BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE FORMAL COMPLAINT AGAINST QUESTAR GAS COMPANY REGARDING PROCEDURES AND PRACTICES FOR TRANSPORTATION SERVICE CUSTOMERS	))))))))))	**DOCKET NO. 14-057-19** **DPU Exhibit 1.0** **Testimony** **Douglas D. Wheelwright**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Testimony of

Douglas D. Wheelwright

August 28, 2014

Q: Please state your name, business address and title.

A: My name is Douglas D. Wheelwright; my business address is 160 East 300 South, Salt Lake City, Utah 84114. I am a Technical Consultant with the Division of Public Utilities (Division).

Q: On whose behalf are you testifying?

A: The Division.

Q: Please describe your position and duties with the Division.

A: As a technical consultant, I examine public utility financial data and review filings for compliance with existing programs as well as applications for changes to utility rates. I research, analyze, document, and establish regulatory positions on a variety of regulatory matters. I review operations reports and evaluate the compliance with the laws and regulations. I provide written and sworn testimony in hearings before the Utah Public Service Commission (Commission) and assist in the case preparation and analysis of testimony.

Q: Please summarize your educational and professional experience.

A: I hold a Bachelor's degree in Finance from Weber State University. Prior to working for the Division I was a financial advisor for 10 years and held SEC Series 7, 9, 10, 63 and 66 licenses. I began working for the Division in 2008 and have attended the NARUC Annual Studies Program at Michigan State University and have completed a number of other utility regulation training courses. I have earned the professional designation Certified Rate of Return Analyst (CRRA) from the Society of Utility and Regulatory Financial Analysts. I have provided testimony to the Commission and appeared as a Division witness in previous Questar Gas Company (Questar or the Company) and PacifiCorp Dockets.

Q. Will you briefly review the background and factual framework surrounding this docket?

A. Yes. In Docket No. 13-057-05, the Questar Gas general rate case, one of the issues that was not resolved related to the Company's Transportation Service (TS) tariff and potential supply interruptions. Due to the complexity of the issues and the differing opinions, settling parties agreed to pursue a more holistic and collaborative approach to resolve the various concerns.[1]

As mentioned in the complaint, meetings were hosted by Questar Gas and (although not a party to the case) Questar Pipeline on February 28, 2014 and March 24, 2014. During the first two meetings the requirement for electronic confirmations was discussed along with how a pooling arrangement could be implemented along with electronic confirmations. During the third meeting on May 13, 2014, Questar Gas terminated any further discussion related to possible pooling and indicated that Questar Pipeline would require the point-to-point confirmation match as of July 1, 2014. While the Division understands that Questar Gas continued to meet one-on-one with some of the parties, the Division was surprised with the direction and the abrupt ending of the collaborative discussions.

Q: Will you describe some of the challenges that the Division faces in responding to this complaint?

[1] Docket No 13-057-05, Partial Settlement Stipulation Regarding TS Tariff Language, January 6, 2014, p 2.

A: This is a very complicated issue with multiple parties and various perspectives. Due to the scheduling requirements of this Docket, responses from Questar Gas to the complaint are not available for review prior to the Division's response. In this situation the Division's response is based on the parties' testimony; along with meetings and discussions with the complainants, representatives from Questar Gas, responses to data requests, and the July technical conference.

Q. From the Division's perspective can you summarize what you believe are the main points that should be considered in this case?

A. Yes. With the various perspectives and the complicated and confusing nature of this issue, there are some fundamental items that need to be addressed and resolved. The primary concerns of the complaint deal with the point-to-point nomination process, elimination of pooling at the city gate and the termination of collaborative discussions.

The collaborative discussions were intended to address several issues related to TS customers and the problems that had been identified with the December 5, 2013 curtailment event. The following list summarizes the issues to be addressed:

1. With the changes implemented by Questar Pipeline and the elimination of the informal nomination pool, were actions of Questar Gas reasonable and prudent?
2. Are transportation customers served by marketing companies aware of the true nature of the service they purchase from the marketing companies and any limitations of that service?
3. Do smaller and possibly less knowledgeable transportation customers understand the risks they may be incurring or are customers shopping only for the lowest price?
4. Are nominations correctly entered to the system to reflect the anticipated usage for each customer? Individual customers could be impacted if the nomination amounts do not

accurately reflect usage and there is a future curtailment down to the individual nomination levels.

