

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

Questar Gas Company

**PREPARED REBUTTAL TESTIMONY OF
ALAN J. WALKER
FOR QUESTAR GAS COMPANY**

October 4, 2002

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

2 A. My name is Alan J. Walker. My business address is 180 East 100 South, P.O.
3 Box 45360, Salt Lake City, Utah 84145.

4
5 **Q. What are your current position and responsibilities?**

6 A. I am the Director of Gas Supply Management for Questar Gas Company
7 (QGC or the Company). My responsibilities are to oversee the long-term and mid-
8 range planning for and providing of natural gas resources to meet sales customer
9 requirements and to manage the day-to-day gas supply operations related to Company
10 production, gas acquisition, storage, gathering, transportation and nominations. I have
11 held this position since February 1999.

12
13 **Q. What is your educational background?**

14 A. I hold a bachelor's degree in applied science and engineering from the United
15 States Military Academy at West Point and an MBA from Rensselaer Polytechnic
16 Institute.

17
18 **Q. What additional experience do you have in the gas industry?**

19 A. During the past 21 years, I have held numerous gas industry positions in
20 engineering, gas supply, regulatory affairs and marketing. From 1981 through 1985, I

1 was employed as a Petroleum Engineer for Amoco Production Co., with responsibilities
2 for production of several of Amoco's natural gas fields in the Overthrust region. I also
3 attended numerous petroleum production and reservoir engineering courses at Amoco's
4 Technical Training Center in Tulsa, Oklahoma. Since 1985 I have worked for Questar
5 Corporation as a Senior Gas Supply Engineer for Mountain Fuel, Senior Gas Purchase
6 Representative for Questar Pipeline Co., Director of Gas Acquisition and Marketing for
7 Mountain Fuel, and Director of Market Development for Questar Energy Trading Co.
8

9 **Q. What is the purpose of your rebuttal testimony?**

A. Section 5.04 of QGC's tariff requires customers to sell their natural gas supplies to the Company during periods of interruption. Under this provision, customers agree to not sell, exchange, transport or use such supplies if called upon by the Company during periods of interruptions. The exception to this requirement is when a party holds a pre-existing higher contractual priority to those gas supplies.

Four intervenor witnesses have proposed that this source of gas, which they uniformly and incorrectly term a "call option," be valued with a cost-of-service allocation credit equal to the value calculated. They are: Alan Chalfant for the Utah Industrial Energy Consumers, Roger J. Swenson on behalf of U.S. Magnesium LLC, Bryan G. Hassler and Kevin C. Higgins for the UEA Intervention Group and the United States Executive Agencies.

Q. Before presenting the Company's specific response to this issue, please respond the individual points made by the various witnesses. What is your response to Mr. Chalfant's position?

A. Mr. Chalfant maintains that the Section 5.04 requirement guarantees a source of supplies at rates that reflect the market-index price. The availability of this gas is *not* guaranteed because any gas called upon under Section 5.04 is subject to any pre-existing

higher contractual obligations. There are no restrictions on these higher contracted obligations, and the transporters have no obligation to disclose these first-call rights on their supply.

He also incorrectly maintains that customers may either experience a profit or loss from their sales to QGC during periods of interruption. In fact, there is little chance for a gas sale at any significant loss, because customers are paid for any gas supply provided under Section 5.04 at the higher of (1) the first-of-the-month *Inside FERC* Market Index Price, or (2) *the Gas Daily* Market Index Price. By using the higher of these two market indices, the customer is to be reimbursed at the highest market price for its gas.

Mr. Chalfant also states that the old “nickle waiver” program is comparable to the current Section 5.04 peaking service. In this case, the fact that the current ability to access these gas supplies is subject to customers’ higher-priority contractual arrangements makes this resource substantially less valuable than gas purchased under that program. Under that program, the Company reviewed the underlying agreements to search for any pre-existing obligations. Any gas with a higher priority or insufficient reliability was disqualified.

Q. Please address the direct testimony of Roger J. Swenson on this issue.

A. Mr. Swenson attempts to estimate a value of this peaking resource by calculating the cost of what he terms the “three primary alternatives for the utility” for attaining such peaking service elsewhere. His universe of market alternatives include: (1) utilizing seasonal firm storage on Clay Basin, (2) developing additional peaking storage, and (3) obtaining LNG peaking service. These alternatives are all prohibitively expensive, involve construction of facilities, and would have a very low utilization rates. His alternatives ignore the most obvious source of peaking supply that the Company has readily available for its use: contracting for peaking services from third-party suppliers to serve this limited need. I will address this later in my testimony. Because Mr. Swenson uses unrealistic market surrogates for his evaluation, he comes up with a value

of over \$1.6 million. This is far in excess of the cost of a peaking service that is superior to the gas supplied by the interruptible customers.

Q. Please address the testimony of Mr. Hassler.

A. First, I agree with Mr. Hassler's (and Mr. Higgins's) assumption of 40,000 MMBtu/day for which QGC could exercise its Section 5.04 purchase. In the most recent integrated resource plan (IRP), the Company assumed this amount of IT gas over an eight- to ten- day period during the design year. However, Mr. Hassler assumes that, if QGC did not have its Section 5.04 rights, it would have to buy incremental firm transportation capacity to serve peaking needs. This is not true. QGC has planned for and acquired sufficient transportation capacity to meet its needs for the current year and has subscribed for additional capacity on Kern River Gas Transmission Co. in subsequent years. Mr. Hassler calculates a value of almost \$4 million, or \$9.70/Dth/day, for this Section 5.04 purchase right. Like Mr. Swenson's attempt, this is a highly inflated estimate of the value of these resources.

Q. How would you value the Section 5.04 right to purchase 40,000 Dth of natural gas during a peak period?

A. I've compared the current active peaking contracts for the period July 2002 through June 2003 where various parties have contracted to provide QGC peaking services. These are listed in Exhibit QGC 8.1R. To protect the confidential nature of these individual contracts, I have not included the names of the contracting parties or other contract-identifying information. Under each of these peaking contracts, QGC pays a demand charge for the right to acquire gas supplies at a set daily index-related price. The average demand charge for these contracts is \$.0613/Dth/day, with the highest charge being \$.1000/Dth/day.

Q. Do you agree that QGC should be limited in the number of days when it can call on supplies?

A. No. Interruptions are never “planned” events. But, as a practical matter, they have not occurred frequently and have not been of long duration.

Q. How do you then calculate a total value for this peaking resource?

A. The per-Dth charge should be multiplied by the 40,000 Dth volume assumed by all the parties in this case, which is in turn multiplied by the length of the winter period for which these supplies would be made available. Under this calculation, the value of this peaking resource would be from \$147,121 ($\$.0613 \times 40,000 \times 60$ days) up to \$360,000 ($\$.10 \times 40,000 \times 90$ days). As I testified in QGC’s last general rate case, Docket No. 99-057-20, the value of this peaking resource at the time was approximately \$350,000. This is consistent with my estimate in that case.

Q. What is your recommendation for the value of this resource availability for purposes of determining a cost-allocation credit in this case?

A. I think a value between \$150,000 and \$360,000 is reasonable for purposes of this proceeding.

Q. Does this conclude your rebuttal testimony?

A. Yes.