

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

Gas Transmission Northwest Corporation) Docket No. RP06- -000

Prepared Direct Testimony of Jeffrey R. Rush

1 **Q: Please state your name and business address.**

2 A: My name is Jeffrey R. Rush. My business address is 1400 SW 5th Street, Suite 900,
3 Portland, Oregon, 97201.

4 **Q: By whom are you employed and in what capacity?**

5 A I am employed by TransCanada USA Services Inc. as Vice President and General
6 Manager of Gas Transmission Northwest Corporation ("GTN").

7 **Q: Please describe your educational and professional background.**

8 A. I hold a B.A. degree from McMaster University in Ontario and an MBA from the
9 University of Strathclyde in Scotland. I joined NOVA Gas Transmission in 1981 and
10 have held positions of increasing responsibility for NOVA and TransCanada PipeLines
11 since that time, including Vice President of business development for TransCanada's
12 pipeline business in western North America and President of TransCanada Pipeline
13 Ventures Ltd. I accepted my current role as Vice President and General Manager of Gas
14 Transmission Northwest in February 2005.

15 **Q: Have you previously testified before the Commission?**

16 A: No, I have not.

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

2 A: I will provide a broad overview of GTN's system, describe the major components that
3 underlie this filing, and introduce GTN's other witnesses.

4 **Q: What Exhibits are you sponsoring?**

5 A: I am sponsoring Exhibit No. GTN-2, a system map.

6 **Q: Please generally describe the GTN system.**

7 A: GTN is a corporation organized and existing under the laws of the State of California,
8 and it has its principal place of business at 1400 SW Fifth Avenue, Suite 900, Portland,
9 Oregon. GTN is a "natural-gas company," as defined by the Natural Gas Act, 15 U.S.C §
10 717a(6), and is engaged in the business of transporting natural gas in interstate
11 commerce, within the jurisdiction of the Federal Energy Regulatory Commission.

12 GTN owns and operates a natural gas pipeline that extends approximately 612
13 miles from the International Boundary at Kingsgate, British Columbia, to the Oregon-
14 California border, where it interconnects with Tuscarora Gas Transmission Company and
15 Pacific Gas & Electric Company. GTN utilizes this pipeline to provide firm and
16 interruptible transportation service to numerous shippers serving the Pacific Northwest,
17 California, and Nevada markets. GTN also interconnects with facilities of Williams'
18 Northwest Pipeline near Spokane and Palouse, Washington, and Stanfield, Oregon. A
19 map of GTN's facilities is included as Exhibit GTN - 2.

20 GTN was formerly known as both Pacific Gas Transmission Company and PG&E
21 Gas Transmission, Northwest Corporation. Historic documents, including various
22 service agreements and Commission certifications, refer to these previous names.

1 **Q: Please provide an overview of this rate filing.**

2 A: GTN's current rates for service were established in settlement of its last rate case, Docket
3 No. RP94-149, more than 10 years ago. Since that time, the market served by GTN has
4 undergone a series of significant changes. These changes include the introduction of
5 significant new pipeline capacity both into and out of GTN's major market and supply
6 areas, which has dramatically reduced the basis differential on GTN's system. In
7 addition, four of GTN's largest customers have defaulted (or indicated their intent to
8 default) on significant contracts on GTN's system. Moreover, given these market
9 conditions and the availability of capacity on GTN's system, a number of firm customers
10 chose not to renew their firm contracts and have instead turned their capacity back to the
11 pipeline. GTN has been forced to steeply discount its available capacity and still has
12 substantial unsubscribed capacity. The combination of these factors has made it
13 impossible for GTN to earn a reasonable rate of return without a modification of its rates.

14 **Q: What specifically does GTN propose to modify through this application?**

15 A: To address these issues, GTN is revising its rates to reflect an updated cost of service of
16 approximately \$303.5 million, along with a proposal to share, with its long-term firm
17 shippers, the costs of turnback capacity and the revenues associated with sales of
18 turnback capacity. More specifically, GTN will be at risk for 10 percent of turnback
19 capacity costs, as well as at risk for an additional \$1.39 million of costs allocated to short-
20 term services. GTN will share 75 percent of any revenue received from the sale of
21 unsubscribed capacity (after recovery of the initial cost allocation to subscribed services)
22 with holders of recourse rate, long-term firm contracts.

