BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS TO MAKE TARIFF MODIFICATIONS TO CHARGE TRANSPORTATION CUSTOMERS FOR SUPPLIER-NON-GAS SERVICES	**))))))))))**	**DOCKET NO. 14-057-31** **Direct Testimony** **Douglas D. Wheelwright** **DPU Exhibit No. 1.0D**

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

Testimony of

Douglas D. Wheelwright

July 2, 2015

INTRODUCTION AND SUMMARY

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 rate increases. 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 Public Service Commission of Utah (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 and have held insurance and real estate licenses. I began working for the Division in 2008 and have attended the NARUC Advanced 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 dockets.

BACKGROUND AND OVERVIEW

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

A: Yes. On December 18, 2014, Questar Gas Company (Company or Questar Gas) submitted an application to make changes to the Utah Natural Gas Tariff No. 400 in order to charge transportation customers for the use of supplier-non-gas services. On January 6, 2015 the Commission held a scheduling conference to establish filing dates and a hearing date. On May 5, 2015, Parties other than Questar Gas, the Division and the Office filed comments on the proposed changes. Comments and Testimony have been filed by the Company and by seven other intervening parties in this docket. The issues surrounding the incorrect nominations by natural gas marketing companies were raised in the last general rate case (Docket No. 13-057-03) and in The Formal Complaint against Questar Regarding Nomination Procedures and Practices for Transportation Services (Docket No. 14-057-19).

Q: What is the purpose of your testimony in this matter?

A: I will not attempt to address each aspect of the various positions that have been provided by the Company and by other parties in direct testimony. My comments are limited to addressing the broad topics and purpose of the proposed changes to the tariff. I will not comment on the appropriate method or items that should be considered in the calculation of a charge to Transportation Service (TS) customers. My testimony is limited to a discussion of the need for the proposed changes to the tariff and a discussion of the public interest. However, silence on any issue does not signify the Division’s agreement.

In summary, the Division is in agreement with the Company that TS customers should pay for the services that are being using, however it is not clear what costs should be included in the calculation. The second issue related to the TS customer nominations could be improved through better use of the existing tariff.

Q: What is your understanding of the purpose for the proposed changes to the Company's tariff?

A: The Company stated that there are two main objectives in this filing. First, the Company is seeking to assign costs to transportation customers for the supplier-non-gas services they use on the system.[1] Second, the Company has proposed a new rate design to give customers an incentive to more closely match their nominations to their usage.[2] Issues surrounding the proper nomination of natural gas by TS customers and their agents were addressed in the previous rate case and continue to be a concern for the Company. Nominating or bringing the incorrect volume of natural gas to the Questar Gas system can have an adverse impact on the efficient operation of Questar's system, and in particular to system reliability as well as storage planning and usage. If TS customers nominate less than they actually consume, the Company could be forced to move gas from storage facilities in order to meet the demand. If TS customers nominate or bring more gas to the Questar system, the Company could be forced to move the excess volumes into storage facilities and potentially shut in cost-of-service production. These unanticipated requirements to move gas on the Questar system require the use of no-notice services on the pipelines. The cost for these services are currently built into the rates paid by GS customers and are not allocated to TS customers.

Q: Can you provide an example of how this could occur on the Questar Gas system?

A: Yes. During the summer months, the Company plans to inject an average of 75,000 Dth per day of Wexpro gas into Clay Basin storage to be used during the winter heating season. This planned storage can be disrupted when Transportation customers pack (over deliver) gas to the Questar system over weekends and holidays. Let me illustrate this with two recent examples.

During the Memorial Day weekend, (May 24 - 25, 2015) marketers collectively brought an additional 30,895 Dth to the system on Sunday and 32,833 on Monday. More recently, on Saturday, June 13, 2015 marketers collectively brought an additional 41,123 Dth to the

[1] Kelly B Mendenhall, page 1, lines 18-19.
[2] Kelly B. Mendenhall, pages 1 - 2, line 21 - 23.

system.[3] An over-supply of gas could require the Company to use no-notice services to move the gas and could delay an equivalent amount of Wexpro production from going into storage. Furthermore, it is the Division's understanding that this situation can, and has in the past, caused Questar to shut-in Company owned production which would be an additional cost borne by firm sales customers.

