The Reservation Quantity adjustment associated with the previously noted Long-Term Firm contracts that were removed in the adjustment period was based on the contracts' original Reservation Quantity. The adjustment period does not replace the capacity released from expiring contracts primarily because the resale of this capacity is not known or measurable.

Q: What are the reservation adjustments for Medford Lateral Reservation Quantities for the adjustment period?

The adjustment period reflects a one-half percent increase in reservation quantities due to the annual MDQ escalation associated with one contract. The MDQ of this seasonal contract increased by 1,000 Dth/d during the base period, and will increase by another 1,000 Dth/d during the adjustment period. There is no further MDQ escalation associated with this contract beyond the MDQ existing and shown in the adjustment period.

Q: Were there any adjustments for Coyote Springs Lateral Reservation Quantities during the adjustment period?

A: No. There were no adjustments to base period Reservation Quantities during the adjustment period for the Coyote Springs Lateral.

Q: What is the nature of the adjustments to Delivery Quantities?

A: Delivery Quantity adjustments have been made to Long-Term Firm, Short-Term Firm, and IT contracts as discussed below:

<u>Mainline Long-Term Firm Delivery Quantities (Adjustment Period)</u>

Delivery Quantities associated with mainline Long-Term Firm contracts reflect adjustments for the known changes in contract levels resulting from contract turnback, contract expiration, contract default, and the addition of new contracts.

1. Contract Turnback and Expiration

   The base period delivery quantities associated with contracts that have or will be expiring prior to the end of the adjustment period have been removed. This adjustment is consistent with GTN's experience with contract turnback/expirations in 2005, after which the pipeline experienced a reduction in throughput consistent with the loss of the 2005 firm contracts. The volume adjustment accounts for approximately six percent of the base period Delivery Quantities. The average utilization of the expiring contracts during the base period was approximately 33 percent.

2. Contract Default

   GTN expects that Calpine will utilize its retained contracts at a higher load factor to maintain the same base period delivery volumes associated with its original Long-Term Firm contracts. Therefore, the adjustment period delivery determinants associated with Calpine’s remaining Long-Term Firm contracts have been increased to accommodate the base period delivery determinants associated with the repudiated contracts, up to the full capacity of the existing contracts when required. The utilization of all of Calpine's Long-Term Firm contracts in the base period was approximately 55 percent. Comparatively, assuming rejection of the three previously noted contracts, Calpine will have retained approximately 50 percent of its contracted capacity on GTN. As a result of maximizing the use of Calpine's remaining contracts, approximately one percent of base period mainline Long-Term Firm delivery quantities have been removed from the adjustment period as the result of the anticipated rejection of the three contracts.

3. Addition of New Contracts

The Long-Term Firm Delivery utilization rate, including capacity release transactions, during the base period was equal to 67 percent. For new Long-Term Firm contracts, I have applied a 70 percent utilization rate with the exception of two contracts, with Cargill and Sempra, that were initiated during the base period. For these two contracts, base period actuals were utilized for the months in which base period data was available.

4. Capacity Release

During the adjustment period, deliveries associated with released capacity were reinstated back to the original transportation holders' contracts in the Mainline Long-Term Firm Category.

<u>Short-Term Firm Delivery Quantities (Adjustment Period)</u>

The Short-Term Firm Delivery utilization rate during the base period was approximately 46 percent. With the exception of adjustment period months where actual data is available, I have applied a 50 percent utilization rate to adjustment period Short-Term Firm sales. This treatment is consistent with the base period actual results. In addition, I have removed the base period delivery determinants associated with the Coral negotiated rate backhaul agreement discussed earlier in my testimony. Billing determinants associated with this backhaul agreement should not be included because variable costs are not incurred when service is provided under this contract.

<u>IT Delivery Quantities (Adjustment Period)</u>

Delivery Quantities associated with IT volumes were not modified in the adjustment period with the exception that actual adjustment period Delivery Quantities were utilized for the months in which adjustment period data was available.

Q: Were any usage adjustments made to Parking and Lending Services?

A: Parking and Lending service utilization, categorized as Delivery Quantities throughout Statement G and its related schedules, reflect a similar total usage level as the base period, adjusted to provide for a constant utilization rate across all months of the adjustment period.

Q: Were any adjustments made to Delivery Quantities on GTN's laterals?

A: No. Delivery Quantities associated with GTN's Medford and Coyote Springs laterals were not modified during the adjustment period.

