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** **Surrebuttal Testimony** **Douglas D. Wheelwright** **DPU Exhibit No. 1.0SR**

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

Surrebuttal Testimony of

Douglas D. Wheelwright

August 14, 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: Did you previously file testimony in this case?

A: Yes.

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

A: I will respond to the information provided in rebuttal testimony from Mr. Kelly B. Mendenhall and Mr. William F. Schwarzenbach from Questar Gas Company (Company), Mr. Kevin C. Higgins from Utah Association of Energy Users (UAE), Nucor Steel-Utah, and CIMA ENERGY LTD, Mr. Roger J. Swenson from US Magnesium LLC (US MAG), Mr. Matthew Medura from CIMA Energy Ltd (CIMA) and Mr. Gavin Mangelson from the Office of Consumer Services (Office).

Q: Would you please summarize your understanding of the primary issues and state the Division's position in this case?

A: Yes. The Company has stated that there are two main objectives in this filing. The first is to assign costs to transportation customers for supplier-non-gas services (SNG) they use on the system. The second is to give transportation customers an incentive to more closely match the daily gas nominations with the actual usage at the individual customer level. The Company proposal would allocate approximately $1.7 million in SNG cost to transportation customers. The customers that have elected to use transportation services account for approximately 25% of the total volume on the Questar Gas system.[1]

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[1] Volumes have been calculated from the Questar Gas Results of Operation, December 31, 2010 – December 31, 2014. Transportation volumes for special contracts have been excluded.

The gas nomination process requires the customer or the marketing company to estimate the future usage of gas. With the nomination amounts based on a forecast, it is expected that there will be variation in the actual usage compared to the nominated amount on any given day. Since the actual usage will always differ from the forecast, some degree of tolerance or acceptable variation should be allowed. The intervening parties in this case have presented information to indicate that for the past 20 years marketing companies have not been required to balance the commodity each day at the customer level.

The Company has presented information to show that transportation customers' nominations do not match the actual usage on a daily basis. The inaccurate nomination process requires the Company to utilize no-notice and transportation services in order to balance the system on a daily basis. The Company is concerned not only with the total amount of the imbalance but also the nomination of the gas for the individual customers. The Company would like the individual customer nomination amounts to match the anticipated usage in case there is a curtailment situation and transportation customers are limited to use only the amount of the nomination. If a transportation customer continues to burn additional gas above the individual nomination amount, they would be assessed a penalty however, the additional gas consumed could be coming from the gas supply intended for sales customers.

In summary, the Division agrees with the Company that transportation customers should pay for the services that are being using. The calculated dollar amount of $1.7 million from transportation customers does not appear to be excessive and would be credited to sales customers through the 191 account.

The remaining question is the best way to allocate the $1.7 million cost to the transportation customers, either through a flat volumetric fee or through the calculation proposed by the Company. An important change that should not be overlooked in the discussion is the proposal's change to require daily balancing for all transportation customers in order to improve the nomination process. If the Commission orders a flat volumetric rate on all transportation customers, the Company will collect the $1.7 million for the use of these services and must provide a balancing service for the transportation customers. If the Commission determines that transportation customers should improve the nomination process and balance daily, individual customers (or their agents) will need to be more responsive in monitoring the actual usage and aligning the nominations with the actual usage. The Division's recommended task force will be used to review the costs provided by the Company, look at the changing market conditions and address the various needs of the diverse customers using transportation services.

RESPONSE TO MR. MENDENHALL – QUESTAR GAS

Q: Mr. Mendenhall referred to the $0.06 balancing charge for the Municipal Transportation Class (MT). Have you been able to discover any additional information about this rate calculation and balancing charge for the MT customers?

A: Yes. The Commission approved a $0.06 per Dth rate for MT customers which has been collected for over 15 years and credited to sales customers through the 191 account. The collection of this rate is similar to the collection for services that has been proposed in this Docket.

I went back to the stipulation agreement in Docket No. 98-057-01 to determine the original purpose for this charge. The stipulation agreement states the following;

> For purposes of this Stipulation, Petitioners agree that the balancing charges applicable under Exhibit 1will include a $0.06 Dth charge for all gas volumes transported. As described by QGC witness Alan K. Allred in his July 30, 1999, Direct Testimony and accompanying Exhibit 1.2, ***QGC believes that this charge will recoup its estimate of the MT customers' share of the Company's No-Notice service and a portion of storage services they believe are used to balance the daily variation in loads between the forecasted usage of MT customers and their actual usage.*** The Parties have not reached an agreement that this charge is cost-based or an appropriate charge, except in the limited context of this Stipulation.[2] (Emphasis added)

[2] Report and Order, Docket No. 98-057-01, Attachment No. 1 Stipulation, page 8.