Q: Can you provide some perspective on the type of customers and the volume of natural gas that is nominated to the Questar Gas system by TS customers on a regular basis?

A: Yes. There are approximately 300 customers that have chosen to contract for transportation service. While the number of customers is relatively small, the volume of gas used by these customers represents approximately 25% of the total annual volume on the Questar Gas system.[4] Table 1 below is a summary of the volume of natural gas for transportation customers for the last five years.

Table 1

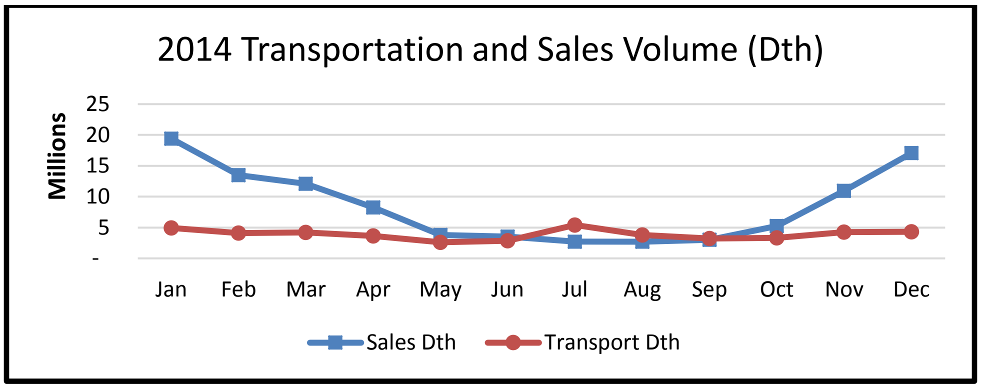
	2010	2011	2012	2013	2014	5 YEAR AVERAGE
Transport Dth	40,788,624 24.1%	38,831,936 22.7%	41,000,912 25.2%	46,441,514 25.3%	46,585,078 25.4%	42,729,613 24.5%
TOTAL Dth	169,554,916	170,761,613	162,914,407	183,786,264	183,558,806	174,115,201

While some of the natural gas consumed by TS customers is used for heating, the majority is used in various manufacturing processes. The manufacturing processes generally have a more consistent gas requirement throughout the year and do not have the same seasonal fluctuation as the gas provided to GS customers which is primarily used during the winter months for heating. A review of the actual volume on a monthly basis has revealed that during many of the summer months, the volume of natural gas for the 300 transportation customers is equal to and in some cases greater than the volume of natural gas for the

[3] DPU Field Data request, June 30, 2015.
[4] Volumes have been taken from the Questar Gas results of Operation, Dec 31, 2010 – Dec 31, 2014. Transportation volumes exclude special contracts.

remaining 950,000 GS customers. Chart 1 below shows the monthly volume of natural gas for TS customers compared to the volume for sales customers during calendar year 2014.

Chart 1



As represented in the graph, the usage for TS customers is not as seasonal and has a more consistent usage pattern across all months of the year. With the large volumes associated with the transportation customers, bringing the correct volume of gas to the Questar system is important for system reliability as well as for cost-of-service production and storage planning.

Q: The Company has approximately 300 customers in the TS rate class. Are the 300 customers similar to each other in the amount of gas used?

A: No. The volumes within this class are heavily weighted toward the larger customers with a large difference between the small and the large customers. Of the 300 customers in the TS class, the annual usage varies from as low as 1,500 Dth per year for the smaller customers to over 6.6 million Dth per year for the largest customer.[5] (For comparison, GS rates assume that a typical residential customer will use 80 Dth per year.) The 10 largest TS customers represent approximately 58% of the total TS volume. The largest 40 customers represent approximately 80% of the total TS volume. The remaining 260 smaller TS customers represent 20% of the total TS volume.

