Gary A. Dodge, #0897
HATCH, JAMES & DODGE
10 West Broadway, Suite 400
Salt Lake City, UT 84101
Telephone: 801-363-6363
Facsimile: 801-363-6666
Email: gdodge@hjdlaw.com

Attorneys for US Magnesium LLC

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to Make Tariff Modifications To Charge Transportation Customers for Supplier Non-Gas Services	Docket No. 14-057-31

PREFILED DIRECT TESTIMONY OF ROGER J. SWENSON

US Magnesium LLC hereby submits the Prefiled Direct Testimony of Roger J. Swenson in this docket.

DATED this 5th day of May 2015.

HATCH, JAMES & DODGE

/s/ _____
Gary A. Dodge
Attorneys for US Magnesium LLC

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:

Questar Gas Company:

Colleen Larkin Bell	colleen.bell@questar.com
Jenniffer Nelson Clark	jennifer.clark@questar.com
Barrie McKay	barrie.mckay@questar.com
Kelly Mendenhall	kelly.mendenhall@questar.com

Division of Public Utilities:

Patricia Schmid	pschmid@utah.gov
Justin Jetter	jjetter@utah.gov
Chris Parker	chrisparker@utah.gov
Artie Powell	wpowell@utah.gov

Office of Consumer Services:

Rex Olsen	rolsen@utah.gov
Michele Beck	mbeck@utah.gov
Danny Martinez	dannymartinez@utah.gov

UAE:

Gary Dodge	gdodge@hjdlaw.com
Kevin Higgins	khiggins@energystrat.com
Neal Townsend	ntownsend@energystrat.com
Jeff Fishman	jfishman@energystrat.com

Summit Energy:

Larry R. Williams	larry@thesummitcompanies.com
Mike McGarvey	mike@summitcorp.net

Nucor Steel:

Damon E. Xenopoulos	dex@smxblaw.com
Jeremy R. Cook	jcook@cohnekinghorn.com

Kroger:

Kurt J. Boehm	kboehm@BKLlawfirm.com
Jody Kyler Cohn	jkylercohn@BKLlawfirm.com
Richard A. Baudino	rbaudino@jkenn.com

CIMA:

Matt Medura	mjm@cima-energy.com

US Magnesium:

Roger Swenson	roger.swenson@prodigy.net

/s/_____

BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of

ROGER J. SWENSON

On behalf of US Magnesium LLC

Docket No. 14-057-31

May 5, 2015

Q. Please state your name and business address.

A. My name is Roger Swenson. My business address is 1592 East 3350 South, Salt Lake City, Utah.

Q. By whom are you employed and what is your position?

A. I am employed by E-Quant Consulting LLC (E-Quant) as a consultant in energy matters. In this matter I am providing testimony on behalf of US Magnesium.

Q. What is the purpose of your testimony in this Docket?

A. The purpose of my testimony is to respond to the new supplier-non-gas charges for the transportation class proposed by Questar Gas. I am also offering an alternative proposal for how new charges should be implemented if it is determined that new charges are warranted in this matter.

Q. What do you understand the Company to be attempting to accomplish with the introduction of this proposed new charge/rate?

A. The stated goals are to assign costs to transportation customers for services provided and provide an incentive to more closely match nominations and usage. First, looking at the derivation of the proposed rate I have an issue with the company's view of costs borne by the system. On the second topic if it makes sense to now ask transportation customers to become more accurate in their nominations and if there is a basis for doing so, then we should implement this change in a more reasonable way.

Q. How have transportation customers historically been required to nominate their gas supplies?

A. For decades, the focus of nominations has been on monthly imbalances, not daily imbalances. Each customer is required to stay within a 5% monthly band, so monthly targets have generally been the priority for customers. It has not been considered important historically to require strict adherence to daily imbalances except when system circumstances required it, in which case the Company would issue an operational flow order (OFO) requiring customer's nominations to meet a specified goal or be penalized. This has gone on for many years and by all appearances it seemed to be working fine.