It appears that the intent of this charge for Municipal Transportation customers is similar to the proposed charge for the other Transportation customers in this docket. Both the existing MT rate and the proposed charge are intended to recover the cost associated with the use of no-notice and storage services. The Division agrees with the Company and would support the recommendation to have all transportation customers including the MT customers pay the same fee for the use of these services.

Q: Do you have any information on the MT class?

A: Yes. The historical usage information for the one MT customer is included in the spreadsheet provided as Exhibit 1.3 of Mr. Mendenhall's direct testimony. A review of the information for contract 95 provides a history of the nominations and actual usage of the MT customer and the calculation of the decatherms outside the 5% tolerance.

Q: Are the nominations for the MT customer different or more accurate than the nominations for the other transportation customers?

A: No. The nominations for this customer are similar or slightly worse than other transportation customers with similar annual volume. Since this customer would not be charged both the flat fee currently in the MT Tariff and the proposed charge if approved, I have calculated the impact of the change in rates for this customer. Under the flat $0.06 per Dth rate, the customer would have payed approximately $2,130 from December 1, 2013 through November 30, 2014.[3] If the Company proposed rate had been in place for the same time period the customer would have paid approximately $2,445. A higher rate for this customer may be appropriate since the nominations were not accurate and the customer has been using the balancing services. Under the Company proposed billing, each customer could potentially reduce the amount of the charge with more accurate nominations and staying within the allowed tolerance. The flat fee currently in place for MT customers will collect the charge for the use of these balancing services but does not provide any incentive to improve the accuracy of the nominations.

[3] Direct Testimony of Kelly B. Mendenhall, QGC Exhibit 1.3

Q: Do you agree with Mr. Mendenhall's statement that "the Company's proposal is not related to commodity imbalances; rather it is a charge for upstream transportation balancing services used in a daily basis?"

A: No. The proposed charge is for balancing services but it is directly related to the commodity imbalances. The way the Company calculates the charge is based on the accuracy of the commodity nomination compared to the actual commodity consumed each day. The proposed charge changes the commodity balancing from monthly balancing to a daily balancing requirement in order to improve the nominations at the customer level.

RESPONSE TO MR. SCHWARZENBACH – QUESTAR GAS

Q: Do you agree with that Mr. Schwarzenbach that the proposed change is not burdensome on the TS customer or their agents?

A: No. The proposed change to daily balancing at the individual customer level represents a significant change from the way marketing companies have operated in the past and which Questar has allowed to occur. While the current tariff identifies a ±5% daily tolerance level, transportation customers have been balancing on a monthly basis and marketing companies have expressed concern with the Company's proposed change. It is not difficult to see how managing each individual client to a ±5% tolerance level on a daily basis could cause additional work for the marketing companies.

Q: Mr. Schwarzenbach states that the tariff language is not sufficient to incent customers or their agents to manage the nominations on a daily basis. Do you still feel that "Operational Flow Orders" or OFO's could be used in a more effective way to better manage nominations?

A: Yes. The Company has all of the historical nomination and usage information on each individual customer and each marketing company. The Company has the ability to look at the nomination and usage information from the Memorial Day weekend for example and see if the additional gas brought to the system can be tied back to the over-nomination of a specific contract or a specific marketing company. If a pattern of inaccurate nominations for an individual customer or by a marketing company persists, the problems can be documented and brought to the attention of the customer or agent. If corrective actions are not taken, the tariff allows for the following;

> ***"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."*** [4]

If the incorrect nominations continue and do not improve, the tariff language would allow individual customers or marketing agents to be placed on restriction during holiday weekends or on an as needed basis in order to improve the accuracy of the nominations.

Q: Do you agree that changing the OFO language and removing aggregation are both necessary to resolve this issue?

