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 UAE and CIMA

Damon E. Xenopoulos
STONE MATTHEIS XENOPOULOS & BREW, PC
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
Telephone: (202) 342-0800
Facsimile: (202) 342-0807
Email: dex@smxblaw.com

Jeremy R. Cook, #10325
COHNE KINGHORN, P.C.
111 East Broadway, 11th Floor
Salt Lake City, UT 84111
Telephone: (801) 363-4300
Facsimile: (801) 363-4378
Email: jcook@cohnekinghorn.com
Attorneys for Nucor Steel-Utah

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 REBUTTAL TESTIMONY AND EXHIBIT OF KEVIN C. HIGGINS

The Utah Association of Energy Users, Nucor Steel-Utah, and CIMA ENERGY LTD hereby submit the Prefiled Rebuttal Testimony and Exhibit of Kevin C. Higgins in this docket.

DATED this 31st day of July 2015.

HATCH, JAMES & DODGE

/s/ ________________________
Gary A. Dodge

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 31st day of July 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

Continuum:

James Morin	jmorin@ContinuumES.com

/s/ ___________________________

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Rebuttal Testimony of

KEVIN C. HIGGINS

On behalf of

Utah Association of Energy Users,

Nucor Steel-Utah, and

CIMA ENERGY LTD

Docket No. 14-057-31

July 31, 2015

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kevin C. Higgins. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. Are you the same Kevin C. Higgins who previously testified in this proceeding on behalf of the Utah Association of Energy Users ("UAE"), Nucor Steel-Utah ("Nucor"), and CIMA Energy Ltd ("CIMA")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the direct testimony of Douglas D. Wheelwright, testifying on behalf of the Utah Division of Public Utilities ("DPU") and Jerome D. Mierzwa, testifying on behalf of the Office of Consumer Services ("OCS").

II. RESPONSE TO MR. WHEELWRIGHT

Q. What conclusions and recommendations of Mr. Wheelwright are you responding to in your rebuttal testimony?

A. Mr. Wheelwright states that he agrees with Questar Gas Company ("QGC") that the transportation customers should be paying for the services they are using, but he does not believe that the Company has presented sufficient information at this point to validate the appropriate costs that should be assigned to transportation customers or their method of recovery.

Mr. Wheelwright then goes on to recommend an alternative to the daily imbalance charge proposed by QGC. In lieu of such a charge, Mr. Wheelwright recommends that, after the appropriate costs are identified, they should be recovered through a volumetric charge levied on all Transportation Service ("TS") customers, in effect, socializing the costs across this entire class.

Mr. Wheelwright further recommends that the costs and imbalance calculations should be determined by a task force created to review the supplier-non-gas costs that should be assigned to transportation customers. He suggests that recommendations from the task force or individual parties should be due to the Commission by November 1, 2015, with a request to make the new rate effective January 1, 2016.

Mr. Wheelwright also suggests that the largest forty TS customers could be subject to more stringent monitoring and balancing requirements. He argues that this would not amount to undue discrimination "given the different system impacts of the customers' usage."[1]

Q. What is your response to these conclusions and recommendations?

A. As a threshold matter, I note that that Mr. Wheelwright refers to "TS" customers when I believe he is intending to refer to transportation customers as a whole. TS customers are a subset of transportation customers, which also includes the FT-1 and MT rate schedules. QGC's daily balancing proposal is directed to all three groups of transportation customers: TS, FT-1, and MT, but it appears to exclude special contracts.

[1] Direct testimony of Douglas D. Wheelwright, lines 312-332.

Turning to the substance of Mr. Wheelwright's conclusions and recommendations, I agree with Mr. Wheelwright's assessment that the costs and calculations presented in the QGC testimony are insufficient to validate the charges the Company proposes. To the extent that any such charge is to be imposed on transportation customers as a result of the issues raised in this case, I believe that the calculation presented in my direct testimony is a more reasonable basis for such a charge than the charge calculated by the Company.