1 GTN also proposes two significant rate-design changes intended to increase
2 potential recovery of costs. First, GTN proposes market-based rates for full-haul IT
3 services. GTN's market is competitive both in the origin and destination markets. To the
4 extent GTN is successful selling IT capacity at market-based rates, 75 percent of the
5 revenue (after recovery of certain costs) will be refunded to long-term capacity holders to
6 help mitigate their share of the costs of unsubscribed capacity.

7 Second, GTN is proposing flexible rates for all other short-term and seasonal
8 transportation services, capped at 2.5 times the maximum reservation components of the
9 applicable long-term firm recourse rate, plus delivery charges. Like the market-based
10 rates for full-haul IT service, this proposal will encourage shippers to contract for longer-
11 term capacity. Also, as in the case of the market-based IT service, GTN is proposing that
12 75 percent of any revenue received for these services (after recovery of certain costs) be
13 refunded to long-term firm shippers.

14 **Q: Please explain what prompted you to propose a rate change at this time.**

15 A: We are proposing a rate change at this time because of radically changed market
16 conditions since the implementation of our last rate change 12 years ago, which have led
17 to a very significant underrecovery of costs for GTN.

18 **Q: How do GTN's various proposals in this case affect the maximum recourse rate for**
19 **firm service?**

20
21 A: As a result of the changes proposed herein, GTN's maximum recourse rate for mainline
22 service under Rate Schedule FTS-1 will increase, on a full-haul basis, from \$0.262787
23 per Dth to \$0.449854 per Dth. However, the effective rate paid by long-term firm

1 shippers could be lower if GTN is successful in remarketing capacity and sharing
2 revenues with its shippers.

3 **Q: Why is the proposed rate increase necessary?**

4
5 A: As explained in the testimony of GTN Witness Leslie Ferron-Jones, market conditions
6 have changed fundamentally since our last rate case. Specifically:

- 7 • Significant amounts of capacity have been turned back to GTN.
- 8 • The basis differential between the delivery point and the receipt point on the GTN
9 system has actually been negative, i.e., the cost of transporting gas on GTN has
10 exceeded the difference between the price of gas in the supply and market areas, for
11 most of the base period.
- 12 • GTN has received no bids during recent Right-Of-First-Refusal (“ROFR”) open
13 seasons, and shippers that hold ROFRs have generally not extended their contracts
14 more than one year, sometimes at steeply discounted rates.
- 15 • There has been a significant increase in the amount of pipeline capacity that competes
16 directly with GTN.
- 17 • GTN has been faced recently with large numbers of non-creditworthy shippers,
18 including shippers who have defaulted.

19 **Q: Is GTN’s proposed rate increase justified?**

20 A: Absolutely. As explained in detail by GTN witnesses, GTN is entitled to have a
21 reasonable opportunity to recover its costs. In balancing cost recovery with
22 competitiveness, the proposed rate increase is fully justified. We have gone from a
23 period of great demand for our transmission service to a situation where large amounts of
24 capacity have been turned back, where we must deeply discount capacity in order to

1 maximize the use of the system, and where we find customers who are not creditworthy
2 and may not be willing (or able) to live up to their contractual obligations. Both GTN's
3 costs and GTN's risks have increased dramatically.

4 **Q: Given all of the challenges you face today, will the rate increase you have proposed**
5 **be sufficient for GTN?**

6
7 A: Yes. The proposed rate increase is sufficient, given circumstances that we face today.
8 GTN today is facing serious challenges with its customers and with its competitors. The
9 risks for GTN have never been greater, and while this rate increase proposal
10 appropriately addresses GTN's current situation, GTN continues to face significant future
11 risks including bypass and further capacity turnback.

12
13 **Q: Please describe the other significant aspects of GTN's filing, and the responsible**
14 **witnesses for each.**

15
16 A: A total of 13 witnesses (including me) are sponsoring direct testimony in this proceeding.

