

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

Kern River Gas Transmission Company) Docket No. RP04-__-000

**PREPARED DIRECT TESTIMONY
OF
LYNN DAHLBERG
ON BEHALF OF
KERN RIVER GAS TRANSMISSION COMPANY**

1 **Q.** Please provide your name, title and business address.

2 **A.** My name is Lynn Dahlberg. I am Manager of Marketing & Customer Services for
3 Kern River Gas Transmission Company (“Kern River”) at 2755 East Cottonwood
4 Parkway, Suite 300, Salt Lake City, Utah 84121.

5 **Q.** Please describe your education and experience.

6 **A.** I graduated with a Bachelor of Science Degree in Business Administration from
7 Southeast Missouri State University in 1987, with a major in Accounting and a
8 minor in Management. Prior to MidAmerican Energy Holdings Company’s
9 purchase of Kern River, I worked for Arthur Andersen & Co. in the tax
10 department and for The Williams Companies Inc. in corporate tax, finance,
11 regulatory affairs and marketing.

12 **Q.** Please describe your current position.

13 **A.** In my current position, I manage Kern River’s daily commercial activities. These
14 include, among other things, customer service, contract generation and
15 administration, implementation of new services, nominations and scheduling,
16 invoicing, revenue and gas accounting, capacity release, certain FERC reports,

1 and oversight of Kern River's designated Internet site for commercial
2 transactions.

3 **Q.** What is the purpose of your direct testimony?

4 **A.** The purpose of this testimony is to: 1) support Kern River's transportation
5 revenues and the transportation quantities that underpin such revenues, including
6 revenues and quantities that have been or will be attributable to market-oriented
7 services during the base and test periods; 2) support the proposed adjustments to
8 the test period transportation revenues and billing determinant quantities based on
9 known and measurable changes; and 3) sponsor information related to the
10 creditworthiness of Kern River's shippers. The base period is defined as February
11 1, 2003 through and including January 31, 2004; the test period is defined as
12 February 1, 2004 through and including October 31, 2004.

13 **Q.** Please identify the statements and schedules you are supporting.

14 **A.** I will describe and, where appropriate, explain Statement G and Schedules G-1
15 through G-6 of Kern River's filing.

16 Operating Revenues

17 **Q.** Please explain the details that Statement G provides.

18 **A.** Statement G provides a summary of Kern River's operating revenues for the base
19 and test periods, and the variances between the two periods, and is categorized by
20 Transportation (FERC Account 489) and Other Revenues (FERC Account 495).
21 The Transportation category includes all transportation and transportation-related
22 services as described in my testimony below regarding the details of Schedules G-
23 1 and G-2. The Other Revenues category includes the Big Horn Lateral facilities
24 reimbursement charge.

1 **Q.** Please explain the operating revenue details contained in Schedule G-1.

2 **A.** Schedule G-1 provides the monthly detail for transportation service revenue
3 which supports Statement G in the **base period**, categorized by the following
4 types of transportation service agreements (“TSAs”): 1) 15-year and 10-year
5 Original System, 2) 15-year and 10-year 2002 Expansion, 3) limited-term
6 California Action Project, 4) 15-year and 10-year 2003 Expansion System, 5)
7 High Desert Lateral, 6) forward-haul short-term firm, 7) forward-haul
8 interruptible, 8) negotiated back-haul short-term firm, and 9) back-haul
9 interruptible. This schedule also identifies firm service revenues received from
10 segmented transactions.

11 **Q.** Please explain the operating revenue details contained in Schedule G-2.

12 **A.** Schedule G-2 provides the monthly detail for estimated transportation service
13 revenue which supports Statement G in the **test-period**, categorized by the
14 following types of TSAs: 1) 15-year and 10-year Original System, 2) 15-year and
15 10-year 2002 Expansion, 3) 15-year and 10-year 2003 Expansion, 4) High Desert
16 Lateral, 5) forward-haul short-term firm, 6) forward-haul interruptible, 7)
17 negotiated back-haul short-term firm, and 8) back-haul interruptible. This
18 schedule’s footnotes also identify estimates of firm revenues to be received from
19 segmented transactions.

20 Kern River identifies all operating revenue in the G Schedules. There is no
21 other operating revenue. Kern River is proposing several test period adjustments
22 to revenue and billing determinants, as depicted on Schedule G-2. The proposed
23 transportation rates are adjusted to reflect the revised cost of service in Kern
24 River’s filing as described in Mr. Martin Hansen’s direct testimony.

1 **Q.** Please explain Schedule G-3.

2 **A.** The first two pages of Schedule G-3 reflect the variances between Schedule G-1
3 and Schedule G-2. The third page of Schedule G-3 provides a narrative
4 explanation for each variance. My testimony describes and supports the base and
5 test period adjustments (in columns a through g) and Mr. Bruce Warner's direct
6 testimony describes and supports the rate design adjustments (in columns h and i).

7 **Q.** Does Schedule G-4 provide any details regarding "at-risk" revenues?

8 **A.** No. Schedule G-4 is not applicable because Kern River has no "at-risk" revenue.

9 **Q.** Please explain Schedule G-5.

10 **A.** Schedule G-5 shows other operating revenue for the base period and the proposed
11 adjustments for the test period. The revenue on this schedule is tracked in
12 Account Nos. 488 and 495 and is derived from a facility reimbursement charge
13 for the Big Horn Lateral (Account No. 495) and an incentive bonus (negotiated
14 revenue) received by Kern River for timely completion of the High Desert Lateral
15 (Account No. 488). The revenue from the High Desert Lateral Completion
16 Incentive Charge is a negotiated rate, non-transportation revenue and therefore is
17 adjusted out of Schedule G-5. Mr. Warner discusses the rate treatment of these
18 revenues in his direct testimony.

19 **Q.** Does Schedule G-6 provide any details regarding "miscellaneous revenues"?

20 **A.** No. Schedule G-6 is not applicable because Kern River has no miscellaneous
21 revenues.

22 Categories of Transactions

23 **A.** Capacity Release Transactions

24 **Q.** Please describe how capacity release transactions are depicted in the schedules.

1 **A.** Each capacity release transaction is listed as a separate line item directly under the
2 base agreement. Each capacity release transaction is listed within the appropriate
3 category for each applicable month in Schedule G-1, Column (b). Capacity
4 release agreement numbers range from 7000 through 7999.

5 **B.** Negotiated Rate Transactions

6 **Q.** Please describe how negotiated rate transactions are depicted in the schedules.

7 **A.** All negotiated rate transactions, except the High Desert Lateral agreements
8 discussed below, are specifically identified as negotiated under the category
9 Market-Oriented Transportation for each applicable month in Schedules G-1 and
10 G-2. All negotiated rate transactions during the base period were short-term firm
11 back-haul transactions that may have flowed on a forward-haul basis as
12 secondary, out-of-path firm, with the exception of the High Desert Lateral
13 agreements discussed below. Agreement No. 2000, identified under the High
14 Desert Lateral category, which was executed in July 2003 and subsequently
15 became Agreement No. 2001, is also a negotiated rate transaction.

16 **Q.** What are the terms of the negotiated rate transactions in the schedules?

17 **A.** All of the negotiated rate agreements, except the High Desert Lateral Agreement
18 which, expires in 2023, have either a primary term of one month with a month-to-
19 month evergreen provision, or a primary term of one year with a year-to-year
20 evergreen provision. The rate for these non-High Desert negotiated agreements
21 was a discounted, fixed rate for all transportation quantities that were scheduled at
22 the receipt and delivery points contained in the shipper's agreement, up to the
23 specified Maximum Daily Quantity ("MDQ") at those points. For any scheduled
24 transportation in excess of shipper's MDQ and/or any scheduled transportation at

1 receipt or delivery points not contained in the agreement, the rate was equal to
2 Kern River's maximum interruptible rate plus one-half of the Daily Price Survey
3 Flow Date spot price reported in Gas Daily for "Others SoCalGas" minus "Kern
4 River Opal Plant."