Q. Do you believe transportation customers could nominate more accurately if it were important to do so?

A. Yes. In the past there has been no apparent reason for a transport customer to spend significant time and resources to refine its nomination process beyond making sure that it remained within the existing monthly tolerance and that it complied with any OFOs. I expect that some of the data provided by the Company in this docket on daily imbalances involved large variations in nominations vs. usage to true up monthly imbalances as needed towards the end of the month. Given the cost or consequence of monthly imbalances, customers had an incentive to eliminate them through nominations near month end. It does not seem reasonable to me to take data from that kind of a period -- with an incentive to match only monthly imbalance criteria -- and use it to build up a cost basis for new daily imbalance charges to be imposed for the first time.

Q. Do you agree with Mr. Mendenhall that imposing a daily imbalance charge will reduce transportation customer imbalances on the system?

A. Yes. Whether or not reducing daily imbalances is actually important now when it has not been deemed important for the past few decades, I certainly agree with Mr. Mendenhall that customers will respond to the incentives in any new daily imbalance charges. Customers will begin spending more time and resources on daily accuracy and fine-tune their nominations practices. Again, I am not yet convinced that the cost and inefficiency that will be created by these new incentives are warranted, but I certainly agree that the consequence will be more accuracy in daily nominations.

Q. If customers are likely to change their daily nomination behavior, what does that mean to the accuracy of the calculation of daily imbalance charges?

A. It means that the proposed charges will almost certainly be inaccurate from the outset. In fact, the Company's derivation of the charge using the proposed components could lead to very strange results, as discussed below. The Company's derivation of the daily imbalance charge is based on the following formula:

$$\text{(1) Volumetric rates for services used X (2) total net imbalance volumes} \over \text{(3) Daily volumes outside of 5\% tolerance}$$

Q. Why might this formula lead to strange results?

A. If Mr. Mendenhall is correct in terms of this proposal leading to greater accuracy between daily nominations and usage, the result will be that the total net imbalance volumes

(component (2) of the formula) and the daily volumes outside the 5% tolerance (component (3) of the formula) will both decrease. If, as one might expect, component (3) -- the daily volumes outside of 5% tolerance -- decreases at a greater rate than component (2) -- the total net imbalance volumes -- then the penalty rate per unit will increase even though we are achieving what was intended. As an example if component (2), the total net imbalance volumes, of the numerator in the equation drops in half but component (3), the daily volumes outside of 5% tolerance, decreases to 25% of what they previously were, the penalty rate under this formula will double in the next calculation. Taking this to the extreme, if component (2) drops in half but component (3) decreases to just 1 Dth the penalty rate will become;

$$(1)\frac{\$0.52205 \text{ X } (2)3{,}333{,}731 \text{ X } (50\%)}{(3)1} = \$870{,}187.13 \text{ / Dth}$$

This result, which is certainly within the range of possibilities, would certainly not be appropriate.

Q. Do you have other suggestions about the rate determination for an imbalance penalty?

A. Yes. I think we need to take a broader perspective on the costs associated with calculation of any kind of imbalance penalty. I think an example may help clarify what I am suggesting. Assume all transport customers nominated 1,000 Dths collectively on a given day, including 15 Dths for fuel reimbursement, and that the transport customers used only 900

Dths, meaning they were long gas. Also assume that all sales customers collectively used 85 Dths on this day above what was delivered to the system for sales deliveries, including losses, meaning they were short gas. The results of this example are illustrated in the following table:

Transport Customer Nominations	1,000 DTH
Fuel (1.5% example)	15 DTH
Usage	900 DTH
Imbalance	1,000 – 15 – 900 = 85 DTH (long)
Sales customer usage above del	85 Dths (short)
Total net on the system	85 Dths long – 85 Dths (short) = 0 DTH

Now assume that all customers are good managers of their imbalances and both the transport customers and the gas supply department take actions on the next day to match usage and nominations and to clear up the imbalance from the previous day. Assuming similar usage on day two, the result would be:

Transport Customers Nomination	827.4 DTH
Fuel (1.5% example)	12.4 DTH
Usage	900 DTH
Imbalance	827.4 – 12.4 – 900 = 85 DTH (short)
Sales customer usage below del	85 Dths (long)
Total net on the system	85 Dths long – 85 Dths (short) = 0 DTH

In this example, the system on each day had a zero net imbalance, even though nominations and usage were off for both sales and transport customers. In reality, none of the costs identified in the list provided by Mr. Mendenhall would have occurred based on the system as a whole. However, Questar's proposal assumes these costs occur, including losses of gas for transport and losses of gas in storage operations, both assuming the use of valuable sales customer "WACOG" (weighted average cost of gas) gas, however there was no transport of gas and there was no storage injection or withdrawal in this example. It seems to me this approach creates economic inefficiencies that may not really exist.

Q. What do you think should be done if there is a perceived need for greater daily accuracy in nominations for transportation customers?

A. First, we should not start with actual measured system data from a period when no incentives for daily nomination accuracy existed. Second, we should not assume cost elements that may not actually exist. Rather, we should develop a basis for any such charge based on real data and actual costs taking into account all positions. We should develop this cost structure with input from all parties affected to achieve what is needed without unfairly burdening transportation customers beyond what is required.

Q. **Are there other offsetting circumstances that should be considered in calculating imbalance cost?**

A. Yes, for instance consideration needs to be given to transport imbalances that are in the opposite direction of storage withdrawal and injections. As an example, transport

customers could be long gas during periods when storage withdrawals would be needed for sales customers and those gas withdrawals for sales customers can be backed down. Those kinds of offsets should be taken into consideration in any kind of cost determination.

Q. What else should be considered in looking at the system as a whole?

A. The flexibility of the existing system to absorb or provide some quantity of gas (which is often referred to as line pack) was not even mentioned by Questar in its filing. All gas systems have some flexibility to both absorb more gas being delivered than is being used and at times to have to more gas withdrawn than is being provided. This lowest cost source of flexibility should be considered first in any determination of system cost before items such as expensive No-Notice Transportation service is called on. All customers, including transportation customers, pay for system facilities that provide this inherent flexibility, and that flexibility should be recognized in analyzing costs actually incurred as a result of transportation customer daily imbalances.

Q. What do you recommend in this matter?

A. To the extent greater daily nomination accuracy is required, I recommend that we first develop reasonable daily imbalance tolerances and estimated costs in a more accurate manner and then inform transportation customers of the balancing rules that will come into play. We should then set a starting date for imposing charges that is at least a year after the date of the order in this case. That way we can measure how nomination accuracy changes as customers adapt to nominating within the required tolerances. Daily imbalance

charges should not be imposed during this first year of the testing/learning program, but daily imbalance results and potential costs from estimated charges should be reported back to each customer so they can change behavior and estimate potential future imbalance costs. During this testing period we can also collect better data to develop reasonable charges based on results when customers know that accuracy will count and that inaccuracy will have a cost.

Q. What else can be done during this one-year testing time frame?

A. We can evaluate net total system imbalances and use actual storage withdrawals and injections in relation to transport imbalance positions to provide a better, more inclusive cost picture. We can also make reasonable determinations as to net flexibility or line pack availability that should be considered first in measuring and establishing charges. After the end of the year-long testing period, reasonable costs and charges can be calculated.

Q. Can you summarize your recommendations?

A. Yes. Any proposed charge for daily imbalances should be used only to inform the transport customers of the imbalance cost they may incur in the future if they are not within tolerances for a period of at least one year. During that year, a working group should be established to provide input for an imbalance rate calculation based on actual costs caused by imbalances after looking at the system as a whole and taking into consideration mitigating factors and eliminating unnecessary economic inefficiency.

Q. Does this conclude your testimony?

A. Yes.