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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Application of Questar Gas Company to Make Tariff Modifications to Charge Transportation Customers for use of Supplier-Non-Gas Services</p>	<p>Docket No. 14-057-31</p> <p>DIRECT TESTIMONY OF MICHAEL R. McGARVEY FOR SUMMIT ENERGY, LLC</p>
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May 5, 2015

1 **INTRODUCTION**

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

3 A. My name is Mike McGarvey. My business address is 90 South 400 West #320,
4 Salt Lake City, Utah 84101.

5 **Q. By whom are you employed and what is your function?**

6 A. I am the Director of Natural Gas Trading and Marketing for Summit Energy LLC
7 (Summit). Summit has several customers who are TS customers of Questar Gas
8 Company (Questar Gas).

9 **Q. What are your qualifications for testifying in the proceeding?**

10 A. I have traded and marketed wholesale and retail natural gas throughout the
11 country for the last 18 years.

12 **PURPOSE AND RECOMMENDATIONS**

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to recommend that the Utah Public Service
15 Commission (Commission) reject the Questar Gas request to make tariff
16 modifications to charge transportation customers for use of supplier-non-gas
17 services as proposed.

18 **Q. What specific recommendations do you make?**

19 A. First, I recommend that the Commission require Questar Gas to provide a more
20 accurate and comprehensive analysis of the actual costs it seeks to assign to
21 Transportation Service (TS) customers for services used that are paid for by its
22 Sales customers. Questar Gas' proposed methodology for the penalty cost is
23 theoretical and includes costs that TS customers do not actually incur. Second, I

24 recommend the Commission require Questar Gas to formally declare and conduct
25 a test period from which its metrics for calculating factual incurred costs are to be
26 measured and verified. Arbitrarily choosing a time period for a new tolerance
27 penalty cost to be derived without prior notice to their TS customer base or their
28 respective agents is unfair and improper. Third, I recommend the Commission
29 reject the proposed tolerance window of 5% Questar Gas has chosen. Questar
30 Gas mistakenly believes better nomination communication between TS
31 customers, their agents and Questar Gas is adequate to allow for penalty free
32 services with this narrow tolerance bandwidth. It is also unrealistic to assume a
33 tolerance level typically used for events where an Operational Flow Order (OFO)
34 has been declared to be sustainable. Fourth, I recommend the Commission
35 require Questar Gas to find a better approach to implement and manage their
36 imbalance penalty cost recovery. I believe the logic behind imposing a daily
37 penalty to each TS customer where some may be over-supplied and some under-
38 supplied, each day, from a cost derived at an utility level netted approach is flawed.
39 As I will explain further in my testimony, the unpredictable variability in daily TS
40 customer usages should require a cost recovery at a per dekatherm (dth) or, at
41 least, an agent entity level.

42 **Q. Why do you make the recommendation to require Questar Gas to provide a**
43 **more accurate and comprehensive analysis of the actual costs it seeks to**
44 **assign to Transportation Service (TS) customers for services used that are**
45 **paid for by its Sales customers?**

46 A. There are two main reasons and one correction. First, the list of volumetric rates
47 provided on page 4 in the testimony from Kelly B. Mendenhall in QGC Exhibit 1.0
48 do not apply to all daily imbalance situations. For example, often, each year,
49 Questar Gas is providing supply from storage to its Sales customer base while the
50 supply to the TS customer base is over-supplied. In this situation, the methodology
51 proposed in Mr. Mendenhall's testimony makes the assumption that the extra
52 supply being delivered to the TS customers is redelivered from the utility and
53 transported back to and injected into storage. Questar Gas confirmed during the
54 Technical Conference on January 21, 2015, what actually happens is Questar Gas
55 absorbs the extra supply delivered to the TS customers and withdraws less from
56 storage for its Sales customers. So the theoretical costs, as proposed, would not
57 only unfairly charge the TS customers for the cost of moving the supply to storage
58 that never happened, it does not include a credit to the TS customers for the extra
59 supply Questar Gas didn't have to withdraw from storage for its Sales customers.
60 Second, the proposed cost for the entirety of the QPC Fuel Gas Reimbursement,
61 again on page 4 in the testimony from Kelly B. Mendenhall in QGC Exhibit 1.0, is
62 mistakenly derived from Questar Gas' Base Gas Cost found in their Tariff at a
63 value of \$4.63135 per dth. This per dth cost is then applied to the Questar Pipeline
64 transportation fuel percentage for the imbalance tolerance calculation. This
65 calculation is accurately explained on page 5 in the testimony from Kelly B.
66 Mendenhall in QGC Exhibit 1.0. The concern is a fuel gas reimbursement using
67 this value should only apply to those supplies originating from Questar Gas. The
68 proposed methodology for calculating a daily imbalance charge assumes supply

69 could originate from a third party where the actual cost of supply is currently more
70 than \$2.00 per dth less than that of Questar Gas' Base Gas Cost.

71 Lastly, the Questar Pipeline fuel gas reimbursement percentage used for the
72 calculation of the daily imbalance tolerance charge is inaccurate. It may have been
73 accurate at the time of this docket's filing but it isn't now. It should be 1.86%
74 instead of 1.97%.