5 **Q.** Please describe how the High Desert negotiated rate transactions are depicted in
6 the schedules.

7 **A.** The High Desert negotiated rate transactions are stated in a separate category on
8 Schedules G-1 and G-2. The rate treatment of these transactions is described and
9 supported in Mr. Bruce Warner's direct testimony.

10 C. Discounted Rate Transactions

11 **Q.** How are discounted rate transactions depicted in the schedules?

12 **A.** All discounted rate transactions (i.e. transportation at less than Kern River's
13 maximum tariff rate) are identified on Schedules G-1 and G-2 by shading.
14 Schedule G-2 lists discounted rates for two firm agreements: Questar Energy
15 Trading Agreement No. 1721 and Pinnacle West Capital Agreement No. 1724.
16 The Questar agreement is a 10-year agreement and the Pinnacle West agreement
17 terminates November 30, 2004. Mr. Warner discusses the rate treatment of these
18 revenues in his direct testimony.

19 D. Back-haul Transactions

20 **Q.** What is a "back-haul?"

21 **A.** Kern River's tariff defines a back-haul as any transportation that does not flow in
22 the same direction as gas flowing from the Opal receipt point to the terminus of
23 the system. Most back-hauls occur on an interruptible or secondary firm basis as
24 they are done by displacement, which requires forward-haul quantities to equal or

1 exceed back-haul quantities. Back-hauls that do not require displacement can
2 occur on a primary firm basis as well. Firm back-haul agreement numbers range
3 from 1600 through 1699 and interruptible back-haul agreement numbers range
4 from 6000 through 6999.

5 E. Capacity Segmentation

6 **Q.** Please explain the availability of segmentation and how it is depicted in the
7 schedules.

8 **A.** Segmentation was implemented on Kern River on January 1, 2003 and is
9 available to firm shippers via the nomination process and/or the contracting
10 process. The commodity revenue associated with segmented quantities during the
11 base period is \$292,026. This amount is shown in further detail as a footnote to
12 Schedule G-1. Schedule G-2 projects that this level of segmentation will continue
13 as recurring revenue. The commodity revenue associated with segmented
14 transactions will be updated to reflect actual data following the end of the test
15 period. In the interim, the quantities used in these estimates are reasonable.

16 F. Park and Loan

17 **Q.** Please explain how Park and Loan is depicted in the schedules.

18 **A.** Park and Loan was implemented on Kern River on October 1, 2003 and is
19 available to firm and interruptible shippers. Shippers did not utilize this service
20 until March 2004; therefore, the commodity revenue associated with Park and
21 Loan during the base period was \$0. Any future Park and Loan transactions will
22 be specifically identified as Park and Loan under the category Market-Oriented
23 Transportation for each applicable month in Schedules G-1 and G-2. Park and
24 Loan agreement numbers range from 9000 through 9999. All revenue derived

1 from Park and Loan transactions will be updated with actual data following the
2 end of the test period.

3 Reservation Billing Determinants

4 **Q.** Please discuss the reservation billing determinants for the Original System.

5 **A.** All Original System firm service agreements set forth the MDQs applicable to
6 demand/reservation charges and transportation rights on the mainline, as well as
7 entitlements at receipt and delivery points on an Mcf basis. The aggregate MDQ
8 volume of Original System, year-round, firm agreements totaled 700,000 Mcf/d.
9 The aggregate MDQ volume in December, January and February under Original
10 System firm agreements totaled 757,000 Mcf/d, 763,000 Mcf/d and 758,000
11 Mcf/d respectively, due to firm seasonal agreements.

12 On May 1, 2002, the MDQs of the Original System firm agreements were
13 converted to dekatherms as delineated in Kern River's tariff. Reservation billing
14 determinants were calculated by applying a Btu factor of 1.035. Therefore, the
15 700,000 Mcf/d of firm, year-round capacity became 724,502 Dth/d. However,
16 1,500 Mcf/d of Original System firm capacity was re-sold after May 1, 2002 and
17 therefore is no longer subject to the thermal conversion factor of 1.035. Therefore,
18 current reservation billing determinants for the firm, year-round Original System
19 are 724,449 Dth/d, which is calculated by applying the 1.035 Btu factor to all but
20 1,500 Mcf/d of the original 700,000 Mcf/d. The Original System reservation
21 billing determinants for the year-round and seasonal firm agreements are reflected
22 in Schedules G-1 and G-2.

1 **Q.** Please discuss the total system reservation billing determinants after the 2002
2 Expansion System was placed in service on May 1, 2002 and before the 2003
3 Expansion was placed in service on May 1, 2003.

4 **A.** Kern River's 2002 Expansion was designed for 124,500 Dth/d. Therefore, the
5 total system, year-round reservation billing determinants after the 2002 Expansion
6 and before the 2003 Expansion were equal to 724,449 Dth/d + 124,500 Dth/d for
7 a total of 848,949 Dth/d.

8 **Q.** Please discuss the total system reservation billing determinants after the 2003
9 Expansion was placed in service on May 1, 2003.

10 **A.** Prior to placing the 2003 Expansion facilities in service, Kern River's year-round
11 reservation billing determinants were 848,949 Dth/d. When Kern River placed
12 the 2003 Expansion facilities in service on May 1, 2003, Kern River's year-round,
13 reservation billing determinants became 1,755,575 Dth/d, an increase of 906,626
14 Dth/d. The 2003 Expansion capacity was sold via 10-year and 15-year
15 agreements. Calculation of the post-2003 Expansion, total system firm
16 reservation billing determinants is: $848,949 + 906,626 \text{ Dth/d} = 1,755,575$. Firm
17 reservation billing determinants for December, January and February are
18 1,814,570 Dth/d, 1,820,780 Dth/d and 1,815,605 Dth/d respectively. Any
19 changes that occur to reservation quantities will be updated to reflect actual data
20 following the end of the test period.

21 The reservation rate design proposals are supported in Mr. Bruce Warner's
22 direct testimony.

23 Commodity Billing Determinants

24 **Q.** Please discuss the commodity billing determinants for the entire system.

1 become apparent. The most important of these are: 1) a large amount of
2 unutilized firm 2003 Expansion capacity; 2) a decline in the value of Kern River's
3 interruptible transportation service; 3) an increase in service to electric generation
4 markets; and 4) markets that were formerly served with interruptible service are
5 now being served with firm service. The following discussion provides more
6 detail on each of these changes.

7 1. Unutilized Firm Capacity

8 **Q.** What has Kern River's unutilized firm capacity been since the 2003 Expansion
9 went into service?

10 **A.** Since the 2003 Expansion went into service, for the period May 2003 through
11 February 2004, the Rolled-In System shippers utilized their firm capacity at an
12 average load factor of approximately 97.3%, yielding an average unutilized
13 quantity of 23,219 Dth/d. For the same 10-month period, the 2003 Expansion
14 shippers utilized their firm capacity at a load factor of approximately 85.5%,
15 yielding an average unutilized quantity of 128,409 Dth/d. Kern River has made,
16 and continues to make, this capacity available for interruptible service.

17 2. Decline in Value of Interruptible Service

18 **Q.** Has Kern River noticed any differences in the price differential between gas at
19 Opal and gas at delivery points into Southern California Gas Company ("SoCal")
20 and Pacific Gas & Electric Company ("PG&E") since the 2003 Expansion?