A: No. Mr. Schwarzenbach has identified a one word change to the tariff that would allow the Company to more quickly implement an OFO when necessary.[5] This appears to be a simple change that could improve the tariff language and could help with one of the operational concerns that has been identified by the Company. The Company is not recommending this change in the tariff unless the Commission approves a flat rate charge for all transportation volumes and removes the aggregation and trading language from the tariff. The requirements for removal of aggregation and trading should not be a prerequisite to a one word change that could reduce one of the operational concerns in the tariff language.

Mr. Kevin Higgins – UAE/Nucor/CIMA

Q: Mr. Higgins states that a flat rate would "mute the price signal to customers (or suppliers causing the imbalances"[6] and suggests that transportation customers should be offered a choice between the "socialized"[7] (flat rate) charge or the daily imbalance charge. Do you agree with his recommendation?

[4] Questar Gas Company, Utah Natural Gas Tariff PSCU 400, 5.09 Daily Imbalances, p. 5-15.
[5] Rebuttal Testimony of William F. Schwarzenbach, page 12, line 299.
[6] Rebuttal Testimony, Kevin C. Higgins, page 3, line 51.
[7] Rebuttal Testimony, Kevin C. Higgins, page 3, line 49.

A: I agree that a flat rate does not encourage customers or marketers to improve the accuracy of the nominations. I do not agree that customers should be allowed to choose between the two options. His recommendation points out the large differences that exist within the broad range of customers using transportation services. A flat rate would be more expensive to the larger volume customers while the daily balancing will be more expensive for the smaller volume customers. Allowing the customers to choose between two options will simply mean that individual customers will choose the lowest cost option based on their individual usage. The recognized need for a choice between the two proposals supports the recommendation for a task force to take a more holistic look at the transportation class in total.

Q. Do you agree with Mr. Higgins list of items that should be addressed by the task force?

A: I agree that the task force should look at the appropriate cost components that should be included, imbalance procedures and policies as well as the timing of periodic adjustments to the balancing charge. I do not agree that there should be an aggregation of the imbalance calculation at the marketing company level. The stated purpose of this docket is to improve the accuracy of the nomination process. That purpose is a valid one and its resolution is in the public interest. Having the ability to trade away the imbalance charge reduces the incentive to improve the nomination process and undermines the docket's valid purpose. I also agree that the task force should address the daily balancing tolerance levels. The Company's approved tariff 5.09 identifies ±5% as the daily imbalance tolerance window however this has not been enforced. There should be discussions on how the imbalance is calculated as well as discussions about the daily allowed tolerance percentage.

Q: Do you agree with Mr. Higgins' suggestion that parties should have additional time to file several rounds of testimony on any remaining unresolved issues?[8]

A: No. As mentioned by the Company and by other parties, many of these issues have been discussed in this and in two previous dockets. I would suggest a short time period for the

[8] Rebuttal Testimony of Kevin C. Higgins, page 6, line 111.

task force with a recommendation or separate comments to the Commission by November 1, 2015 and an effective date of January 1, 2016 for the new rate.

Q: Do you agree that the 40 largest customers perform better than average with respect to the daily imbalances?

A: Yes. My analysis shows that the 40 largest customers represent 80% of the volume but account for only 68% of the imbalance volume outside the 5% tolerance and that the large volume individual customers have the greatest potential to impact the Questar Gas system. For example, in Mr. Mendenhall's Exhibit 1.3, contract 164 individually represents 11.3% of the total transportation volume while contract 189 (used in Mr. Mendenhall's rebuttal example) represents 0.04% of the total volume. A 10% imbalance on contract 164 could have a potential impact on the Company's storage planning while a 10% imbalance for contract 189 may not be noticed at all. Larger customers are also more likely to have more extensive monitoring equipment to track daily usage and would be more likely to make adjustments to the daily nominations.[9]

Q: Do you believe that closely monitoring the largest customers is unduly discriminatory?

A: No. As stated above, the approved tariff allows the Company to impose restrictions on "***a system-wide basis, a nominating-party by nominating-party basis, a customer-by-customer basis."***[10] A customer that uses 9,500 Dth per day and is outside the 5% tolerance band can have a greater impact to the system than a single customer that uses 9 Dth per day. If the nominations for the large use customer are not delivered to the Questar system and the customer continued to use gas intended for sales customers, sales customers could be impacted.

Mr. Matthew Medura – CIMA

[9] Rebuttal Testimony of Roger J. Swenson, page 4, line 68.
[10] Questar Gas Company, Utah Natural Gas Tariff PSCU 400, 5.09 Daily Imbalances, p. 5-15.