Q: What is the nature of adjustments to revenues in the adjustment period?

A: Adjustments to revenues incorporate GTN’s filed mainline and lateral tariff rates, as calculated in Schedule J-2 and discussed in GTN Witness Roscher’s testimony.

Similar to the base period, the adjustment period assumes all Short-Term Firm sales are at steeply discounted rates and that GTN will continue to discount IT rates on the Kingsgate-to-Malin, Kingsgate-to-Stanfield, and Stanfield-to-Malin paths to compete with transportation alternatives. The adjustment period maintains maximum IT rates on all other paths. Service on these other paths accounts for more than 70 percent of GTN's IT revenue during the base period.

Q: Is GTN proposing to modify its Parking and Lending Tariff rates?

A: Yes. As explained later in my testimony GTN does not separately identify costs associated with performing parking and lending services; therefore, GTN is proposing to modify its maximum Parking (Rate Schedule PS-1) rate from $0.029 per Dth to $0.353377 per Dth. GTN is proposing to charge the same rate for Lending Service (Rate Schedule AIS-1). The current rate for this service is $0.012 per Dth.

Q: Do you anticipate that GTN will be able to charge more for Parking and Lending Services when this higher rate becomes effective?

A: No. Based on current market conditions as described by GTN Witness Ferron-Jones, the adjustment period assumes GTN will need to continue discounting its Parking and Lending rates to encourage shippers to utilize these services. More than half of GTN's Parking and Lending service volumes and revenues in the base period were associated with discounts to the original tariff rates listed above. Therefore, GTN assumes that absent a significant change in market conditions, it will need to continue to provide discounts at these levels. For these reasons, the rates charged for Parking and Lending have been adjusted to produce the same total base period revenue when applied to the adjusted volumes. The resulting average rate during the adjustment period for these services equates to approximately three percent of the proposed maximum tariff rate.

Schedule G-3 (Reconciliation of Base Period to Adjustment Period)

Q: What does Schedule G-3 contain?

A: Schedule G-3 provides a line item reconciliation of the base and adjustment periods. Categorized by rate schedule, specific contractual adjustments and assumptions leading to all other adjustments are shown as additions or subtractions to the original base period determinants and revenues in order to show how the adjustment period totals in Schedule G-2 were derived. GTN notes that, apart from the adjustments described in Schedule G-2, there were no other billing determinant adjustments reflected in Schedule G-3.

<u>Hub Service Rates</u>

Q: How did you design rates for GTN's Parking and Lending services?

A: Exhibit GTN-13 illustrates how I designed a postage-stamp hub service rate for both Parking and Lending services. Specifically, I divided the total reservation (fixed) costs contained in Schedule J-2 by GTN's total mainline reservation quantities. As calculated on line 5 of Exhibit GTN-13, the resulting maximum PS-1 and AIS-1 rates equal $0.353377.

Q: Mr. Johnson, has the Commission previously accepted pipeline proposals to implement hub service rates similar to IT rates?

A: Yes. It is my understanding that in a Mojave Pipeline Company ("Mojave") proceeding, the Commission recognized that Mojave did not incur any incremental costs in performing its park and loan service. For this reason, the Commission determined that there were no specific costs to be allocated to the service. Therefore, Mojave designed a rate for park and loan service which equaled Mojave's rate for IT service.

Q: Are the maximum hub service rates of any other of GTN's competitors equal to or similar to their respective IT rates?

A: Yes. GTN's direct competitors are able to charge hub service rates that are equal to or similar to their respective IT rates. For purposes of this comparison, GTN's direct competitors include Northwest Pipeline Corporation, Transwestern Pipeline Company, Kern River Gas Transmission Company, and El Paso Natural Gas Company.

Generally speaking, for pipelines utilizing a postage-stamp rate design, the Commission has set hub service rates equal to the IT rate. For pipelines utilizing a zone or mileage based rate design, the Commission has accepted the use of postage-stamp hub service rates that are similar to the pipeline's IT rate.

Q: How do GTN’s current maximum hub service rates compare to its competitors’ maximum rates for similar service?

A: Exhibit GTN-14 identifies GTN's current hub service recourse rates and compares these rates to the recourse rates of GTN's competitors for similar services. As can be seen in the exhibit, GTN's current hub service recourse rates are far below those of its competitors.