21 **A.** Yes. In the first ten months since the 2003 Expansion went in service on May 1,
22 2003, Kern River has seen the difference between gas prices at Opal and gas
23 prices at delivery points into both SoCal and PG&E narrow significantly. Indeed,
24 the price of gas at Opal went up by \$1.145 per Dth overnight (April 30 to May 1,

2003) when Kern River's expansion went into service. The average price differential into SoCal for May 2002 through February 2003 was \$1.54/Dth, compared to the average price differential of \$0.332/Dth for the same period in 2003/2004. The comparison table below shows that, for the indicated 10-month period, the average value of transportation to PG&E has been \$0.063/Dth less than the value of transportation to SoCal. This difference is noteworthy because Kern River's interruptible service is unable to gain access to the SoCal delivery points because Kern River's firm shippers have typically fully utilized the capacity into the SoCal points. Kern River expects this trend to continue. Therefore, the average price differential to PG&E is more representative of the actual value of Kern River's interruptible service since the 2003 Expansion went in service. The average price differentials above are exclusive of surcharges, fuel and marketing fees.

<u>Month</u>	<u>SoCal</u>	<u>PG&E</u>	<u>Difference</u>
May 03	\$0.697	\$0.545	\$0.152
Jun 03	\$0.550	\$0.336	\$0.214
Jul 03	\$0.541	\$0.381	\$0.160
Aug 03	\$0.322	\$0.221	\$0.101
Sep 03	\$0.226	\$0.194	\$0.032
Oct 03	\$0.269	\$0.215	\$0.054
Nov 03	\$0.176	\$0.191	-\$0.015
Dec 03	\$0.216	\$0.218	-\$0.002
Jan 04	\$0.133	\$0.189	-\$0.056
Feb 04	<u>\$0.189</u>	<u>\$0.200</u>	<u>-\$0.011</u>

1 Average \$0.332 \$0.269 \$0.063

2 **Q.** What market-oriented revenue does Kern River estimate for the twelve months
3 ending October 31, 2004?

4 **A.** Kern River estimates that its market-oriented revenue will be \$6,100,512 for the
5 twelve-month period ending October 31, 2004. This estimate is based on the
6 actual interruptible transportation quantities and rates from the period November
7 2003 through February 2004 and estimated quantities and rates for the remainder
8 of the period, March 2004 through October 2004. The estimate of interruptible
9 transportation quantities for March 2004 is based on current market conditions in
10 existence at the time this testimony is being written. Kern River is estimating that
11 interruptible quantities for April – October 2004 will be equal to 5% of Kern
12 River's total reservation billing determinants plus the 90,000 Dth/d of capacity
13 formerly held by Mirant. The 5% of total reservation billing determinants
14 represents an estimate of unutilized firm capacity for the period of April through
15 October 2004 that Kern River projects it will market as interruptible
16 transportation service. By marketing the estimated unutilized firm capacity and
17 all of the former Mirant capacity as interruptible transportation, Kern River seeks
18 to maintain 100% utilization of its system design capacity.

19 To estimate interruptible transportation rates for market-oriented revenue
20 for March 2004 through October 2004, Kern River used: the latest price
21 projections obtained from PIRA Energy Group Inc. and Global Insights for the
22 Opal and PG&E pricing points, estimated fuel costs (using the new proposed
23 blended fuel rate discussed below), estimated surcharges and estimated marketing
24 fees. The estimated rates (shown on Schedule G-2) yield an average interruptible

1 rate of \$0.255/Dth for future market-oriented transactions during the period of
2 March - October 2004, based on the net price differential at PG&E discussed
3 above. The estimated rate for each month was then applied to the estimated
4 quantity (discussed above) for each month to derive a monthly estimate for
5 market-oriented revenue. For this projection, the market-oriented revenue derived
6 from selling the former Mirant capacity is classified as firm service revenue and
7 therefore is not included in the market-oriented revenue. Mr. Warner's direct
8 testimony provides a detailed description of the treatment of market-oriented
9 revenue associated with the former Mirant capacity. Market-oriented revenues
10 will be updated to reflect actual data following the end of the test period. In the
11 interim, this estimate of market-oriented revenue is reasonable.

12 **Q.** What fuel reimbursement rate is Kern River proposing for forward-haul market-
13 oriented capacity?

14 **A.** Kern River is proposing that shippers utilizing interruptible transportation service
15 and/or authorized overrun transportation service reimburse Kern River for
16 compressor fuel usage using a "blended fuel rate." The blended fuel rate will be
17 derived by calculating the weighted average of the Rolled-In System fuel rate and
18 the 2003 Expansion fuel rate at each compressor using a weighting factor of
19 48:52, respectively. The weighting factor is derived by comparing the Rolled-In
20 System billing determinants to the total system billing determinants
21 (848,949/1,755,575) and comparing the 2003 Expansion billing determinants to
22 the total system billing determinants (906,626/1,755,575). For example, if the
23 Rolled-In shipper's fuel rate at the Muddy Creek Compressor Station was 1% and
24 the 2003 Expansion shipper's fuel rate was 2%, the blended fuel rate at the

1 Muddy Creek Compressor Station for interruptible and authorized overrun service
2 would be 1.52%: $(1\% * 48\%) + (2\% * 52\%) = 1.52\%$.

3 Kern River believes that a blended fuel rate is equitable to all shippers
4 because capacity that is utilized for interruptible and/or authorized overrun service
5 is operationally available capacity resulting from: 1) favorable ambient and
6 flowing gas temperatures, 2) favorable gas flow patterns, and/or 3) unutilized firm
7 capacity. None of these three factors are attributable or applicable solely to the
8 Rolled-In System shippers or the 2003 Expansion shippers. Therefore, it is
9 reasonable to use the reservation billing determinants for each group of shippers
10 as the weighting factor for calculating the blended fuel rate.

11 **Q.** What adjustment to market-oriented revenue for the twelve months ending
12 October 31, 2004 does Kern River propose as a result of the new blended fuel
13 rate?

14 **A.** Kern River's estimated market-oriented revenue for the twelve months ending
15 October 31, 2004 represents four months of actual revenue and eight months of
16 estimated revenue. The actual market-oriented revenue for November 2003
17 through February 2004 was based on Kern River's existing fuel rate for the
18 Rolled-In System. Kern River has calculated what the new blended fuel rate
19 would have been, by month, for November 2003 through February 2004, based on
20 the methodology discussed in my testimony. The difference between the Rolled-
21 In System fuel rate and the new blended fuel rate was then applied to the actual
22 Opal gas price (as published in Gas Daily) for each day from November 1, 2003
23 through February 29, 2004 to derive a rate adjustment. That rate adjustment was
24 then applied to actual daily, forward-haul interruptible throughput from

1 November 1, 2003 through February 29, 2004 to calculate a revenue adjustment
2 that was deducted from the actual market-oriented revenue for each applicable
3 month. When Kern River updates market-oriented revenue to reflect actual
4 revenue through the end of the test period, it is proposing to adjust such actual
5 revenue using the same methodology.

6 3. Increase in Electric Generation Markets

7 **Q.** Has Kern River experienced any changes in the composition of market deliveries
8 since the 2003 Expansion?