As for socializing proposed charges, I am concerned that, to the extent such costs are calculated based on the volume of imbalances, socializing the costs as proposed by Mr. Wheelwright would mute the price signal to the customers (or suppliers) causing the imbalances. At the same time, I concede there may be some administrative simplicity in such an approach. This causes me to conclude that if any new daily imbalance requirements or charges are going to be imposed on transportation customers, they should be offered a choice between a socialized charge as proposed by Mr. Wheelwright, or an option to avoid the socialized cost in exchange for being subject to a daily imbalance regime. I recommend that, if the Commission decides to impose any daily imbalance charge, that it require that such a choice be available.

Q. In your direct testimony you calculated a recommended daily imbalance charge, if one is adopted, of $0.03695/Dth on imbalances in excess of 5%, based on the historical test year proposed by QGC. Have you calculated the charge that would be applicable if the costs are socialized across all transportation volumes?

A. Yes. This calculation is presented in UAE/Nucor/CIMA Exhibit 1.1R. It would result in a charge of $.00713 per Dth on all transportation customer volumes. This charge is not dissimilar from the $.005 per Dth charge levied on all suppliers by Baltimore Gas & Electric, one of the three gas utilities identified by QGC in discovery as levying balancing charges.

Q. Do you have a response to Mr. Wheelwright's proposal to establish a task force?

A. Yes. I believe Mr. Wheelwright's suggestion for further discussions in a task force context could be useful. In addition to addressing appropriate costs, charges and tolerance levels, another critical topic that should be taken up in any such task force is the useful role that gas suppliers can and should play in any daily balancing regime. In my opinion, one of the elements in this proceeding that is frustrating the public interest is QGC's insistence on eliminating any role for gas suppliers in addressing daily balancing issues. Despite the fact that supplier aggregation is the industry norm, the Company has structured its proposal in this docket to impose the daily balancing charge at the individual transportation customer level without acknowledging the critical role that suppliers currently play, and should continue to play, in managing transportation customer gas supplies and imbalances, and without acknowledging the reasonableness of measuring and resolving daily imbalances at the supplier level.

Interestingly, while QGC and its supporters have identified very few utilities that impose daily balancing restrictions, those that have been identified all appear to allow pooling or aggregation of customer nominations for the purpose of managing daily balancing.[2] QGC cannot have it both ways. It should not be permitted to impose the relatively rare requirement of daily balancing for transportation service while simultaneously insisting that there can be no acknowledgment or role for gas suppliers in such a regime.

If the Commission agrees with Mr. Wheelwright that a task force should be created to address the issue of daily balancing requirements and charges, then I strongly recommend that the Commission issue a finding that gas suppliers are integral to the fair implementation of any daily balancing regime and direct the task force to identify reasonable mechanisms by which daily balancing can be implemented at the supplier level.

I suggest that a task force should be (i) assigned specific tasks, including those listed below, (ii) directed by the Division, (iii) given 60-90 days to gather information and attempt to reach compromise; and (iv) required to prepare a report identifying areas of relative consensus, along with a list of issues as to which relative consensus cannot be reached. After the task force report is filed, procedures should be in place to resolve any remaining factual or policy disputes.

I recommend that the task force be assigned to investigate and evaluate at least the following specific issues:

1. Appropriate cost components that should be considered in the calculation of daily imbalance charges;

[2] Southwest Gas, Vectren Energy, and Delmarva Power & Light – the only three utilities identified in this docket that have mandatory daily balancing – each allows customer aggregation for the purpose of daily balancing. National Fuel Gas Distribution Corporation also allows aggregation for the purpose of its optional daily balancing program (discussed later in my testimony).