5. Are nominations adjusted for variations in actual usage or is there a reliance on the no notice and storage resources available to the marketing companies through Questar Gas?
6. Are transportation customers informed of differences between the volume of gas nominated on their behalf compared to the volume of gas delivered and any implications of those differences?
7. Are transportation customers aware of the difference between the volume of gas that is nominated on their behalf and the volume of gas that is burned and any implications of those differences?
8. Have customer rankings been correctly established by the marketing companies to prioritize the service in the event of a delivery cut or are all customers ranked the same? Incorrect ranking could make it difficult for Questar Gas to make cuts in the event of a supply disruption.

The items listed above should be addressed as part of the collaborative discussions among the parties. Each of the issues identified are related and interconnected but the importance of each individual item may be different for the various parties and their respective TS customers.

From the Division’s perspective, one of the primary concerns is the need for transparency and proper disclosure to the end use customers. Marketing companies should have the opportunity to run their respective businesses and operate without unnecessary restrictions but should clearly identify possible risks to their individual clients. All entities should make the correct nominations and purchase the appropriate quantity of natural gas in order to minimize the impact to Questar Gas operations. Additionally, it is important to ensure that pooling or other processes for TS customers avoid imposing additional costs on other Questar Gas customers.

Q: Can you provide a summary of your recommendation in this Docket?

A: Yes. The Division agrees and supports the change to require electronic confirmations. Since the previous pooling arrangement was informal and was a manual process, that aspect of the nomination process required a change. It is likely that the previously existing system should have been better addressed in Questar Gas Company's tariff than it was. The Division also notes that the appropriate question for the Commission to consider in this complaint is not whether Questar could have proposed something different or even better. Rather, the question is whether Questar Gas' proposal is within the scope of the public interest.

The Company has not yet provided specific reasons why a pooling arrangement for at least a portion of the marketing company business could not be allowed. The Division has observed representatives from both Questar Gas and Questar Pipeline delivering presentations on how a pooling program could work along with requirement for electronic confirmations. Parties to the complaint have provided information relating to other LDC pooling arrangements and have provided testimony dealing with pooling arrangements in other jurisdictions. If the concerns with a pooling arrangement are due to increased workload, cost or transparency, the Company may wish to demonstrate why those concerns cannot be met with other tariff provisions addressing the concerns. It would be beneficial to all parties to explore a mutual resolution of these issues.

Q: Does the new nomination process represent the only or best response to the changes implemented by Questar Pipeline?

A: Not necessarily. The decision to require a one-for-one match between nominations and upstream contracts appears to the Division to be a business decision based in part on Questar

Pipeline's changes. The point-to-point electronic confirmation process was determined by Questar Gas as the preferred solution but other options may be available and preferred by the other parties. While there may be concerns with specific proposals put forward at various points in the discussion processes on this topic, there may also be solutions that could mutually satisfy Questar Gas and the complainants.

Q: Does the change implemented on July 1, 2014 impact all third party marketing companies?

A: Without knowing the detailed operations of each of the marketing companies it is difficult to know the extent of the impact; however, the number of parties that have submitted testimony on this matter indicates that there is relatively broad opposition. While not all third party marketing companies have joined in this action, it is clear that the change has not been well received and that several parties have concerns and objections. Some marketing companies may be impacted more than others depending on their individual structure and business arrangement.

Q: Will the proposed one-to-one nomination process implemented on July 1, 2014 correct the problems that were experienced on December 5, 2013?

A: The changes may help with some of the communication problems, however, it does not correct the problems identified on December 5th which included incorrect nominations, firm vs interruptible service and the prioritization of gas customers served by third party marketing companies. These related issues were discussed in the general rate case and were some of the items to be addressed as part of the collaborative discussions. The one-to-one nomination process does not address or correct these other related issues and Questar Gas appears to have terminated collaborative discussions on these issues with the marketing companies.