9 **A.** Yes. Exhibit KR-2 attached to my testimony reflects dramatic changes to the
10 composition of Kern River's market deliveries. During the period May 2003
11 through February 2004, total deliveries to local distribution companies ("LDCs")
12 increased by over 74% and total deliveries to direct-connect power plants
13 increased by over 184%, both compared to the same period in 2002/2003. These
14 large increases clearly align with the information that was provided by Kern
15 River's 2003 Expansion shippers that show a substantial portion of the deliveries
16 by the 2003 Expansion shippers would be used to serve power plants, many of
17 which are located behind the LDCs. Kern River worked with its 2003 Expansion
18 shippers to generate the list included as pages 3-9 of the attached Exhibit KR-2 as
19 part of its 2003 Expansion Certificate Application. The list identifies each 2003
20 Expansion shipper and the intended usage of their expansion capacity.

21 4. Interruptible Markets Become Firm Markets

22 **Q.** Has Kern River noticed any change in the type of agreement being used to serve
23 its markets since the 2003 Expansion?

1 **A.** Yes. Changes in total system throughput since May 1, 2003 indicate that markets
2 formerly served with interruptible transportation agreements are now being served
3 under firm transportation agreements. Kern River's average system deliveries for
4 May 2002 through February 2003 were 1,026,624 Dth/d, which was comprised of
5 881,220 Dth/d of firm service and 145,404 Dth/d of interruptible service. For the
6 same period in 2003/2004, Kern River's average system deliveries were
7 1,738,941 Dth/d, which was comprised of 1,600,404 Dth/d of firm service and
8 138,537 Dth/d of interruptible service. While the average system deliveries
9 increased by 712,317 Dth/d, the quantity of interruptible service decreased by
10 6,855 Dth/d. This represents a decline in interruptible service for Kern River,
11 since these markets are now being served by firm service.

12 **Q.** Please explain how Kern River markets its available capacity.

13 **A.** Kern River has marketed and continues to actively market: 1) capacity not
14 currently under firm service agreements, 2) unutilized firm capacity, and 3)
15 operationally available capacity. This capacity is sold as interruptible service or
16 authorized overrun service. Kern River has also marketed these types of capacity,
17 including firm seasonal capacity, but excluding unutilized firm capacity, as short-
18 term firm service and may do so in the future, should Kern River be able to sell
19 such service at rates it deems favorable. All available capacity is sold at market-
20 based prices, subject to the minimum and maximum rates in Kern River's tariff.

21 Other Changes Affecting Transportation Revenues

22 **Q.** What other changes have altered Kern River's ability to generate market-oriented
23 revenues since Kern River's last rate case?

1 **A.** Recent FERC orders diminish the opportunity for interruptible transportation to
2 flow on Kern River's system. Implementation of the Commission's Order No.
3 637 through Kern River's compliance proceeding in Docket No. RP00-337-000
4 provides shippers with the opportunity to segment their firm transportation
5 agreements and move gas on a back-haul basis in addition to forward-haul. The
6 Commission's segmentation policy offers shippers considerable new flexibility,
7 which in turn substantially increases competition for Kern River's market-
8 oriented forward-haul and back-haul services. These markets can now all
9 potentially be served by segmented firm agreements. In addition, shippers that
10 historically were Kern River's largest back-haul shippers now hold firm TSAs
11 and, therefore, have the opportunity to serve their markets via segmentation,
12 rather than through market-oriented forward-haul or back-haul transportation.
13 Because of the FERC's changes to its policies regarding segmentation, Kern
14 River does not estimate any significant back-haul revenues during the test period.

15 Also, the Commission amended its policy (104 FERC ¶ 61,134 (2003))
16 regarding negotiated rates to prevent Kern River (and other pipelines) from
17 entering into new, negotiated rate transactions with index-based pricing (although
18 it did "grandfather" existing negotiated rate agreements). To the extent that such
19 agreements allowed Kern River to capture upside revenue potential in the
20 interruptible market based on volatility in market prices, any new opportunities
21 for such revenues are now gone. Kern River did not project any revenue to be
22 generated by its existing, grandfathered, negotiated rate agreements in Schedule
23 G-2 because, as discussed previously in my testimony, the future market-oriented
24 rate is not projected to be at or above Kern River's maximum interruptible rate.

1 Therefore, Kern River does not believe the existing negotiated rate agreements
2 will be utilized during the test period.

3 Kern River's Exposure to Credit Risks

4 **Q.** What credit support does Kern River require for long-term capacity
5 commitments?

6 **A.** Kern River's current credit policy requires that shippers with a rating of lower
7 than BBB- (for S&P) or Baa3 (for Moody's) must provide, in accordance with
8 Kern River's tariff, one of the following three credit supports: 1) a guaranty from
9 an investment grade third party; 2) a letter of credit equal to the amount of
10 reservation charges for one year; or 3) cash collateral equal to the amount of
11 reservation charges for one year.

12 However, prior to March 2002, Kern River required letters of credit and/or
13 cash collateral equal to the amount of reservation charges for three years. Kern
14 River changed the three-year requirement to the current one-year requirement to
15 resolve a FERC Hotline complaint by one of Kern River's shippers, alleging that
16 Kern River's credit requirements were "harsh."

17 **Q.** Are there any other factors that contribute to Kern River's increased exposure to
18 credit risks since the 2003 Expansion?

19 **A.** Yes. As Dr. Charles Olson states in his direct testimony, Kern River has a
20 relatively high concentration of firm capacity subscribed by electric generation
21 shippers and changes in the electric industry have affected the credit quality of
22 many of Kern River's shippers. The business and financial difficulties of many
23 entities in the electric generation and marketing sectors of the energy industry
24 have significantly increased Kern River's credit exposure and have resulted in

1 assignments or terminations of contracts and/or resale of capacity held by
2 shippers that became unable to provide adequate credit support.

3 **Q.** Please provide specific examples of credit-related matters affecting Kern River.

4 **A.** Specific instances of such credit-related matters affecting Kern River are:

5 ➤ Enron Energy & Trading (Enron”) entered into a transportation service
6 agreement (“TSA”) for 31,200 Dth/d of California Action Project service.
7 The TSA was subsequently terminated by Enron’s rejection of the TSA on
8 February 28, 2002, in its bankruptcy proceeding. The capacity, which was
9 contractually designed to step-down to 4,200 Dth/d on May 1 2002, was
10 resold on a firm basis through an open season to Western Gas Resources at a
11 discounted rate of \$0.615 per Dth (compared to Enron’s contracted rate of
12 \$0.8066 per Dth) for a contract term of June 1, 2002 to April 30, 2003. Kern
13 River’s unsecured claim in the Enron bankruptcy proceeding for reservation
14 charges not collected from Enron is \$3,281,873.

15 ➤ Panorama Power Generation entered into a Precedent Agreement for
16 Kern River’s 2003 Expansion for 4,000 Dth/d of capacity for 15 years, but did
17 not enter into a TSA due to lack of creditworthiness. The Precedent
18 Agreement consequently was terminated on August 1, 2001. Such capacity
19 was remarketed through an open season and was awarded to Pinnacle West
20 Capital Corporation at a discounted reservation rate of \$0.48 per Dth
21 (compared to the maximum reservation rate of \$0.5847 per Dth) for a contract
22 term of June 1, 2003 through November 30, 2004. Kern River will be at risk
23 to re-market this capacity after November 30, 2004.

24 ➤ NRG Energy Inc. entered into a 2003 Expansion TSA for 20,000
25 Dth/d, which Kern River subsequently terminated on April 21, 2003 due to
26 lack of creditworthiness. The capacity was remarketed through an open
27 season and was awarded to Questar Energy Trading. Ten thousand Dth/d was
28 sold at a discounted rate of \$0.5326 per Dth (compared to the maximum
29 reservation rate of \$0.5847/Dth) for a 10-year contract term of May 1, 2003
30 through April 30, 2013. The other 10,000 Dth/d was sold at maximum rate
31 for a 15-year contract term of May 1, 2003 through April 30, 2018.