2. Formulae or mechanisms for calculating an optional socialized per-Dth charge and an optional charge on imbalances in excess of a reasonable daily tolerance level;
3. Timing and mechanisms for periodic adjustments to the daily balancing charges;
4. Reasonable daily balancing tolerance levels;
5. Reasonable daily imbalance procedures and policies; and
6. Reasonable means for utilizing aggregation at the supplier/agent level for imbalance calculations and charges.

In order to provide a mechanism for resolution of any remaining disputes, I suggest that the Commission give parties three to four weeks to file testimony on any remaining issues, with rebuttal testimony due about three weeks later, surrebuttal testimony about two weeks thereafter, followed by a hearing date.

Q. Do you have any response to Mr. Wheelwright's suggestion that the largest forty transportation customers could be subject to more stringent monitoring and balancing requirements?

A. Yes, I am concerned that, Mr. Wheelwright's disclaimer notwithstanding, such an approach would be unduly discriminatory. Mr. Wheelwright notes that although the largest forty customers comprise 80% of the total transportation volume, they represent only 68% of the imbalances outside the 5% tolerance.[3] Thus, taken as a group, the largest forty customers perform *better* than the average with respect to daily imbalances, despite the fact that large customers may sometimes be used by suppliers/agents to balance aggregated portfolios, as acknowledged by Mr. Wheelwright. Indeed, another

[3] Direct testimony of Douglas D. Wheelwright, lines 324-326.

perspective on the information provided by Mr. Wheelwright is that the smaller transportation customers constitute 20% of the volume but are responsible for 32% of the imbalances outside the 5% tolerance – yet somehow the better performing group, the largest customers, would be subject to more stringent monitoring and balancing requirements. On its face, this does not appear to be reasonable and I recommend that the Commission reject this approach.

I realize that in making his suggestion, Mr. Wheelwright is trying to be pragmatic in terms of where daily balancing requirements should be targeted. Unfortunately, however, in seeking to be pragmatic, Mr. Wheelwright appears to have accepted the ground rules that QGC is attempting to dictate, and is focused on assigning the responsibility for daily balancing to individual customers rather than agents or suppliers. A more pragmatic approach would be to include suppliers in the solution, which would eliminate the need for larger transportation customers to be subject to more stringent monitoring and balancing requirements, along with the discriminatory implications of the same.

III. RESPONSE TO MR. MIERZWA

Q. What aspects of Mr. Mierzwa's direct testimony are you responding to in your rebuttal testimony?

A. Mr. Mierzwa supports QGC's proposal and defends it against the criticisms offered by other parties. I respond to several of the assertions Mr. Mierzwa makes in reference to my direct testimony.

Q. Please proceed. Do you find yourself in agreement with any of the points made by Mr. Mierzwa?

A. Yes. Mr. Mierzwa and I are in agreement that the transportation component in the Transportation Imbalance Charge that QGC is attempting to levy does not represent an incremental cost to Questar Gas for accommodating transportation customer imbalances. But whereas I am proposing to remove this cost component from the proposed Transportation Imbalance Charge, Mr. Mierzwa supports its inclusion, and agrees with the assignment of a portion of QGC's fixed transportation costs (purchased on behalf of sales customers) to transportation customers. What both Mr. Mierzwa and the Company overlook in this discussion is that transportation customers are already responsible for covering their own transportation costs on the interstate pipeline. The implication of Mr. Mierzwa's (and the Company's) position is that transportation customers would not only pay for their own interstate pipeline costs, but they would pay for a portion of the fixed costs QGC incurs on the interstate pipeline for sales service, even though there is no evidence that transportation customers are causing incremental transportation costs when there is a daily imbalance. I disagree with this position. I have acknowledged that if a daily imbalance charge is to be levied, it could include a portion of No-Notice and Storage costs, but the assignment of non-incremental transportation costs proposed by QGC is not reasonable.