With the one-to-one nomination process, Questar Gas has suggested the marketing companies can allocate upstream supplies to multiple end use customers in order to minimize the impact of a supply cut to an individual customer. This allocation process creates a concept of pooling in order to minimize the impact of a supply cut on any one customer. While the arrangement creates a pooling concept, it increases the work requirement for marketing companies to identify and allocate the nominations to multiple end use customers. The creation of a formal pool for at least the portion of the marketing company business contracted at the city gate could potentially allow for greater flexibility, perhaps without increasing the risk to Questar Gas.

Q. Is the point-to-point electronic confirmation process implemented on July 1, 2014 working as intended?

A. It is the Division's understanding that while some of the electronic confirmations are working, there are transactions that still require a manual confirmation process. The July 1 date appears to have been selected to allow Questar Pipeline time for implementation and to allow for additional programming changes to take place prior to the more active heating season.

Q: With the elimination of the informal pooling and the change in point-to-point nominations, has Questar Gas changed the monthly balancing requirements for the marketing companies?

A: No. This is one of the areas where there has been confusion. Much of the testimony from the marketing companies is focused on balancing to the ± 5% tolerance allowance down to the customer level with the elimination of the pool. Questar Gas Tariff 5.09 has not been changed and states: "Customers or nominating parties may exchange or aggregate imbalances in order to avoid or mitigate penalties."[2] The Company has not proposed a change to the Tariff and is not eliminating the ability of marketing companies to pool or aggregate imbalances among its customers. Marketing companies are currently meeting the Questar Gas requirements and are balancing on a monthly basis to the allowed tolerance levels.

The aggregation of the individual customer imbalances is a form of pooling in order to mitigate penalties. The creation of a formal nomination pool for at least a portion of the requirement may allow marketing companies to purchase and balance natural gas requirements in a more efficient and less cumbersome manner.

Q. There has been discussion concerning whether a pool could be created on Questar Gas or on the Questar Pipeline side of the transaction. Do you have any recommendations or concerns?

A: The Company has indicated that the previous informal pool was not technically on either the Gas or the Pipeline side of the transaction but was in between both entities. Questar Gas is the Commission regulated entity and manages the gas control function for both companies. It would seem that a pool on the Questar Gas side of the transaction would be the most

[2] Questar Gas Company Utah Natural Gas Tariff PSCU 400, 5.09, pp 5-16

efficient. This type of transaction was presented to the collaborative parties in the first and second meeting. In the February 28, 2014 collaborative meeting, Questar Gas proposed a pool but suggested a possible charge to transportation customers for the use of the Questar Gas upstream transportation, no notice transportation and storage services.[3] This kind of change would require a change to the tariff and would support the creation of a pool on the Questar Gas side of the transaction. The formalization of a pooling agreement could simplify and clarify the transaction for all parties.

Q: Several references have been made to the potential reduction in market liquidity due to the required point-to-point nomination process. Have the parties been able to provide information concerning potential market impacts?

A: In data requests, the Division and Questar Gas have asked parties to provide specific examples of how the point-to-point nomination process could impact the market. In answer to data requests the complainants responded as follows;

> 1.2 Please identify each and every supplier that declined to sell supplies to you since Questar Pipeline implemented the changes to the nomination process that took effect on July 1, 2014.
>
> **Response:** No suppliers as yet declined to sell gas supplies to the Complainants since the pooling change. However, the pooling change was only recently imposed and has been in effect for less than two summer months, which have not been volatile nor constrained months from a gas-use or gas-supply perspective. The pool change will impact the availability and price of gas at the city gate this winter. Certain gas suppliers, including CIMA and Summit, have determined that they will not make wholesale city

[3] Transportation Services Meeting, February 28, 2014, p. 10.