[5] Kelly B. Mendenhall, Exhibit 1.3.

Q: Why have you included the historical volume information in your testimony for this case?

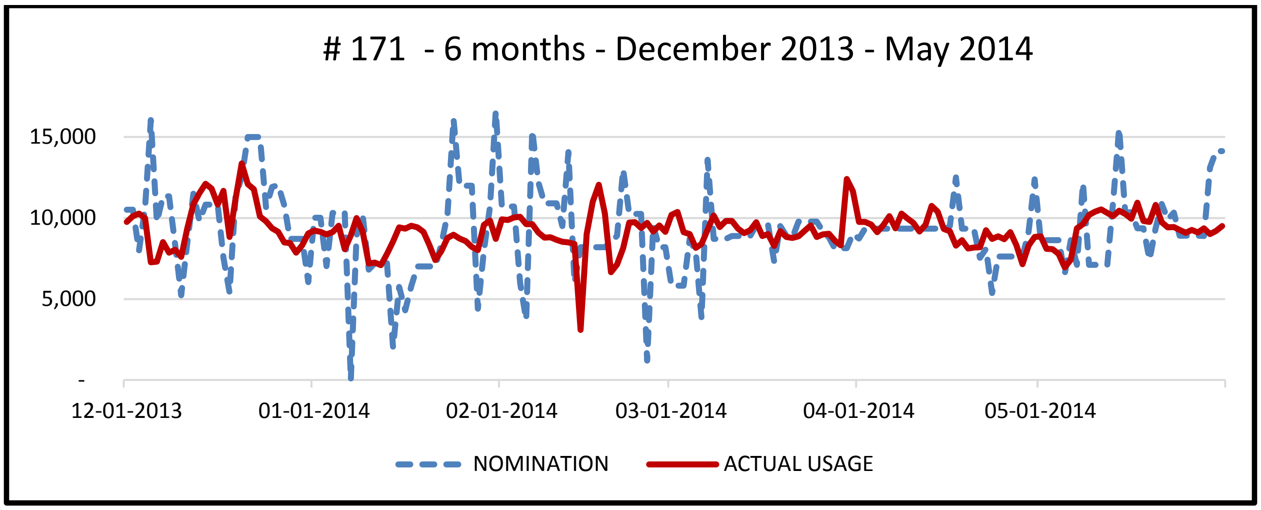
A: Questar Gas claims that improper nominations could have an impact on the Company's gas system and that TS customers are using the services that are being paid for by GS customers. In order to look at these claims it is important to understand and recognize the percentage of the total volume that the TS customers bring to the system and which of the TS customers could have the greatest impact on the system if the nominations are unreliable. I have included the historical volume information to demonstrate the significance and potential impact that incorrect nominations could have on the Questar Gas system.

For example, from Chart 1 it can be seen that even relatively small incorrect nominations in the summer can lead to situations where Questar would need to call on its no-notice services to move additional gas to storage or, in a worse case, shut in cost-of-service wells. Questar's proposal is to charge transportation customers for the use of those services that are currently entirely borne by firm sales customers. The Company is not proposing to charge TS customers for the additional incremental costs of shutting in wells or opportunity costs.

Q. Has the Company been able to provide information to demonstrate how the nominations are not accurate for individual customers?

A: The Company provided individual usage and out of balance information for the TS customers in Mr. Mendenhall's testimony exhibit 1.3. This information included the daily usage and out of balance information for 314 customers from December 1, 2013 through November 30, 2014. In reviewing this information it is apparent that on an individual customer level, in many instances the nominations do not match the actual usage amounts. As an example of one of the more extreme variations, I have included the nominations and actual usage for customer 171 which was included in exhibit 1.3. Chart 2 below covers the 6 month period from December 1, 2013 to May 30, 2014 and shows the actual usage as the solid line and the nominations as the dashed line.