17 • GTN Witness Amy Leong addresses cost-of-service issues. Ms. Leong establishes
18 GTN's overall cost of service for the twelve-month base period ending March 31, 2006,
19 adjusted for known and measurable changes for the test period ending December 31,
20 2006, as \$303.5 million. This cost of service is based on GTN's actual capital structure
21 of 37.01 percent debt/62.99 percent equity, a transmission depreciation rate of 2.76
22 percent, and a rate of return on equity of 14.5 percent. Ms. Leong also explains the
23 methodology used to allocate costs to GTN from its parent, TransCanada. This
24 methodology is similar, but not identical to, the Distrigas methodology.

25 • GTN Witness John Roscher addresses cost classification, allocation, and rate design.
26 Among other issues, Mr. Roscher explains GTN's treatment of turnback capacity and the

1 related risk-sharing mechanism, as well as GTN's discount adjustment. He also explains
2 GTN's market-based IT rate proposal and flexible-service rate proposal. Mr. Roscher
3 demonstrates that GTN's 1998 and 2002 expansions should be rolled in with GTN's
4 general system rate, and he explains GTN's proposal to convert from monthly to daily
5 rates.

- 6 • GTN Witness Benjamin Johnson addresses billing determinants and revenues, including
7 Statement G. As part of his testimony, Mr. Johnson identifies all long-term discounted
8 and negotiated rate contracts and addresses known and measurable changes to billing
9 determinants in the test period. Mr. Johnson also supports GTN's proposal to implement
10 postage-stamp hub service rates that are similar to a 100% load factor IT rate, and to
11 eliminate the floor on IT capacity discounting imposed in GTN's previous rate case.

- 12 • GTN Witness Kenneth Nichols describes changes to GTN's tariff to clarify and improve
13 GTN's creditworthiness provisions. Among other things, Mr. Nichols explains GTN's
14 proposal to include a prospective customer's potential to default in the evaluation of bids
15 in an open season.

- 16 • GTN Witness Walter Haessel provides an expert assessment of gas supplies available to
17 GTN from the Western Canadian Sedimentary Basin to determine the economic life of
18 the GTN system, in support of depreciation rates sponsored by GTN Witness Feinstein.

- 19 • GTN Witness Dan King testifies regarding the cost of retiring and removing facilities for
20 development of a net negative salvage rate, in support of GTN Witness Feinstein. In
21 addition, Mr. King's testimony discusses pipeline integrity costs in addition to repair and
22 overhaul costs that are related to the maintenance of mains and compressor station
23 equipment.

- 1 • GTN Witness Edward Feinstein addresses depreciation and negative salvage. Dr.
2 Feinstein finds an appropriate transmission depreciation rate, based on the economic life
3 of the facilities, to be 2.76 percent, and a net negative salvage rate to be 0.74 percent.
- 4 • GTN Witness Leslie Ferron-Jones testifies regarding GTN's current commercial
5 environment. Ms. Ferron-Jones identifies the contracts that have been turned back to
6 GTN and describes GTN's efforts to sell that capacity. Ms. Ferron-Jones also provides
7 historic data and third-party forecasts to demonstrate that, under current and predicted
8 circumstances, GTN is unable to sell capacity on a long-term basis at or near GTN's
9 maximum recourse rate because it is not currently economic for shippers to hold that
10 capacity.
- 11 • GTN Witness Steve Levine reviews the business risk facing GTN and evaluates how
12 GTN's business risk compares with a proxy group of other U.S. pipelines regulated by
13 the Commission.
- 14 • GTN Witness Paul Moul provides testimony describing the appropriate range of return on
15 equity for GTN, concluding that the filed rate of return on equity selected by GTN of
16 14.5% is well within the appropriate range given GTN's risk factors.
- 17 • GTN Witness Paul Carpenter provides testimony in support of GTN's market-based rate
18 proposal. Dr. Carpenter determines that GTN's market is competitive in all relevant
19 markets.
- 20 • GTN Witness Barry Sullivan provides support for GTN's market-based rate proposal and
21 concludes that GTN's proposal is consistent with Commission policy.

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

23 **A:** Yes.