Q. Do you and Mr. Mierzwa agree on any other points?

A. Yes. In response to my argument that daily imbalance charges are rare, Mr. Mierzwa acknowledges that daily balancing is "less common" than monthly balancing.[4] Mr. Mierzwa goes on to identify two additional utilities that he claims assess daily balancing charges, Delmarva Power & Light Company (located in Delaware) and National Fuel Gas Distribution Corporation ("NFGD") (New York and Pennsylvania).[5] After reviewing the respective tariffs and contacting these two utilities, I agree with Mr. Mierzwa's characterization of Delmarva Power & Light Company; however, I disagree with his characterization of NFGD.

Q. Please explain.

A. The NFGD daily balancing program is *optional*. As explained by NFGD on its website:

> [Daily Metered Transportation Service ("DMT")] is an alternative transportation service realistically suited to only a small group of unbundled customers. It requires telemetering, installed at the customer's expense, to monitor daily deliveries and usage, since imbalances between the two are calculated every day (as opposed to monthly for MMT ("Monthly Metered Transportation Service"). Although less expensive than MMT, DMT requires more work for the customer and leaves less room for error in nominations.

It is worth emphasizing that NFGD describes daily balancing as "realistically suited to only a small group of unbundled customers," while QGC is seeking to impose daily balancing on all 300 of its transportation customers. So there is a clear distinction between the type of mandatory daily balancing regime proposed by QGC and the optional program offered by NFGD.

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[4] Direct testimony of Jerome D. Mierzwa, line 141.
[5] Id., lines 154-160.

Further, Mr. Mierzwa states that over-deliveries in excess of 2% are assessed a charge of 63.51 cents per Mcf for DMT customers, when that is not actually the case. Rather, NFGD keeps a running tally of each DMT's customer's *cumulative* imbalance and updates it on a daily basis. The charge for over-deliveries is levied on the maximum daily-measured imbalance that occurs during the month – not on every Mcf of daily over-delivery in excess of 2% as suggested by Mr. Mierzwa. Thus, NFGD's over-delivery charge for its DMT service is more akin to a monthly balancing charge than a daily balancing charge.[6]

Q. Does Mr. Mierzwa's testimony cause you to alter your view that a mandatory daily balancing regime for transportation customers as proposed by QGC is relatively rare?

A. No. The proponents of QGC's daily balancing proposal in this docket have been able to identify only three utilities in the United States that have mandatory daily balancing requirements – Southwest Gas, Vectren Energy, and Delmarva Power & Light. My own assessment of the Western United States, discussed in my direct testimony, does not add to that list. And, as I discussed above, <u>only QGC's proposal</u> would mandate daily balancing at the customer level without an option for aggregating the daily imbalances at the supplier or pooling level, further substantiating the statement in my direct testimony that QGC's approach appears to be a singularly aggressive outlier.

[6] I further note that I believe Mr. Mierzwa's claim that NFGD levies a $0.29 per Mcf monthly balancing charge is incorrect as no such rate appears in NFGD's tariff.

Q. Mr. Mierzwa disagrees with your adjustment to the Transportation Imbalance Charge in which you recognized the reduction in storage activity that results when transportation customers' imbalances and the imbalances of QGC sales customers move in opposite directions on a given day. Do you wish to respond?

A. Yes. Mr. Mierzwa argues that QGC's approach is consistent with how interstate pipelines assess storage charges to their customers on a daily basis, contending that interstate pipelines do not waive storage injection and withdrawal charges for those customers whose injection or withdrawal activity is in the opposite direction of the activity of the majority of their customers.

My response to Mr. Mierzwa's argument is that QGC is not an interstate pipeline and the interstate pipeline from which QGC takes service is not viewing QGC's sales customers and transportation customers as two different customers. One of QGC's stated objectives in this proceeding is to allocate to transportation customers a share of the storage costs QGC otherwise incurs on behalf of its sales service customers. In performing this allocation, I believe it is reasonable to take into account the extent to which, on average, transportation customer imbalances *reduce* the need for QGC's use of storage to accommodate the imbalances of sales service customers.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.