Chart 2



While this is only one customer, it demonstrates how the daily nominations for this customer do not match the actual usage. For example, on February 14, 2014, this customer used only 62% of the amount that was nominated while 11 days later the customer used 8 times more than the amount that was nominated. The extreme daily fluctuations during the month offset each other and for the entire month of February 2014, the nomination amounts for this customer were within 2.8% of the actual usage.

Incorrect daily nominations can be seen during winter and summer months. In the example represented in Chart 2 above, a marketing company may have entered nominations to this one customer contract in order to balance the monthly aggregate amount for all its clients. This particular contract may have been over nominated on some days and under nominated on others while the total nomination and usage amount at the marketing company level may have been correct; that is, within tolerance.

Q: Do the marketing companies agree that the nomination process could be more accurate if it were important to do so?

A: Yes. In their direct testimony, the marketing companies have acknowledged that when there are operational restrictions in place they are required to be more accurate with the nominations.[6] Operational constraints are initiated by the Company when there are maintenance issues or weather related problems. In these situations, the Company will issue an operational flow order (OFO) restriction and will require the marketing companies to stay within a ±5% daily tolerance limit. When there are no system limitations and an OFO is not in place, based on the nomination and usage data, it appears that the marketing companies have focused their efforts on managing the gas supplies to a monthly balancing requirement, which is how imbalance charges are now billed.

Q: In Kelly B. Mendenhall's testimony, he proposed a 5% daily tolerance limit. Do you believe that the proposed 5% daily tolerance limit for all TS customers is an appropriate threshold or tolerance limit when there is no OFO restriction?

A: Not necessarily. As mentioned above, during times of system constraint due to such things as weather conditions or system maintenance issues, Questar Gas issues an OFO limiting the customers and marketing companies to a 5% threshold in order to minimize any potential impact to the system and to the sales customers. These restrictions are put in place as a precaution when there are possible system reliability concerns. When there is no OFO situation, the 5% daily limit may be too restrictive and create an unnecessary burden on individual customers and marketing companies. If there were a daily 5% requirement, it is unclear to the Division what TS customers would be required to do differently than they would be required to do if there were a maintenance or weather related condition requiring a 5% daily balancing limit with an OFO order restriction.

While the Division supports the Company's objective to charge transportation customers for their use of Questar's no-notice services, the proposed 5% daily limit for all TS customers

---

[6] Roger J. Swenson, page 2, line 29 – 40.
Matthew Medura, page 5, line 92 – 112.

may be too restrictive. Nevertheless, there appears to be the potential for lost opportunity costs and potential actual expenses in non-OFO periods when nominations and usage are widely different. Therefore, the Division would support a larger daily tolerance limit as long as that limit does not lead to excessive shut-in or other costs.

The above suggests one possible resolution to address the need for more precise nominations and the equitable sharing of the costs of no-notice service: a 5% tolerance on OFO days, a higher tolerance for non OFO days, and the broader use of OFOs or similar mechanisms when reliability is not jeopardized but gas management considerations, such as avoiding shut-in wells, warrant more precise nominations. Further, the Division notes that changes in the tolerance levels also necessitate changes in the rate charged using Mr. Mendenhall's method for calculating the rate.

Q: Do you have other concerns with the proposed daily balancing requirement?

A: Yes. One of the concerns for requiring daily balancing has to do with the availability of actual usage information. The first nomination process occurs one day in advance of the gas flow date and the actual usage data is not available for 1- 2 days after the gas flow date.

For example, the nomination process requires the customer or the agent to estimate and schedule on Monday the amount of gas that will be needed on Tuesday. The gas is used during the day on Tuesday and on Wednesday morning, a meter reading is electronically sent to Questar to calculate the amount of gas that was consumed. The actual usage information for the amount of gas that was used on Tuesday is then available to the customer by approximately 10:30 am on Wednesday, which is the same time that the nomination for Thursday's gas is due. While there are opportunities to adjust or make additional nominations during the gas delivery day, the actual usage information is currently not available from the Company until at least one day after the gas has been consumed. Actual usage information for Tuesday would most likely not be used until Thursday for the Friday nomination.