32 ➤ Mirant Americas Energy Marketing, LP entered into a 2003 Expansion
33 TSA for 90,000 Dth/d. At the time Mirant signed the Precedent Agreement, it
34 was deemed investment grade by S&P, with a “BBB+” rating. On July 14,
35 2003, Mirant filed for Chapter 11 bankruptcy and subsequently rejected its
36 TSA on December 19, 2003. Kern River has held numerous open seasons
37 since Mirant rejected its TSA, but has received no bids for long-term service
38 that meet Kern River’s minimum bid requirements.

- 1 ➤ Allegheny Energy Supply Company entered into a 2003 Expansion
2 TSA for 45,122 Dth/d. At the time Allegheny signed the Precedent
3 Agreement, it was deemed investment grade by S&P with a “BBB+” rating.
4 As of February 19, 2004, Allegheny is no longer rated by S&P and has
5 provided collateral equal to the amount of reservation charges for one year.
- 6 ➤ El Paso Merchant Energy, L.P. entered into a 2003 Expansion TSA for
7 78,659 Dth/d. At the time El Paso Merchant signed the Precedent Agreement,
8 it was deemed investment grade by S&P with a “BBB” rating. As of February
9 19, 2004, El Paso Merchant is no longer rated by S&P and has provided
10 collateral equal to the amount of reservation charges for one year.
- 11 ➤ Edison Mission Energy entered into a 2003 Expansion TSA for 42,500
12 Dth/d. At the time Edison Mission signed the Precedent Agreement, it was
13 deemed investment grade by S&P with a “BBB-” rating. As of February 19,
14 2004, Edison Mission Energy is no longer rated investment grade by S&P
15 (“B” rating) and has provided collateral equal to the amount of reservation
16 charges for one year.
- 17 ➤ Nevada Power Company entered into a 2003 Expansion TSA for
18 75,000 Dth/d. At the time Nevada Power signed the Precedent Agreement, it
19 was deemed investment grade by S&P with a “BBB+” rating. As of February
20 19, 2004, Nevada Power is no longer rated investment grade by S&P (“B+”
21 rating) and has provided collateral equal to the amount of reservation charges
22 for one year.
- 23 ➤ Nevada Power Company took assignment of Questar Gas Company’s
24 2003 Expansion TSA for 50,000 Dth/d, for the seasonal period, April through
25 October. At the time, Questar Gas signed the Precedent Agreement it was
26 deemed investment grade by S&P, with an “A+” rating. As of February 19,
27 2004, through the assignment of ownership, Nevada Power is the capacity
28 holder and is rated less than investment grade by S&P (“B+” rating). Nevada
29 Power has provided collateral equal to its reservation charges for seven
30 months (the number of months per year that the capacity is held by Nevada
31 Power).
- 32 ➤ Williams Power Company is a Rolled-In System shipper with 109,800
33 Dth/d of firm capacity. During the time period when the 2003 Expansion
34 shippers signed their Precedent Agreements, Williams Power was deemed
35 investment grade by S&P with a “BBB-” rating. As of February 19, 2004,
36 Williams Power is no longer rated investment grade by S&P (“B+” rating)
37 and has provided collateral equal to its reservation charges for one year.
- 38 The combination of these individual events listed above means that between the
39 time Kern River concluded its open season for the 2003 Expansion Project and

1 executed binding TSAs, and May 1, 2003 (the in-service date of the 2003
2 Expansion Project), six shippers under seven TSAs, totaling approximately
3 463,000 Dth/d (i.e. nearly 26% of the total system capacity) needed to re-establish
4 creditworthiness due to credit rating downgrades that caused all six shippers to
5 drop below investment grade as defined in Kern River's tariff. As of February 19,
6 2004, all six shippers remain below investment grade.

7 The attached Exhibit KR-3 provides a graph (on page 1), illustrating that
8 the creditworthiness of Kern River's shippers has declined by nearly 29% since
9 Kern River gathered the information necessary to make its certificate filing for the
10 2003 Expansion in March 2001. Page 2 of Exhibit KR-3 displays the information
11 that was used to generate the graph.

12 The table shows the following calculations:

- 13 1) Each Kern River capacity holder, as of March 31, 2001 was assigned a
14 numerical rating between one and twelve based on its Standard & Poor's
15 ("S&P") credit rating at the time. Capacity that was rejected by shippers
16 via a bankruptcy proceeding was assigned a numerical rating of zero since
17 the capacity is no longer under contract. The table below the graph has the
18 standard numerical rating assigned to each of the various S&P credit
19 ratings, unless otherwise stated.
- 20 2) The assigned numerical rating for each capacity holder was weighted
21 according to the percentage of capacity held by such capacity holder
22 relative to the total system capacity. The average score for all capacity
23 holders as of March 31, 2001, was 5.47.

1 3) Step one, above, was repeated for all Kern River capacity holders as of
2 February 19, 2004.

3 4) Step two, above, was repeated to assign the appropriate weight to the
4 assigned numerical value for the capacity holders on February 19, 2004.

5 The average score for all capacity holders as of February 19, 2004, was
6 4.23.

7 Over 33% of the firm capacity on Kern River is subscribed by shippers of less
8 than investment grade credit quality; therefore, Kern River has credit support for
9 that portion of its capacity for only one year of reservation charges (i.e., the
10 shipper is meeting Kern River's credit requirements by the second or third option
11 listed above).

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

13 **A.** Yes

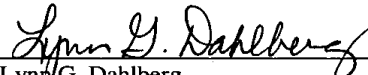
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Kern River Gas Transmission Company) Docket No. RP04-____-000

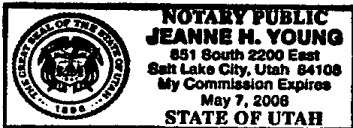
STATE OF UTAH)
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COUNTY OF SALT LAKE)

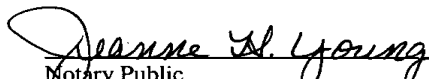
AFFIDAVIT OF LYNN G. DAHLBERG

Lynn G. Dahlberg, being first duly sworn, on oath states that she is the witness whose testimony appears on the preceding pages entitled "Prepared Direct Testimony of Lynn G. Dahlberg"; that, if asked the same questions that appear in the text of said direct testimony, she would give the answers that are herein set forth; and that affiant adopts the aforesaid testimony as his sworn, direct testimony in this proceeding.


Lynn G. Dahlberg

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Utah, this 21st day of April, 2004.




Notary Public

Kern River Gas Transmission Company
Average Daily Scheduled LDC Deliveries

For the Periods
May 2002 through February 2003
and
May 2003 through February 2004

LDC Markets		Average Daily Scheduled Quantities May 2002 – February 2003	Average Daily Scheduled Quantities May 2003 – February 2004	Average Daily Increase to Scheduled Quantity (Dth)
Questar Gas		21,340	42,210	20,870
Southwest Gas		250,373	271,600	21,226
Pacific Gas & Electric		28,938	249,272	220,334
Southern California Gas		327,291	531,268	203,977
Total		627,942	1,094,350	466,407

Kern River Gas Transmission Company
Average Daily Scheduled Direct-Connect Power Plant Deliveries

For the Periods
May 2002 through February 2003
and
May 2003 through February 2004

Direct – Connect Power Plants	Average Daily Scheduled Quantities May 2002 – February 2003	Average Daily Scheduled Quantities May 2003 – February 2004	Average Daily Increase to Scheduled Quantity (Dth)
West Valley	7,346	9,407	2,062
Harry Allen	2,502	1,894	-608
Arrolime	180	28,045	27,865
Big Horn	0	10,060	10,060
Coolwater	51,337	29,418	-21,920
La Paloma	25,128	79,121	53,992
Sunrise	9,198	50,121	40,923
Victorville	1,455	68,107	66,652
Silverhawk	0	1,060	1,060
Total	97,146	276,172	179,026

2003 EXPANSION SHIPPER SUMMARY

Allegheny Energy Supply Company LLC

Allegheny Energy Supply Company, LLC is a subsidiary of Allegheny Energy, Inc. ("Allegheny"), an electric utility holding company.