> gate gas sales without a significant premium. Other gas suppliers are expected to impose similar costs and restrictions this winter.
>
> CIMA has heard concerns expressed by third party suppliers regarding the increased burdens of the pooling change and that it may be more enticing for suppliers to sell gas into Kern River Pipeline at Goshen rather than at the city gate. Producers clearly have both the potential and the incentive to bypass the city gate market to avoid increased nomination requirements to multiple downstream contracts in as many as four cycles per day, and some will undoubtedly elect to avoid the city gate market.
>
> Facing increased operational constraints, suppliers will either turn to more viable alternative markets or increase prices, or both.[4]

The change in the nomination process appears to have had an impact on city gate market, although the extent of the impact is not yet fully understood.

Q: Several references have been made to the potential increase in cost to customers due to the required point-to-point nomination process. Have the parties been able to provide information concerning potential cost impacts?

A: In data requests, the Division and Questar Gas have asked parties to provide specific examples of how the point-to-point nomination process could potentially impact customers. In response to data requests the complainants responded as follows;

> 1.2 Has the point-to-point nomination process implemented on July 1, 2014 had an impact on your clients? Please provide specific examples.
>
> **Response:** The primary impact of the pooling change to date has been that it is time consuming. Since it is the summer season, customer volumes are rather stable and fluctuations in requirements are small. Continuum expects that at least one additional employee will need to be added to handle the QGC nomination cycles before the winter season begins. Continuum also anticipates that supply

[4] Complainants responses to first data request from Questar Gas, Dr 1.2

costs and risks for errors and penalties will increase as we get closer to the winter season.[5]

Utah TS clients of CIMA whose contracts began or renewed on or after July 1, 2013 have experienced an increase in delivery premiums to account for, among other things, the risk of potential liquidity problems expected during the upcoming heating season.[6]

Examples of likely client impacts have already begun to manifest themselves. For example, during a typical mid-day review of client usage this month (August), Summit identified necessary nomination changes, but it was unable to nominate on both the QGC and the QPC systems in time before the interday cycle 2 (ID2) deadline, leaving Summit and its customers at risk of imbalance penalties.[7]

With the limited amount of time since implementation and lower volume summer months, it is unclear exactly what impact the new nomination process will have on customers, however the recent change does appear to have potential cost impacts.

Q: The Division has expressed concern about transparency and the potential risk of supply disruption on TS customers. How have the complainants responded to questions about the supply agreements?

A: In a DPU data request, the Division asked the following;

1.9 Are transportation customers informed when the gas supply is being provided by non-firm up-stream supply agreements?

Response: Specific upstream supply and transportation arrangements are typically not specified in the Agent's gas supply contracts nor communicated to customers, as firm delivery is the obligation and risk of the Agent and not the TS customer. Customers negotiate the priority of gas to be supplied to them. Prices depend, in part, on the firmness or priority of the requested gas

[5] Complainants responses to first data request from the Division of Public Utilities, Dr 1.1
[6] Complainants responses to first data request from the Division of Public Utilities, Dr 1.2
[7] Complainants responses to first data request from the Division of Public Utilities, Dr 1.2

> supplies. Contractual remedies are available to the extent an Agent fails to provide firm gas supplies for reasons other than force majeure.[8]

It appears from the response that the marketing companies and Questar Gas have different operational needs and methods for providing gas to the distribution system and ultimately to their respective clients.

Q: Do you think it is possible to accurately forecast the usage of each individual customer?

A: By design, the nomination process requires parties to estimate future usage and provides for iterative refinement. In the July 30, 2014, Technical Conference, Questar Gas identified the NAESB Scheduling Process.[9] For timely nominations in Cycle 1, nominations are entered by 10:30 am for actual delivery of gas beginning at 8:00 am the following day. While some customers have access to real time usage information, the actual usage or the amount burned may not be available until the day after the volumes of gas have been burned. Since nominations are required the day before usage and actual burn quantities are not available until the day after the gas is burned, the nomination amount must be estimated based on forecasts and using historically averages. While perfect forecasts are elusive, it is important that customers strive for reasonable accuracy.

Q: Has the point-to-point nomination process improved the accuracy of the nomination process?

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[8] Complainants responses to first data request from the Division of Public Utilities, Dr 1.9
[9] Questar Gas Presentation, Utah PSC Technical Conference, July 30, 2014, p. 5.