Q: Would real time usage data eliminate your concerns with the proposed daily balancing requirement?

A: Not entirely. While the availability of real time data may mitigate some of the forecasting error, it will not eliminate the necessity of the day ahead forecast. Thus, there will always be some error or difference between the nomination and actual usage. Additionally, other factors such as weather conditions and, manufacturing problems will also impact the accuracy of the day ahead forecast.

The Division notes that while real time usage data is not currently available from Questar, the customer could manually read the meter each day or install additional meter reading equipment and utilize third party software to obtain real time usage information.

Q: Does the Company's current tariff have the language in place that would allow the Company to improve the nomination process?

A: I believe that most if not all of the language is already in place that would allow the Company to improve the nomination process without additional changes. The Questar Gas Tariff 5.09 addresses imbalances for transportation service. Under the Daily Imbalance section the tariff states the following; (highlighted sections added)

> The Company will allow + 5% of a customer's volumes delivered from upstream pipelines as a daily imbalance tolerance window. In the event a ***customer's imbalance*** contributes to an aggregate imbalance that would ***1) require the Company to take action to maintain system integrity, or 2) reasonably be expected to force the Company to materially alter its prior day's planned level of a) gas purchases, b) Company production, or c) storage injections or withdrawals***, then the Company may, for the period that such conditions are reasonably expected to continue, require customers or nominating parties to adjust deliveries or usage, and/or to suspend all or a portion of the daily imbalance tolerance window. A customer or nominating party may adjust deliveries by directing a change in nominations, alter usage, or utilize park-and-loan or other services offered by the appropriate upstream pipeline.
>
> The Company will provide notice of such restriction, to each affected nominating party not less than two hours prior to the first nomination deadline for the affected period or as soon as reasonably practicable, to the extent system integrity or upstream allocations allow. If other than written notice is initially

> provided, then subsequent written notice will provide the time of contact and the person contacted. ***Restrictions may be applied on a system-wide basis, a nominating-party by nominating-party basis, a customer-by-customer basis, or a geographic area basis, as circumstances reasonably require.***

It appears that the language of the existing tariff is sufficiently flexible to allow the Company to implement restrictions if the TS nominations cause operational concerns or for conditions that would require the Company to adjust planned levels for storage or injection —packing and drafting the system—or for operation of Company owned production. While the tariff language appears to allow the Company to place restrictions on individual customers or at the marketing company level if they are not complying with the current nomination guidelines, these procedures are not being utilized by the Company to encourage and require more accurate nominations where needed. If the intent is to modify behavior, the tools are available and should be implemented. The broader use of OFOs can address many of the Company’s operational concerns.

The language of the tariff states that ***“restrictions may be applied on a system-wide basis, a nominating-party by nominating-party basis, a customer-by-customer basis, or a geographic area basis, as circumstances reasonably require.”*** This language would suggest that individual companies could be closely monitored if the nominations and usage are significantly different and contribute to the system imbalance. Some of the TS customers utilize such large volumes that incorrect nominations for these customers could have an impact on the system reliability and storage planning. As noted above, the 40 largest TS customers account for 80% of the total volume. The Company could also look at the nominations of specific marketing companies in total and determine if the nominating practices of a marketer are causing problems for the system or the Company could place restrictions on weekends to reduce packing and drafting the system.

Q: Do you have a recommendation for this docket?

A: Yes. In the original filing, the Company stated that there were two main objectives with this filing. The first was to allocate costs to the TS class for the use of supplier-non-gas services.

The second objective was to improve the nomination process. While these two issues are closely related, I believe they should be addressed as separate issues.