Allegheny's request for capacity is based upon its exposure to California's power and gas markets. Currently, Allegheny is in an advanced stage of development to build power plants in the west, as well as talks to purchase interests in new developments in California. The capacity will be used to deliver gas to California to serve these power plants. Gas supply will be procured from producers in the Rocky Mountains region. It is expected that the capacity will be used at 100% load factor.

American Pacific Corporation

American Pacific Corporation ("AmPac") is the only supplier of ammonium per chlorate, the primary ingredient in the solid fuel rocket motor propellant. It is important that AmPac be able to operate to for national defense and the space program. AmPac's customers are the Department of Defense, NASA, and several NATO countries.

AmPac is requesting space on the KRG T expansion beginning in May 2003 because Questar does not have the capacity to deliver on their pipeline system nor do they have firm space on KRG T to meet the year round needs of there southern customers. AmPac is an I-2 transportation customer for Questar. Each winter AmPac has to find interruptible space on KRG T or be shutdown for the winter because of Questar delivery curtailments. Each succeeding winter the Frequency and duration of curtailments has gotten longer. AmPac requested to be a firm customer for Questar Gas in the spring 2001. Questar denied the request stating they did not have the capacity to meet year round delivery to AmPac.

AmPac now has to compete with California deliveries and prices for interruptible space. The cost for the interruptible space is economically prohibitive for the long-term viability of AmPac. As one of the largest employers and highest payroll in Iron County it is also important to the viability of Iron County for AmPac to continue operate year round. The annual cost for firm space on KRG T allows AmPac to run all year at a reasonable cost of operations.

Berry Petroleum

Berry Petroleum Company ("Berry") is an independent energy company engaged in the production, development, acquisition, exploitation and exploration of crude oil and natural gas. Berry's principal oil producing properties are in Kern and Los Angeles Counties in California and consist of heavy oil that requires steam to produce the crude oil. To provide the steam for heating the oil producing reservoirs, Berry owns 3 cogeneration plants which are located on its oil producing properties. These consist of a 38 and 18 MW facility in Kern County and a 42

MW facility in Los Angeles County. Berry considers these cogeneration plants an integral part of its operations and it is essential that they be kept operational as much as possible.

Berry has not in the past had any long-term firm transportation arrangements for the delivery of natural gas to the cogeneration operations. In the later part of 2000 with the price of natural gas skyrocketing, it started to become apparent that firm delivery arrangements for required quantities of natural gas was necessary.

Berry has contracted with KRG T for firm delivery of 12,000 Dth/day of natural gas for its 38 MW cogeneration facility. This capacity will provide enough natural gas to provide for its 38 MW facility to operate for the next 10 years. Under normal operations, Berry needs about 25,000 to 30,000 Dth/d of natural gas for its steaming operations. This amount could increase in the future with the growth Berry or addition of other sources of steam. Berry currently has made no arrangements to purchase gas supply.

BP Energy Company

BP Energy Company is a part of BP Gas and Power-North America ("BP Energy"), which sells and delivers over 10 Bcf/day of natural gas, of which more than 4 Bcf/day is BP Energy's equity natural gas originating from every major producing basin in North America. With respect to the Rockies supply basin area, BP Energy accesses over .750 Bcf/day of equity and third party supplies from various aggregation points in the basin. The recent acquisition of KRG T expansion transportation capacity will supplement its existing capacity on KRG T and will be utilized at a 100% load factor to serve markets in Utah, Southern Nevada and California. BP Energy's customers include local distribution companies, large and small industrial end users and power generators.

Calpine Corporation and CPN Gas Marketing

Calpine Corporation and its subsidiary, CPN Gas Marketing ("Calpine"), is engaged in the generation of electricity in the United States and Canada. Calpine is involved in the development, acquisition, ownership and operation of power generation facilities and the sale of electricity and its by-product, thermal energy, primarily in the form of steam. Calpine has ownership interests in and operates gas-fired cogeneration facilities, gas fields, gathering systems and gas pipelines, geothermal steam fields and geothermal power generation facilities in the United States and Canada. Calpine currently has 34,000 megawatts of baseload generation and 7,200 megawatts of peaking capacity in operation, under construction or pending acquisition.

Each of the generation facilities produces and markets electricity for sale to utilities and other third-party purchasers. Thermal energy produced by the gas-fired cogeneration facilities is primarily sold to governmental and industrial users.

Calpine will source its gas out of the Rocky Mountain basin and potentially southwest basins through both equity gas and arrangements with third parties on a long term and short term basis. Calpine has held discussions with numerous potential suppliers to meet KRG T requirements but

has not yet concluded final arrangements for deliveries commencing in 2003. Calpine will use its capacity to serve its proposed Moapa Paiute 760 MW Energy Center in Nevada and Pastoria 762 MW power plant in California. These plants have a combined requirement in excess of 260,000 MMBtu/day. Calpine anticipates utilizing this capacity at a 100% load factor.

City of Redding

The City of Redding (“Redding”) owns and operates the 85MW Redding Electric Utility which is a full-service electricity provider. Gas supply will be purchased at Opal under fixed price contract(s) for final delivery to Redding, California. Currently, all gas is intended for delivery to Redding for natural gas-fired generation. Redding estimates the load factor for its natural gas transportation to be greater than 90%.

Edison Mission Energy

Edison Mission Energy (“EME”), a subsidiary of Edison International, develops, acquires, finances, owns, operates and maintains reliable and efficient power systems around the world with assets totaling over \$15 billion and a net generating capacity that tops 23,500 MW.

EME has entered into two TSA’s with KRGIT. TSA #1708 is proposed to serve the newly constructed Sunrise Power Plant. TSA #1709 is capable of serving the existing and future expansion gas requirements of the 225 MW Midway Sunset cogeneration facility as well as other power generation projects in southern California.

EME will enter into spot, short term, and/or long term gas supply agreements with gas producers, marketers, and/or brokers to provide gas supply for its power generation projects serving the southern California electricity markets. No firm gas supply agreements are currently in place, however EME estimates utilization of the firm transportation under contract at a load factor of 100%.

El Paso Merchant Energy

El Paso Merchant Energy, L.P. (EPME) is a marketing entity involved in a wide range of activities in the wholesale energy market place, including trading and risk management. Gas supply will be obtained from numerous sources, including, without limitation, producers and other marketing entities. The 28,659 Dth/day of capacity will serve markets into SoCal Gas and 50,000 Dth/day will serve power generation. EPME anticipates a 100% load factor.

Los Angeles Department of Water and Power

The Los Angeles Department of Water and Power (Department) is a municipal utility owned by the City of Los Angeles a California charter city. The Department serves the citizens of the City

of Los Angeles. The Department's in-basin gas fired generators currently have a net dependable plant capability of approximately 3,000 MW.

The Department plans to procure the additional 39,000 Dth/day of transportation service from KRGD from the Opal basin. The four Department California power plants that this additional capacity can serve include the (1) Haynes Generating Station located in Long Beach, (2) Scattergood Generating Station located in Playa Del Rey, (3) Harbor Generating Station located in Wilmington, and (4) Valley Generating Station located in Sun Valley. The Department anticipates utilizing the capacity at a 100% load factor.