Q: Mr. Medura referred to the proposal's low tolerance for the customers using 10 and 20 Dth per day.[11] Do you agree that the proposed tolerance levels will be difficult for the small volume customers to manage and have you been able to verify the impact to these customers?

A: Yes. In the historical information provided in Mr. Mendenhall's Exhibit 1.3 there are 31 customers using less than 10 Dth per day (3,650 Dth annually) and 60 customers using transportation services that have usage of less than 20 Dth per day (7,300 Dth annually). These 60 customers represent 20% of the 300 customers using transportation services. Mr. Medura stated that these customers would have very little if any room for fluctuation between the nomination and actual usage since the process is measured in whole decatherms.

From the information in Exhibit 1.3 and the values outside the tolerance levels, I have been able to calculate the potential cost increase for these customers. For the smallest 31 customers using less than 3,650 Dth annually, the Company proposed rate would add an average of $186 to the annual cost for an estimated increase of 3.53% to the customers commodity and DMG cost. For the 60 customers using less than 7,300 Dth annually, the Company proposed rate would add an average of $265 to the annual cost for an estimated increase of 2.83%. The calculations use the same $2.88 per Dth commodity cost and a $0.34 per Dth Distribution Non-Gas charge used in Mr. Mendenhall's rebuttal testimony.[12]

Mr. Gavin Mangelson – Office of Consumer Services

Q: Do you agree that the Commission must determine a rate now instead of waiting for additional information from a task force in order to result in just and reasonable rates?

A: I'm not sure. This may require a legal opinion and I am not an attorney.

I would suggest that once the Commission is aware of a problem in the current rates, the Commission should gather as much information as practicable to determine just and reasonable rates. If the Commission believes that there is a need for additional information

[11] Rebuttal Testimony of Matthew Medura, page 2, line 37.
[12] Rebuttal Testimony of Kelly B. Mendenhall, page 5, line107.

in order to make a decision, it could ask for additional information to be provided. Another option could be to set an interim rate or establish a pilot program until additional information is collected and provided to the Commission. The Commission is not obligated to immediately set a new rate it is unsure of merely because it has found an existing rate to be unreasonable.

Q: Can you summarize the different pricing methods that have been proposed in this Docket?

A: Yes. There are currently four different proposed ways to allocate a portion of these services and the applicable cost to the transportation class.

1. The MT rate is currently in place and was approved by the Commission in a previous Docket.[13] The approved rate is a flat charge of $0.06/Dth on all transportation volumes. This approved rate, if applied to all transportation volumes, would result in the highest cost to transportation customers. Implementing this charge would allocate approximately $2.8 million in SNG cost to this class and would represent an estimated 1.9% increase for all transportation customers. The 40 largest users, those with volumes over 200,000 Dth annually will be impacted the most under a flat volumetric charge. These customers represent approximately 80% of the total volume and approximately 68% of the volume outside the allowed tolerance. Under a flat charge, the large volume customers would pay 80% of the total charge.

2. The Company proposed calculation first uses a netting process and then looks at the decatherms outside a 5% tolerance for each transportation customer and calculates a rate based on a formula. If the nominations for the individual customer stay within the 5% daily tolerance, that customer could potentially avoid the balancing charge. The proposed change will require more accurate nominations for each individual customer on a daily basis and may be more difficult for the smaller volume customers to manage. Based on the historical data, the proposed change will have a greater

[13] Report and Order, Docket No. 98-057-01.

impact on the smaller volume customers. On average, the proposed change represents an increase of 1.84% in the DNG and commodity cost for the 260 customers using less than 200,000 Dth per year.[14] Smaller volume customers may choose to continue to nominate as they currently do and pay the balancing fee to utilize the no notice services. For the 40 largest customers in this class, the proposed rate represents an average increase of 0.97% in DNG and commodity cost. It is anticipated that the larger volume customers would closely monitor the actual usage and make nomination adjustments in order to avoid paying this additional charge.

The proposed rate may prove to be difficult for customers to build into their individual energy budget since the monthly cost will be unknown in advance. Customers could look at historical usage and estimate the potential cost, but the calculation is difficult for customers to understand and must be provided by the Company. If the nomination accuracy improves in the future, the rate could be reduced for all transportation customers. Since the daily balancing has not been required in the past, it is unknown if the proposed change will modify the behavior and improve the accuracy of future nominations.