I agree with the Company that the TS customers should be paying for the services they are using. While I agree that the TS class should pay for the services, I do not believe that the Company has presented sufficient information at this point to validate the appropriate costs that should be assigned to the TS class or their method of recovery. Once these costs can be more clearly determined (the numerator of the equation), these costs should be divided by the 46.5 million annual Dth used by the TS class to determine a fee that could be assigned to each Dth used by TS customers. This would be a volumetric charge to all TC customers for the use of supplier-non-gas services on the Questar Gas system. The new rate will be recalculated twice per year and updated with each 191 pass through filing. The revenue received from the TS customers would be applied as a credit to the GS class.

The costs and imbalance calculations will be determined by a task force created to review the supplier-non-gas costs that are to be assigned to the TS customers. The task force (or individual) recommendation will be due to the Commission by November 1, 2015 with a request to make the new rate effective January 1, 2016. It is anticipated that as the nominations and actual usage become more closely aligned, the use of the supplier-non-gas services will be reduced along with the allocated fee to TS customers.

While the current process has not yielded agreement on whether a charge to TS customers is appropriate or in what amount, if the Commission first orders that some fee should be paid, the Division expects a second round of discussions in the proposed task force would be more fruitful. While such a process may not lead to agreement, it will sharpen the focus and lead to the presentation of better developed proposals for what fee to charge and how to charge it.

To achieve the second goal and improve the nomination process, the Company should begin to more effectively utilize the existing tariff language and impose imbalance restrictions on TS customers with greater frequency. The tariff specifies that restrictions can be put in place if the imbalance would require the Company to alter its prior day's planned level of

Company production, storage or injection. These restrictions should not be abusive and should only be used when there is an actual system constraint or when there is significant packing or drafting taking place. The Company should not be required to alter its daily planning to anticipate and accommodate packing and drafting by TS customers. According to anecdotal information, it has done so. The existing language of the tariff should be used more effectively to encourage more accurate nominations. Significant penalties are already approved and in place in the tariff if nominating parties do not comply with the restrictions. The Company already has the ability to modify the behavior of the marketing companies but has chosen not to use the approved tariff.

Another option to improve the nomination process would be to require more stringent monitoring and balancing of the large customers where incorrect nominations could potentially impact the system. In reviewing the data it appears that TS customers with annual usage of over 200,000 Dth would have the largest impact and represents a large portion of the total volume. Closely monitoring the top 40 customers would not require a significant increase in resources for the Company or for individual marketing companies. Many of these large customers may already have real time usage monitoring systems in place and could adjust the nominations to closely match the actual usage. These top 40 customers are spread among the different marketing companies and would be easier to manage than requiring all 300 TS customers to balance on a daily basis. Applying such requirements would not amount to undue discrimination given the different system impacts of the customers' usage.

Improving the nominations for the 40 largest TS customers would have the greatest potential to impact the reliability of the Questar system since these customers represent approximately 80% of the total TS volume and approximately 68% of the Dth outside the 5% tolerance. Marketing companies should continue to use their best efforts to nominate gas for the 260 smaller customers that will closely match the forecast usage. These customers represent approximately 20% of the TS volume and have a much smaller impact on the reliability to the Questar Gas system. By separating these two groups and requiring closer monitoring of the larger TS customers, the nomination process should be more accurate and reduce the potential impact to the reliability of the Questar system.

Q: Can you summarize your final conclusion and recommendation?

A: The original application indicated that there were two main purposes to this filing and the solution should be addressed as two recommendations. First, it is appropriate for all TS customers to pay for the services that they are using. This fee and the calculations necessary to determine the amount of this fee should be determined through a task force as detailed above and filed with the Commission by November 1, 2015. In the current proceeding, the Commission should order that a fee is in the public interest and should be addressed in the task force process. The fee for the use of these services will be applied to all TS customers on a volumetric basis and will be adjusted twice per year with the Company's 191 Pass-Through filing.

The stated goal of improving the nomination process can best be addressed by either using the tools provided in the existing tariff to restrict nominations to all TS customers or to more stringent monitoring and balancing the 40 largest TS customers. The large TS customers have the greatest potential to impact the reliability of the Questar system and represent approximately 80% of the total TS volume.

Q: Does this conclude your testimony?

A: Yes.