Mirant Americas Energy Marketing, L.P.

Mirant Americas Energy Marketing, L.P. is a subsidiary of Mirant ("Mirant"), a global, competitive energy company with a leading position in both power generation and energy risk management and marketing. With an integrated business model, Mirant develops, constructs, owns and operates power plants and sells wholesale electricity, natural gas, and other energy-related commodity products. Headquartered in Atlanta, the company has extensive operations in North America, Europe and Asia. Mirant owns or controls more than 20,000 MW of electric generating capacity around the world, with another 9,000 MW under advanced development. Mirant also controls an extensive natural gas asset base in North America, including firm transportation, storage and access to 3.8 billion cubic feet per day of gas production.

Mirant's portfolio of short-term and long-term natural gas supply transactions will be completed in 2002. Mirant proposes to use the expansion capacity to serve its 1100 MW Apex Power Plant in Clark County, Nevada. Construction on Phase I, a 550 MW station, is currently under construction and proposed to be in commercial operation in March 2003. Phase II, another 550 MW station, is currently in the permitting process and is scheduled to be placed in-service by early 2004. Mirant will use its expansion capacity at a 100% load factor.

Nevada Power Company

Nevada Power Company ("Nevada Power"), a subsidiary of Sierra Pacific Resources, serves more than 618,689 customers in Las Vegas, North Las Vegas, Henderson, Laughlin, Primm, unincorporated Clark County and small parts of Nye and Lincoln counties.

Nevada Power will typically source its transportation capacity with Rockies production. The capacity will serve Nevada Power's existing Clark 979 MW power plant, Sunrise/Sunpeak 359 MW power plant and Harry Allen 72 MW power plant in southern Nevada. Nevada Power anticipates a 100% load factor for the natural gas transportation.

NRG Energy

NRG Energy (“NRG”) is one of the largest domestic independent power producers. Founded in 1989, NRG develops, acquires and manages a variety of energy-related operations worldwide. Operations include competitive energy production and cogeneration facilities, power marketing, thermal energy production and transmission and resource recovery facilities. NRG has proposed or existing generation projects in California, Nevada and Arizona. With respect to the Western region, NRG owns and/or operates nearly 2500 MW of generation.

The KRGT capacity provides a viable fuel option for NRG’s generation portfolio. As far as the interest in NRG's fuel supply, NRG must consider that information proprietary. However, NRG can stipulate that it intends to utilize the KRGT transport at a 75-95% load factor.

Panorama Power Generation

Panorama Power Generation (“Panorama”) is an Independent Electrical Generator” established in 1994 to do research and development on distributed generation with emphasis on combined heat and power.

Panorama’s current project located in St. George, Utah will provide 30 MW of super clean natural gas powered electricity by using the latest SoLoNox gas-fired turbine technology. Panorama believes that Southern Utah is lacking in natural gas service from the local distribution company and because of that lack of natural gas transportation has inhibited new power generation facilities. The proposed power generation facility is an extremely important part for the future population and business growth that the St. George area has forecast in its 10-year projections. Panorama believes it will be in a position to reduce power loads already on a constrained transmission lines to St. George, Washington, Hurricane and Santa Clara cities. Panorama has not yet made arrangements for its gas supply; however, it will use the capacity at an estimated 100% load factor.

Pinnacle West Capital Corporation

Pinnacle West Capital Corporation (“Pinnacle”) is a Phoenix-based company with consolidated assets of \$7 billion and consolidated revenues of approximately \$2 billion.

Pinnacle West’s major subsidiary is Arizona Public Service Company (APS), which generates, sells, and delivers electricity and energy related products and services to wholesale and retail customers in the western United States, including Nevada and California. Pinnacle is currently exploring options for gas supplies. Pinnacle anticipates an estimated load factor of 100%.

Questar Gas Company

Questar Gas Company (“Questar Gas”) is a natural gas utility. Questar Gas is a subsidiary of Utah-based Questar Corporation, a \$2.2 billion integrated energy company. For more than 70

years, Questar Gas has been delivering natural gas to residential, commercial and industrial customers. Questar Gas is using its company-owned gas supply.

Questar Gas is serving Wecco and other small southern Utah towns. Questar Gas will use 3,000 Dth/day on a 100% load factor basis. Questar Gas will assign 50,000 Dth/day April through October to Sierra Pacific to serve its power generation facilities in Nevada. Questar Gas will use the 50,000 Dth/day November through March to meet its winter load requirements, which will vary from about 20,000 to 50,000. Questar Gas will attempt to release part of the transportation service depending on its needs and, therefore, anticipates a high load factor for the capacity.

Reliant Energy Services

Reliant Energy (“Reliant”) is an international energy services and energy delivery company with approximately \$38 billion in annual revenue and total assets exceeding \$30 billion. The company has more than 23,000 MW of power generation in operation in the United States and is one of only three companies to rank among both the five largest power marketers and the five largest natural gas markets in North America. The company also has wholesale trading and marketing operations and more than 3,500 MW of power generation in Western Europe. Reliant Energy’s retail marketing and distribution operations serve nearly four million electricity and natural gas customers in the U.S. Reliant serves over 5000 MW of natural gas-fired generation throughout California and the desert southwest all of which is owned and operated by Reliant.

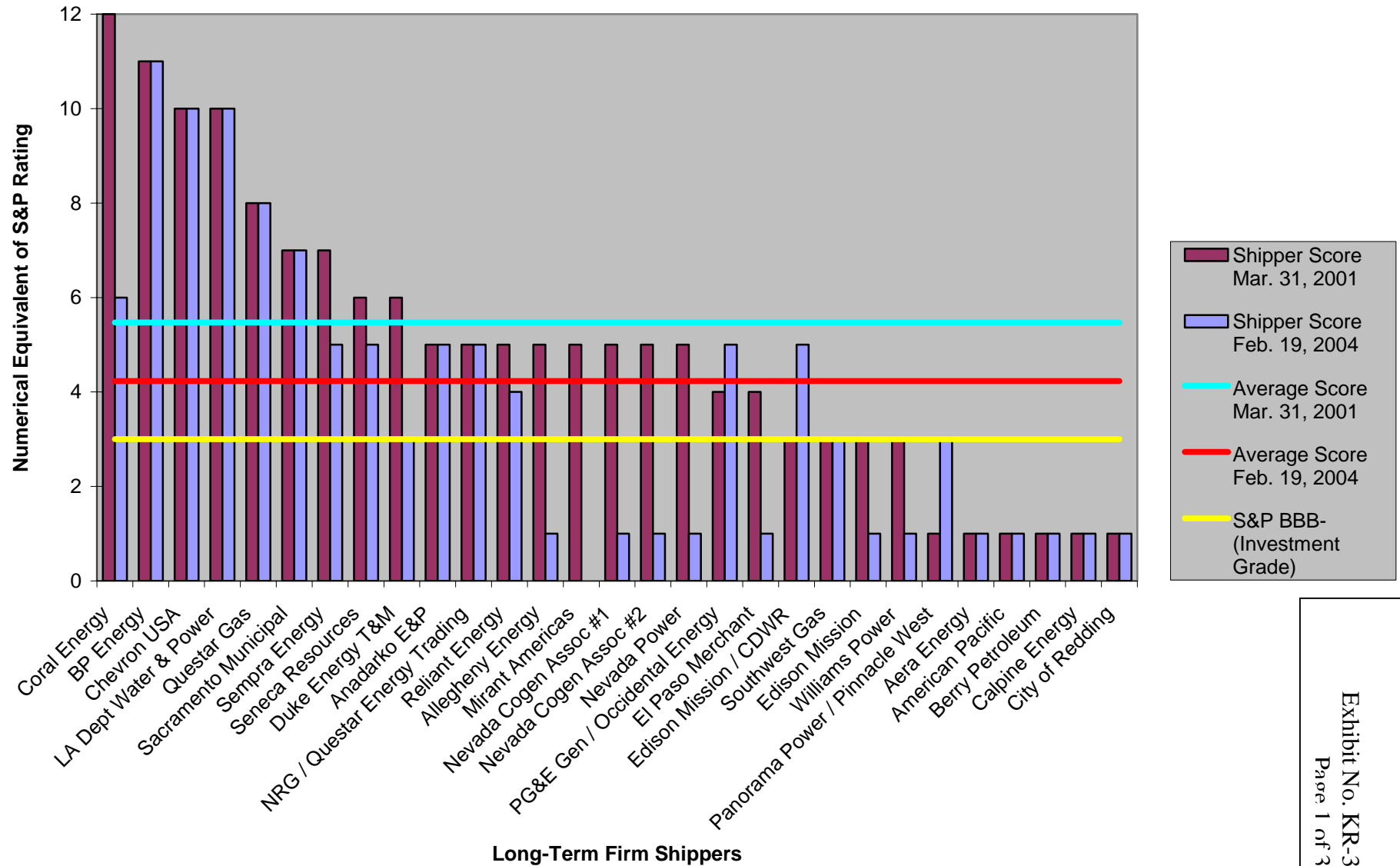
Reliant has a portfolio of spot and long term gas supply to supply its power plants. The KRG T 2003 expansion project will help serve Reliant's generation portfolio located in Nevada including the existing El Dorado 480 MW power plant and the proposed Arrow Canyon 500 MW and Bighorn 885 MW power plants, and power generation markets in California. Reliant anticipates a 100% load factor of its capacity depending, of course, upon market conditions.