3. The third proposal is a flat rate of $0.03675 outlined in my direct testimony and by Mr. Jerome D. Mierzwa from the Office. This proposal will collect the Company's $1.7 million but will allocate the cost to each decatherm used by all TS customers. As mentioned above, the flat rate will collect the cost for the use of these services but will have a greater impact on the large volume customers. A lower flat rate could be used in combination with better use of the existing tariff to restrict individual customers or specific marketing companies that may not adjust their nomination practices. A flat rate charge would not create an incentive for individual customers to balance daily and could incent customers to manage nominations in a way that would

[14] The calculation uses $2.88 per Dth in commodity cost and $0.34 per Dth Distribution Non-Gas charge.

create value to potentially offset the new charge as indicated in Mr. Swenson's rebuttal testimony.[15]

One possible advantage to a flat rate may be the ability for customers to more accurately predict and budget for this additional cost for planning purposes. A flat per decatherm charge for balancing services has been used by other LDCs for transportation customers.[16]

4. The fourth proposal was presented by Mr. Higgins and excludes transportation and fuel gas reimbursement cost from the calculation along with other adjustments to reduce the volume of the decatherm imbalance. The Higgins proposal would charge a rate of $0.03695/Dth in excess of the 5% tolerance limit or a flat rate of $0.00713/Dth on all transportation customer volumes. This proposal would collect approximately $337,275 or 19.4% of the $1.7 million amount requested by the Company.

The proposed flat rate of $0.00713/Dth would be significantly below the current rate of $0.06/Dth approved for the MT Rate. Under Mr. Higgins' proposed rates, MT Contract 95 would pay and estimated $253 per year[17] for balancing services compared to $2,130 per year[18] under the current $0.06/Dth MT tariff charge.

Q: The Company and the Office do not believe that a working group is necessary and would cause additional delays. Do you still believe that a working group is necessary?

A: Yes. With the current market price of natural gas below the cost of service gas produced by Wexpro, there will continue to be an economic incentive for customers to explore moving from the sales class to the transportation class. If additional sales customers move to the TS class there could be a potential impact to the Company and other customers. The switch from sales to transportation service customers has been identified by the Company as a concern and is listed in the current SEC 10-Q filing as one of the inherent business risks.

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[15] Roger J. Swenson, Rebuttal Testimony, page 2, line 38.
[16] Direct Testimony of Kevin C. Higgins, UAE Exhibit 1.1
[17] $0.00713 X 35,494 Dth = $253.07
[18] $0.06 X 35,494 Dth = $2,129.64

The Division believes that it is the public interest for parties to continue to work together to address the changing market conditions and the changes that have occurred within the TS class in recent years.

As mentioned by Mr. Mendenhall and other parties, this is the third docket that has addressed issues relating to the gas nominations for transportation customers and the operational concerns of the Company. The issues relating to individual transportation customer nominations and marketing company practices continue to be an area of disagreement between the parties and I believe require continued discussion and refinement.

Q: Can you summarize your recommendation for this docket?

A: Yes. The Company has stated that there are two main objectives in this filing. The first is to assign costs to transportation customers for supplier-non-gas (SNG) services they use on the system and the second is to give customers an incentive to more closely match the daily gas nominations with the actual usage at the individual customer level.

The Division agrees with the Company that transportation customers should pay for the services that are being using. The calculated dollar amount of $1.7 million from transportation customers does not appear to be excessive and would be credited to sales customers through the 191 account.

The primary question remaining is the best way to allocate the $1.7 million cost to the transportation customers through a flat volumetric fee, through the calculation proposed by the Company, or some other method. The Company proposed change will require daily balancing of the nominations and usage for each transportation customer in an effort to improve the nomination process. If the Commission determines that each transportation customer should improve the nomination process and balance daily, individual customers will need to be more responsive in monitoring the actual usage and communicating with marketing companies in order to align the nominations with the actual usage. If the Commission orders a flat volumetric rate on all transportation customers, the Company will collect a fee for the use of these services and must provide balancing services for the transportation customers. The future task force will be used to review the costs provided by the Company, look at the changing market conditions and address the various needs of the diverse customers using transportation services.

Q: Does this conclude your testimony?

A: Yes.