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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
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PREFILED SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS

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

DATED this 14st day of August 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 14th Day of August 2015 on the following:

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/s/ _____

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Surrebuttal 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

August 14, 2015

1 **I. INTRODUCTION**

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

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

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

8 A. Yes, I am.

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. My surrebuttal testimony responds to the rebuttal testimonies of Questar Gar
11 Company (“QGC”) witnesses Kelly B. Mendenhall and William F. Schwarzenbach.

12
13 **II. RESPONSE TO MESSRS. MENDENHALL AND SCHWARZENBACH**

14 **Q. Have you reviewed the rebuttal testimonies of Messrs. Mendenhall and**
15 **Schwarzenbach?**

16 A. Yes, I have.

17 **Q. How did Mr. Mendenhall respond to your testimony regarding daily and monthly**
18 **balancing requirements?**

19 A. Mr. Mendenhall states that I have confused the issues of monthly gas commodity
20 balancing with the daily balancing requirements proposed by QGC.¹ He further argues

¹ Rebuttal testimony of Kelly B. Mendenhall, lines 38-36.

21 that QGC's proposed daily transportation imbalance charge is not unique in the industry,
22 in response to my assertion that it is relatively rare.²

23 **Q. What is your response to Mr. Mendenhall on these points?**

24 A. I reject as purely gratuitous Mr. Mendenhall's statement that I have confused
25 monthly gas commodity balancing with the daily balancing requirements proposed by
26 QGC. There is no such confusion in my testimony. My direct testimony clearly
27 articulates that QGC's stated objective in proposing a daily balancing charge is to recover
28 costs that the Company alleges are incurred for transportation customers and to create an
29 incentive to better match daily nominations and usage, as distinct from commodity
30 balancing. But my direct testimony also does question the reasonableness of measuring
31 daily imbalances using a test year that solely reflects the *monthly* balancing regime that is
32 currently in place.³ There is no confusion in this argument between the concepts of
33 monthly gas commodity balancing and the daily balancing as proposed by QGC, and I
34 stand by my statement.

35 Moreover, I stand by my statement that monthly balancing – not daily balancing –
36 is the standard applied across the country for retail transportation service.⁴ Mr.
37 Mendenhall relies on the direct testimony of Jerome D. Mierzwa of the Office of
38 Consumer Services to rebut my claim that QGC's proposal for daily balancing
39 requirements is relatively rare.⁵ However, as I noted in my rebuttal testimony, Mr.

² Id., lines 74-79.

³ Lines 167-178.

⁴ Lines 160-161.

⁵ Rebuttal testimony of Kelly Mendenhall, lines 74-77.

40 Mierzwa in fact adds very little to the inventory of utilities that impose such a
41 requirement.⁶ Further, as I noted in my rebuttal, *not one utility* has been identified in this
42 docket that both imposes a daily balancing requirement *and* refuses to allow an option for
43 aggregating the daily imbalances at the supplier or pooling level, as QGC has proposed.
44 Thus, I stand by my characterization that QGC's proposed treatment is a singularly
45 aggressive outlier.

46 **Q. Does Mr. Mendenhall take issue with your depiction of the percentage increase to**
47 **TS/FT-1 rates that would result from implementation of the Company's proposal?**

48 A. Yes, Mr. Mendenhall argues that commodity costs should be included in the
49 impact calculation, which reduces the depicted percentage increase.⁷ I disagree.
50 Including commodity costs in the rate impact calculation is a preferred presentation
51 format for gas utilities because it waters down the perceived impact of their proposed rate
52 increases. However, transportation customers do not purchase their gas from QGC and
53 the gas commodity cost is not part of their QGC revenue requirement. The relevant
54 metric for interpreting the proposed revenue increase is to present it as a share of the
55 transportation service revenue requirement, which is the entirety of the service that
56 transportation customers acquire from QGC. The correct measure of the rate increase

⁶As I noted in my direct testimony, QGC could only identify two utilities (Southwest Gas and Vectren Energy) that require daily balancing for gas transportation customers. Mr. Mierzwa adds only one other utility to this list, Delmarva Power and Light (Delaware). Mr. Mierzwa also discusses National Fuel Gas Distribution Corporation, but daily balancing is an optional, not mandatory, feature for this utility. The other utilities identified by Mr. Mierzwa have *monthly* charges for balancing, as distinct from a daily imbalance charge proposed by QGC.

⁷ Rebuttal testimony of Kelly Mendenhall, lines 101-111.

57 that would result from the Transportation Imbalance Charge proposed by QGC is 11.6%,
58 as I identified in my direct testimony.

