

PREFILED DIRECT TESTIMONY

Of

BRYAN G. HASSLER

On behalf of the UAE Intervention Group and the United States Executive Agencies

In the Matter of the Application of Questar Gas Company for a General Increase in Rates and
Charges

Utah Public Service Commission Docket No. 02-057-02

August 30, 2002

1 **Introduction**

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

3 A. Bryan G. Hassler, 3100 Greensborough Drive, Denver, CO 80129.

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

5 A. I am President of United Energy Partners, LLC, an energy consulting and project
6 development firm, and a Vice President of Antero Resources Corporation, a startup oil
7 and gas exploration and production company.

8 **Q. On whose behalf are you testifying in this proceeding?**

9 A. My testimony is being sponsored by the Utah Association of Energy Users
10 Intervention Group (UAE) and the United States Executive Agencies (USEA).

11 **Q. Please describe your qualifications.**

12 A. My academic background is in Petroleum Engineering and business. I have B.S.
13 and M.S. degrees in Petroleum Engineering from the University of Wyoming and an
14 MBA degree from Westminster College. I spent ten years with Questar Corporation in
15 oil and gas exploration and production activities, pipeline ratemaking, acquisition and
16 divestiture work and marketing and trading. I spent six years with Barrett Resources
17 Corporation building one of the largest marketing and trading groups in the Rocky
18 Mountain Region. At its peak our group moved 1.25 bcf of physical gas daily. We
19 served local distribution company loads in the Pacific Northwest, Salt Lake City and
20 Denver regions. Barrett had 250,000 MMBtu/day of firm pipeline transportation
21 commitments in the Rocky Mountain region and controlled 12 bcf of storage capacity.

1 **Purpose of testimony and summary of conclusions**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 A. I have been asked to evaluate a reasonable value associated with Questar Gas'
4 "call option" on interruptible transportation customers' gas under what was once referred
5 to as the "nickel waiver" program.

6 **Q. What conclusions have you reached in your analysis?**

7 A. I have reached the following conclusions:

8 (1) The commodity payment made to IT customers when their gas supplies are purchased by
9 Questar Gas does not adequately reflect the value associated with Questar Gas' call on
10 interruptible gas.

11 (2) There appears to be no significant limitation on the number of days that Questar Gas can
12 call on an interruptible customer's gas supply.

13 (3) Interruptible transportation customers should receive credit for the significant value of
14 Questar Gas' call option. In my opinion, the value to Questar and its firm sales
15 customers of the right to call upon IT customers' gas supplies during periods of
16 interruption is no less than \$9.79/MMBtu, plus the cost of gas.

17 **Q. What methodologies did you utilize to determine the value associated with Questar
18 Gas' call on interruptible transportation customer supplies?**

19 A. I evaluated the call option value under two different scenarios: a) the avoided cost
20 of transportation that Questar Gas realizes by having its call on the interruptible gas
21 supply and b) the valuation of peaking storage on Questar Pipeline's system.

22 **Q. What general assumptions did you utilize in your analysis?**

1 A. For simplicity, I assumed that Questar had a call on 40,000 MMBtu of gas per
2 day, that Questar would exercise its call on gas supplies at the city gates rather than at the
3 source of the actual supply (because most interruptible customers on Questar Gas'
4 distribution system have their supplies delivered to the city gates and are not transporters
5 on Questar Pipeline's system), and that there is no available firm capacity on Questar
6 Pipeline's system to serve peaking loads along the Wasatch front. Finally, I am
7 evaluating the "call premium" in both scenarios and assuming that the cost of gas is a
8 pass-through cost.

9 **Q. Please explain your approach to valuation based on the avoided cost of**
10 **transportation.**

11 A. If Questar did not have a call on IT shipper gas but still needed the ability to meet
12 an equivalent peak day event, it would have to buy incremental firm transportation
13 capacity to the city gates on either Questar Pipeline or on Kern River Pipeline and source
14 supply out of storage or via the spot market. To meet that peak, most pipelines will
15 require that a shipper subscribe for capacity on a year-around basis even though the
16 capacity may only be needed for a few days per year. On Questar Pipeline, capacity
17 currently sells for \$5.2884/MMBtu/ month. It would cost Questar Gas \$2,538,432 per
18 year for 40,000 MMBtu of call capacity on any day of the year (40,000 MMBtu X
19 \$5.2884/MMBtu/month X 12 months). This would suggest a value of Questar Gas' call
20 option of no less than \$6.345/MMBtu per day of call capacity plus the cost of gas on that
21 particular day (assumes that Questar Gas would call on capacity for 10 days).
22 Unfortunately, Questar has no firm transportation available to the city gates to meet peak

1 day needs and one would have to procure capacity on Kern River Pipeline's expansion to
2 meet the peak. Kern's existing tariff specifies a rate of \$16.86/MMBtu/month for
3 capacity. It would cost \$8.08 million per year to acquire 40,000 MMBtu of "call"
4 capacity (40,000 MMBtu X \$16.86/MMBtu /month X 12 months). This would suggest a
5 value of Questar Gas' call option of \$20.21/MMBtu per day of call capacity plus the cost
6 of gas on that particular day (assumes Questar Gas would call on capacity for 10 days).

7 **Q. Please describe your other approach to valuation, looking at peaking supply on**
8 **Questar Pipeline's system.**

9 A. Questar Gas owns all of the peaking storage available on Questar Pipeline's
10 system at Leroy, Coalville and Chalk Creek. The tariff specifies that the maximum tariff
11 rate for that supply is \$2.87375/MMBtu of deliverability per month. The value of
12 Questar Gas' call on IT customer gas is at least as much as its affiliate is charging for this
13 service. For 40,000 MMBtu/day of call capacity, the cost would be \$1,379,400 per year
14 (40,000 X \$2.87375 X 12 months). The cost of transportation to move the gas from
15 storage would be an additional \$2,538,432 (40,000 X \$5.2884 X 12 months). The value
16 of the call option from this approach is \$3,917,832 for 40,000 MMBtu of call capacity, or
17 \$9.79/MMBtu per day of call capacity plus the cost of gas on that particular day (assumes
18 Questar Gas would call on capacity for 10days).

19 **Q. Given your analysis, what is your opinion as to the reasonable fair market value to**
20 **Questar Gas and its firm sales customers of the call option on IT gas supplies?**

21 A. In my opinion, the value to Questar and its firm sales customers of the right to call
22 upon IT customers' gas supplies during periods of interruption is no less than

1 \$9.79/MMBtu, plus the cost of gas. In order to replicate the peaking service, Questar Gas
2 would need to subscribe to additional firm transportation capacity and subscribe to
3 additional firm peaking storage capacity – neither of which is available on Questar
4 Pipeline’s system to the city gates today. Industrial end use customers, who are in the
5 business of burning fuel to maintain their business functionality, should be compensated
6 to the extent Questar Gas is permitted to call on IT customers’ burner-tip supplies.
7 Additionally, I believe that Questar Gas should be limited in the number of days upon
8 which it can call on supplies so as to limit the disruptive nature of the call.

9 **Q. Does this conclude your direct testimony?**

10 **A. Yes, it does.**