75 It is because the Questar Gas methodology used for deriving their proposed daily
76 imbalance tolerance charge does not truly account for actual operational costs is
77 why I believe the Commission should require Questar Gas to use and provide
78 support from actual data.

79 **Q. Why do you make the recommendation to require Questar Gas to formally**
80 **conduct a test period?**

81 A. It is imperative for every TS customer and their agent to be aware of any period of
82 time Questar Gas is using for the determination of any tariff changes that may
83 impact their costs or their service. To randomly choose a time frame from the past
84 where a daily imbalance tolerance penalty didn't exist is unfair. It is my belief that
85 Questar Gas wants to improve their situation but it shouldn't come at the detriment
86 of those who were following the rules to begin with. That is also why I believe the
87 only way for Questar Gas and the Commission to truly understand what the daily
88 imbalance situation is would be for a formal test period to be conducted where all
89 parties involved know and understand what is needing to be done and in what
90 manner so that honest best efforts can be applied for the derivation of any
91 penalties. Anything less will obviously overcharge the TS customer base until such

92 time that it is tried up to best efforts whereby any recovery for the overcharge
93 would be unlikely. The duration of such a formal test period should be no less than
94 one calendar year to accurately demonstrate to the Commission the natural daily
95 variation in demand not only from day to day but from a seasonal perspective, as
96 well.

97 **Q. Why do you make the recommendation the Commission reject the proposed**
98 **tolerance window of 5% Questar Gas has chosen?**

99 A. A five percent penalty free tolerance bandwidth is too narrow, is functionally
100 unrealistic and Questar Gas lacks the telemetry services necessary for TS
101 customers and their agents to achieve. It is also important to note that this level
102 of tolerance is only used for periods when an Operational Flow Order (OFO) has
103 been declared where the utility is under some form of operational stress, not daily
104 operations. OFOs are short-term critical operational notices originating largely
105 from weather driven events and mechanical failures impacting supply reliability
106 whereby a pipeline or utility must take drastic measures to ensure balancing supply
107 with consumption is possible. OFOs are not a standard by which the vast majority
108 of natural gas pipelines and utilities currently operate on a daily basis.

109 Furthermore, the working nature of the typical commercial and industrial TS
110 customer is very inconsistent making consumption requirements too unpredictable
111 for a 5% tolerance window. TS customers and their agents already operate with
112 the goal of providing the correct amount of supply to meet actual needs. In addition
113 to having open lines of communication, TS customers are already encouraged to
114 make their operational changes known to their agents. Agents then use a wide

115 array of proprietary practices to better predict the consumption of what each TS
116 customer will need the day prior to consumption only because the telemetry data
117 provided at the meter via Questar Gas is inadequate at being 1-2 days old. With
118 no other way of knowing what each TS customer's requirement will be tomorrow,
119 at a minimum, agents use proprietary forecasting regression models, local weather
120 forecasts, historical consumption profiles and current usage trending. These, and
121 possibly more, are employed to provide the best understanding of future supply
122 requirements.

123 It was proposed by Questar Gas during the January 21, 2015 Technical
124 Conference that each TS customer should purchase additional equipment to their
125 meter to assist with a more "real time" daily usage but Summit believes this to be
126 the responsibility of Questar Gas as Summit is aware of 2 hour delayed telemetry
127 offered at a utility level elsewhere. This proposed 5% tolerance window and costly
128 telemetry would most likely create a perpetual penalty situation where some TS
129 customers would be forced to switch rates away from the TS rate schedule making
130 it anticompetitive in nature.

131 **Q. Why do you make the recommendation the Commission require Questar Gas**
132 **to find a better approach to implement and manage their imbalance penalty**
133 **cost recovery?**

134 A. Questar Gas has taken a system wide approach to interpret the costs incurred by
135 the TS customer base for reimbursement to their Sales customers that would be
136 applied at the individual TS customer level. The concern with this methodology is
137 that it would unfairly impose penalties on both sides of the assigned tolerance

138 range on the same day without taking into consideration any same-day netting. A
139 simple example of this would be if TS customer "A" was over-supplied 10 dth out
140 of tolerance and TS customer "B" was under-supplied 10 dth out of tolerance on
141 the same gas day. Both would be penalized when the actual net impact to Questar
142 Gas on that gas day would be zero.

143 Summit believes Questar Gas should explore other methods to accurately apply
144 the actual costs incurred. One such approach would be using a per dth charge
145 across all TS customer supplied volumes. This would fairly provide for TS
146 customer usage profiles that are extremely weather sensitive, daily usages that
147 are too erratic for practical methods of forecasting and would not involve
148 unnecessary equipment and costs to the individual TS customer. The application
149 of this type is not uncommon and could be adjusted periodically to be kept current.
150 Another approach would be for Questar Gas to allow the agents themselves to be
151 a customer of Questar Gas, via an agency agreement, whereby daily balancing
152 would be assessed based on the entirety of each specific agent's netted TS
153 customer base. Daily imbalance tolerance penalties could then be applied to the
154 agent.

155 **Q. Does this conclude your prepared testimony?**

156 **A. Yes.**

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 5th day of May, 2015, on the following:

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