59 **Q. How does Mr. Mendenhall respond to your recommendation to remove the**
60 **transportation cost component (\$0.17652/Dth) and its associated fuel cost from the**
61 **calculation of the proposed Transportation Imbalance Charge because no**
62 **incremental transportation cost is actually incurred by QGC as a result of**
63 **transportation customer daily imbalances?**

64 A. Mr. Mendenhall acknowledges that over-deliveries do not typically result in
65 physical backhauls on QGC's system, and that over- and under-deliveries result in
66 automatic adjustments to QGC's nominations – adjustments made possible because of
67 QGC's No-Notice Transportation ("NNT") and storage rights – rather than causing
68 incremental transportation costs.⁸ These acknowledgments support my contention that,
69 at most, transportation customers should be allocated a reasonable portion of QGC's
70 NNT and storage costs, but not any portion of QGC's firm transportation costs.

71 While Mr. Mendenhall acknowledges that the transportation costs at issue are
72 fixed and not incremental, he nevertheless argues that a portion of these fixed
73 transportation costs should be assigned to transportation customers at the rate of
74 \$0.17652/Dth for every dekatherm of net transportation daily imbalance (plus fuel cost),
75 whether positive or negative.⁹ I continue to believe the inclusion of these alleged costs

⁸ Id. lines 192-215.

⁹ Mr. Mendenhall truncates this rate to \$0.17/Dth in his rebuttal testimony. Note that under QGC's proposal, costs are assigned to transportation customers for every dekatherm of daily net imbalances but are recovered only from daily imbalances in excess of 5%.

76 in any Transportation Imbalance Charge is unreasonable. Transportation customers
77 already pay for their own transportation on upstream pipelines, including transportation
78 usage caused by nomination imbalances. As no incremental transportation costs are
79 being incurred by QGC on behalf of transportation customers, it is unreasonable to also
80 assign to transportation customers a portion of the fixed transportation costs incurred by
81 QGC on behalf of sales service customers. It is particularly unreasonable to include
82 these charges (plus fuel) in both directions, i.e., for both positive imbalances (when less
83 transportation service is being utilized by QGC) and negative imbalances. Rather, the
84 cost basis for any daily Transportation Imbalance Charge should be limited to the NNT
85 and storage costs, which, unlike transportation service, are the specialty products that
86 transportation customers are not purchasing today.

87 **Q. How does Mr. Mendenhall respond to your proposal to exclude imbalances that are**
88 **within 5% of the aggregate transportation usage on a given day for the purpose of**
89 **identifying the cost of the total daily transportation imbalance?**

90 A. Mr. Mendenhall opposes this adjustment and argues that the QGC system does
91 not have sufficient line pack to manage supply swings from the large transportation
92 customers.¹⁰

93 **Q. What is your response to Mr. Mendenhall on this point?**

94 A. I continue to believe that if daily balancing is mandated it is reasonable to define
95 any daily imbalance cost that is subject to the new charge in a manner that is aligned with

¹⁰ Rebuttal testimony of Kelly B. Mendenhall, lines 268-270.

96 the performance that is expected of transportation customers. The 5% exclusion I
97 proposed is consistent with the 5% performance tolerance proposed by QGC. If the
98 definition of the imbalance cost and the tolerance level diverge, as occurs under QGC's
99 proposal, it gives rise to the potential rate instability pointed out by US Magnesium
100 witness Roger Swenson, which Mr. Mendenhall attempts to address, rather
101 unconvincingly, in his rebuttal testimony.¹¹

102 With respect to line pack, both Mr. Mendenhall and Mr. Schwarzenbach argue
103 that QGC's line pack capability is less than 5%, but they fail to offer any evidence as to
104 what available line pack actually exists. Implicitly, QGC's rate proposal treats QGC's
105 line pack capability as if it were 0%, which seems implausible. Moreover, the Questar
106 Pipeline tariff includes a 5% daily imbalance tolerance. In any case, I believe the 5%
107 exclusion is warranted for the purpose of aligning the daily imbalance cost that is subject
108 to the new charge with the performance that is expected of transportation customers, as I
109 stated above.

110 **Q. How does Mr. Mendenhall respond to your recommendation that sales and**
111 **transportation volumes should be netted against each other on days that they are**
112 **moving in opposite directions?**

113 A. Mr. Mendenhall states that QGC's calculation is consistent with how charges are
114 assessed to customers for these services on the upstream pipeline, wherein customers are

¹¹ See rebuttal testimony of Kelly Mendenhall, lines 334-351 and direct testimony of Roger Swenson, lines 58-70.

115 charged for injections or withdrawals, regardless of whether overall transactions net out
116 and result in no physical injections at Clay Basin.

117 My response to Mr. Mendenhall on this point is the same as my response to Mr.
118 Mierzwa in my rebuttal testimony. QGC is not an interstate pipeline and the interstate
119 pipeline from which QGC takes service is not viewing QGC's sales customers and
120 transportation customers as two different customers. One of QGC's stated objectives in
121 this proceeding is to allocate to transportation customers a share of the storage costs QGC
122 otherwise incurs on behalf of its sales service customers. In performing this allocation, I
123 believe it is reasonable to take into account the extent to which, on average,
124 transportation customer imbalances reduce the need for QGC's use of storage to
125 accommodate the imbalances of sales service customers.

126 **Q. Does this conclude your surrebuttal testimony?**

127 A. Yes, it does.