A: The inaccuracy of the nomination process is one of the concerns of Questar Gas and according to Company representatives, the point-to-point change does not appear to have corrected the inaccuracy of the nomination process.

A review of the Exhibit A from Mr. Pemberton's testimony illustrates part of the concern expressed by Questar Gas. Table 3 is an Excel spreadsheet that looks at the nominations and actual usage for all of the Continuum Customers. In the nominations column, all of the nominations remain unchanged each day from July 1 to July 22. There are no adjustment to the nomination for lower usage from Friday through Sunday and no adjustments for individual days with higher actual usage. While the actual daily usage does not match the daily volume of the nomination, with the exception of the first three days of July, Continuum is within the 5% tolerance allowance on a cumulative basis for the entire month. The last column in the spreadsheet calculates the cumulative difference between the nominations and the actual usage. For the month of July, Continuum was within the ± 5% tolerance allowance but provided more gas to the Questar Gas system through nominations than the customers used. The daily imbalances seem to be the primary concern of Questar Gas because of their potential impact on daily operations, including the utilization of storage or other resources to manage gas supplies.

Q: Do you agree that there is an increased risk to an individual customer with the point-to-point nomination process?

A: It appears that there could be. If the marketing company has utilized the point-to-point nomination and identified one or two end use customers, there could be a significant impact to those customers in the event of a supply cut to an individual supply contract. This could adversely impact a single customer's operation or manufacturing process when the nominations to other companies may have excess capacity and could be reallocated. Allowing marketing companies to pool the supply volumes could reduce the potential impact to a single customer. Likewise, nominating from multiple sources can mitigate at least a portion of the risk to the marketing companies' customers.

Q: Do you agree that including a pooling program would increase the cost to Questar Gas to provide this service?

A: The Division cannot definitively say. In a letter from Questar Gas to Matt Medura, Sr. Marketing Representative for CIMA Energy LTD, Will Schwarzenbach, Questar Gas Supply Supervisor stated the following;

> The Questar Gas transportation rate is also currently less than cost-of-service. Adding a pooling service could incur additional costs at a time when transportation customers are paying less than the costs they are already causing on Questar Gas' system. This would be inappropriate. [10]

The Company has indicated that it could incur additional cost but has not demonstrated what additional costs would be incurred or the amount. If only a small portion of the actual usage is purchased at the city gate it may be that the costs are negligible. However, there could be other factors driving the cost upward.

Q: Is Questar Gas required to balance and purchase gas for each individual customer like the point-to-point nomination process or does the Company manage to a total requirement?

[10] Testimony of Matt Medura, Exhibit E, Questar Gas letter dated June 18, 2014, p 2.

A: It is the Division's understanding that the Company manages to a total natural gas requirement. The Company does not purchase gas or nominate quantities for individual end use customers. The Company manages in a pool concept to look at the total requirement for the gas needs of all customers combined. Questar Gas nominates to its transportation contract (241) and thereby takes ownership and responsibility for the gas. In this way the pooling takes place up-stream. While this option appears to be available to other third party marketing companies, it is not clear whether these companies are taking advantage of the same opportunity.

Q: Can you summarize your final conclusion and recommendation?

A: Yes. The Division agrees and supports the change to require electronic confirmations. Since the previous pooling arrangement was informal and was a manual process, that aspect of the nomination process required a change. The appropriate question for the Commission to consider in this complaint is not whether Questar Gas could have proposed something different or even better. Rather, the question is whether Questar Gas' proposal is within the scope of the public interest.

The Company has not yet provided specific reasons why a pooling arrangement, for at least a portion of the marketing company business, could not be allowed and still be in the public interest. Parties to the complaint have provided information relating to other LDC pooling arrangements and have provided testimony dealing with pooling arrangements in other jurisdictions. If the concerns with a pooling arrangement are due to increased workload, cost or transparency, the Company may wish to demonstrate why those concerns cannot be met with other tariff provisions addressing the concerns. It would be beneficial to all parties to reconvene the collaborative and explore a mutual resolution of these issues.

Q: Does this conclude your testimony?

A: Yes.