Sacramento Municipal Utility District

Sacramento Municipal Utility District (“SMUD”) is a Municipal Electric Utility which serves the greater Sacramento area. SMUD currently has just over 500 MW of gas fired electric generation as well as other resources to meet its customer load. SMUD IS also constructing another 500 MW plant.

All of the gas supplied through the new KRG T capacity will be used to serve power plant load. SMUD expects to have a 100% load factor. SMUD has not yet lined up supplies, however SMUD did notice Wyoming Interstate Company of its intent to participate in their pipeline expansion, which will provide SMUD better access behind the Opal trading point.

Kern River Gas Transmission Company Credit Analysis of Long-term Shippers



Kern River Gas Transmission Company
Credit Analysis of Long-term Firm Shippers

Shipper ¹	Daily Qty (Dth/d)	3/31/01 Rating ²	3/31/01 Score	2/19/04 Rating	2/19/04 Score	Weighted DMDQ	3/31/01 Weighted Score	2/19/04 Weighted Score	S&P Rating Scale Rating	Equivalent
Aera Energy LLC	51,750	NR	1	NR	1	2.9%	.0286	.0286	AAA	12
Allegheny Energy Supply Company	45,122	BBB+	5	NR	1	2.5%	.1248	.0250	AA+	11
American Pacific Corporation	2,000	BB-	1	BB-	1	0.1%	.0011	.0011	AA	10
Anadarko E&P Company LP / Anadarko Petroleum Corporation	77,625	BBB+	5	BBB+	5	4.3%	.2147	.2147	AA-	9
Berry Petroleum Company	12,000	NR	1	NR	1	0.7%	.0066	.0066	A+	8
BP Energy Company / BP Corporation North America Inc.	71,750	AA+	11	AA+	11	4.0%	.4366	.4366	A	7
California Department of Water Resources ³	85,000	BBB-	3	BBB+	5	4.7%	.1411	.2351	A-	6
Calpine Energy Resources, L.P.	100,000	NR	1	NR	1	5.5%	.0553	.0553	BBB+	5
Chevron USA Inc.	112,625	AA	10	AA	10	6.2%	.6231	.6231	BBB	4
City of Redding, CA	1,000	NR	1	NR	1	0.1%	.0006	.0006	BBB-	3
Coral Energy Resources, L.P. / Coral Energy Holding, L.P.	54,493	AAA	12	A-	6	3.0%	.3618	.1809	Investment Grade Cutoff	
Department of Water & Power of L.A.	151,815	AA	10	AA	10	8.4%	.8399	.8399	BB+	1
Duke Energy Trading & Marketing, L.L.C.	50,433	A-	6	BBB-	3	2.8%	.1674	.0837	BB	1
Edison Mission Energy	42,500	BBB-	3	B	1	2.4%	.0705	.0235	BB-	1
El Paso Merchant Energy, L.P. / El Paso Corporation	78,659	BBB	4	NR	1	4.4%	.1741	.0435	B+	1
Mirant Americas Energy Marketing, LP	90,000	BBB+	5	BR	0	5.0%	.2490	-	B-	1
Nevada Cogeneration #1	13,455	NR	1	NR	1	0.7%	.0074	.0074	B-	1
Nevada Cogeneration #2	13,455	NR	1	NR	1	0.7%	.0074	.0074	CCC+	1
Nevada Power Company	75,000	BBB+	5	B+	1	4.1%	.2075	.0415	CCC	1
Nevada Power Company ³	29,167	A+	8	B+	1	1.6%	.1291	.0161	CCC-	1
Occidental Energy Marketing, Inc. / Occidental Petroleum Corporation³	50,000	BBB	4	BBB+	5	2.8%	.1106	.1383	CC+	1
Pinnacle West Capital Corporation ³	23,345	NR	1	BBB-	3	1.3%	.0129	.0387	CC	1
Questar Energy Trading / Questar Market Resources, Inc.³	21,500	BBB+	5	BBB+	5	1.2%	.0595	.0595	CC-	1
Questar Gas Company	23,833	A+	8	A+	8	1.3%	.1055	.1055	C+	1
Reliant Energy Services, Inc. / CenterPoint Energy Resources, Corp.	298,325	BBB+	5	BBB	4	16.5%	.8252	.6602	C	1
Sacramento Municipal Utility District	20,000	A	7	A	7	1.1%	.0775	.0775	C-	1
Sempra Energy Trading Corp. / Sempra Energy	31,775	A	7	BBB+	5	1.8%	.1231	.0879	D	1
Seneca Resources Corporation / National Fuel Gas Company	4,658	A-	6	BBB+	5	0.3%	.0155	.0129	NR	1
Southwest Gas Corporation	72,968	BBB-	3	BBB-	3	4.0%	.1211	.1211	BR	0
Williams Power Company, Inc. / The Williams Companies, Inc.	109,800	BBB-	3	B+	1	5.7%	.1715	.0572		
Totals / Averages	1,814,053		143		108	100.0%	5.4700	4.2300		

¹ Name in bold indicates the parent companies whose ratings are reflected above and in the bar graph.

² Senior unsecured debt rating used when available; otherwise, issuer debt rating used. NR = Not Rated; BR = Bankrupt Shipper.

³For purposes of stating the S&P Rating in the table above for the service agreements that changed ownership after 3/31/01, Kern River used the 3/31/01 rating of the original agreement holder and the 2/19/04 rating of the current agreement holder. The following service agreements changed ownership after 3/31/01:

March 31, 2001 Shipper of Record

Edison Mission Energy
PG&E Generating Company LLC
NRG Energy Inc.
Panorama Power Generation
Questar Gas Company

February 19, 2004 Shipper of Record

California Department of Water Resources
Occidental Energy Marketing, Inc.
Questar Energy Trading
Pinnacle West Capital Corporation
Nevada Power Company (50,000 Dth/d for 7-month season)