Additionally, Exhibit GTN-14 also identifies the maximum IT rates for each pipeline to compare competing pipelines' hub service rates against their respective maximum IT rates. This exhibit demonstrates that GTN's competitors have hub service recourse rates that are either equal to or similar to their maximum IT rates depending on the rate design utilized by the pipeline.

Q: Is it appropriate to utilize a postage-stamp style rate design in order to derive hub service rates for GTN?

A: Yes. Since GTN is a mileage-based pipeline, it is appropriate to utilize a postage-stamp rate design to derive hub service rates. The postage-stamp rate design does not distinguish where on the system gas is either parked or lent. Moreover, a postage-stamp style rate is appropriate since these hub services will be available to all customers along GTN's mainline and, as mentioned earlier, such a rate will not give preference to one parking/lending point over another.

Implementing a postage-stamp hub service rate is the most reasonable method because GTN does not separately identify costs associated with performing parking and lending services. Because no separately identifiable costs associated with these services exist, it is rational to follow the methodology approved in *Mojave*.

Q: Does GTN allocate costs to hub services?

A: Yes. GTN allocates fixed costs to Parking and Lending services by virtue of the revenue credit to the FTS-1 cost of service for these services.

Q: What benefit will GTN derive from implementing postage-stamp hub service rates?

A: Implementing postage-stamp hub service rates on GTN will level the playing field for pipelines serving western markets by allowing GTN the opportunity to charge similar rates for similar services.

Q: Will implementing postage-stamp hub service rates benefit Long-Term Firm shippers in any way?

A: Implementing postage-stamp hub service rates will allow these services to be priced to take advantage of unanticipated swings in the value of the service.

Therefore, to the extent that GTN is able to charge more than it has received for these services during the base period, there is an increased likelihood that firm shippers will benefit from revenue crediting associated with GTN's risk sharing proposal, as discussed by GTN Witness Roscher.

Elimination of IT Rate Floor

Q: Will you please describe the establishment of the current IT rate floor at Malin?

A: A floor for IT service to Malin equal to 30 percent of the maximum ITS-1 rate was established as a settlement provision in GTN's last general rate proceeding. Article III, Section 4 of GTN's Stipulation and Agreement ("Settlement") describes the establishment of the IT rate floor as follows:

> "Upon termination of the Gas Supply Restructuring ("GSR") Surcharge or the effective date of this Settlement, whichever comes later, and continuing until the termination of Period II, PGT shall not discount service under Rate Schedule ITS-1 for quantities ultimately delivered to the terminus of PGT's pipeline system near Malin, Oregon, to a rate that is less than thirty (30) percent of the maximum base rate for such service, exclusive of applicable surcharges; provided, however, that a negotiated discounted rate with a term of one (1) month or less that is being charged when this Settlement becomes effective shall not be affected during the term of the discount. PGT shall promptly provide written notice to all parties when the recovery of GSR costs through the GSR surcharge is completed. For purposes of this Section, any reduction in the GSR Surcharge from the unit amount that exists at the date of filing this settlement with the Commission shall be deemed to be termination of the GSR surcharge."

As described in the Settlement, the IT rate floor would be established at the latter of the effective date of the settlement or the termination of the GSR. On August 12, 1996, GTN filed tariff sheets, in Docket No. RP96-337-000, proposing to terminate the GSR. These tariff sheets were made effective August 15, 1996, by Letter Order dated September 11, 1996. Contemporaneously, the Commission also issued an Order Approving Contested Settlement ("Settlement Order") in GTN's last general rate proceeding on September 11, 1996, 76 FERC ¶ 61,246 (1996).

Q: The Settlement indicates that the IT rate floor would remain in effect until the termination of Period II. When does the termination of Period II occur?

A: Article III, Section 1(b), of the Settlement discusses the timing of the termination of Period II. Specifically, the Settlement states that Period II would be superseded by the earlier of:

> "(i) rates which have been made effective in a subsequent general rate proceeding initiated by PGT pursuant to Section 4 of the Natural Gas Act; or
>
> (ii) rates which have become effective in tariff sheets filed in compliance with Commission orders issued pursuant to Section 5 of the Natural Gas Act."

Q: Please continue.

A: Based upon Article III, Section 1(b) of the Settlement, Period II terminates when rates are made effective in the instant section 4 filing. Therefore, the current IT rate floor terminates contemporaneous with the effectiveness of rates in the instant filing.

Q: Does this conclude your testimony?

A: Yes, it does.