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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Formal Complaint Against Questar Gas Company Regarding Nomination Procedures and Practices for Transportation Service Customers</p>	<p>Docket No. 14-057-19</p> <p>PREFILED DIRECT TESTIMONY OF JEFF J. FISHMAN</p>
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The Complainants in this docket hereby submit the Prefiled Direct Testimony of Jeff J. Fishman of Energy Strategies, LLC and the Utah Association of Energy Users.

DATED this 7th day of August 2014.

HATCH, JAMES & DODGE

/s/ _____
Gary A. Dodge
Attorneys for Complainants

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 7th day of August 2014 on the following:

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/s/ _____

BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Jeff Fishman

On behalf of Complainants

Docket No. 14-057-19

August 7, 2014

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
6 **QUALIFICATIONS.**

7 A. I have over thirty years of experience in the natural gas industry. I have worked for
8 or managed companies involved in gas gathering and transportation and gas
9 marketing services, and provided consulting services to gas producers and
10 industrial and utility consumers. A more detailed description of my experience and
11 qualifications is attached.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. My testimony addresses potential consequences of nomination procedures
14 implemented by Questar Gas Company (“Questar”) in its Transportation Service
15 (“TS”) Rate Schedule effective July 1, 2014 that I fear will negatively impact
16 commercial and industrial natural gas consumers in Utah.

17 **Q. FOR WHOM DO YOU WORK AND ON WHOSE BEHALF ARE YOU**
18 **TESTIFYING?**

19 A. I am the Director of Gas Services in the consulting firm of Energy Strategies,
20 LLC. In my capacity as Director of Gas Services, I am responsible for managing
21 certain natural gas-related needs of the firm’s clients, including gas supply
22 management, gas market development, risk management services, and project

23 development support. In this proceeding I am testifying on behalf of the Utah
24 Association of Energy Users (UAE), certain members of which are commercial
25 and industrial natural gas consumers, including some of the Complainants in this
26 Docket.

27 **Q. WHY IS UAE INTERESTED IN THIS DOCKET?**

28 A. Many members of UAE contract with Questar for natural gas delivery services
29 under the TS Rate Schedule. For many commercial and industrial natural gas
30 consumers, acquiring and managing natural gas supplies independent of the local
31 distribution company can offer a greater degree of control over critical energy
32 costs.

33 **Q. WHAT IS THE FOUNDATION OF YOUR COMPLAINT?**

34 A. On July 1, 2014, Questar changed the fundamental structure of the nomination
35 procedure that had been in place for many years and eliminated the pooling of gas
36 supplies at the citygate, replacing it with the requirement to nominate gas supplies
37 for delivery on a “point-to-point” basis (nominating a specific supply to a specific
38 TS customer).

39 **Q. WHY IS THIS CHANGE TO THE NOMINATION PROCESS OF**
40 **CONCERN?**

41 A. The potential impacts of this new nomination procedure will likely include
42 increased risk of supply disruption, increased likelihood of imbalance penalties
43 imposed on consumers, and a reduction of competitive supplies of natural gas
44 independent of Questar’s Sales Service. This circumstance is of vital concern to

45 the commercial and industrial consumers paying for TS service and undertaking
46 the effort to reduce their energy costs in a competitive environment.

47 **Q. WHY DO YOU BELIEVE THAT THOSE POTENTIAL PROBLEMS**
48 **WILL RESULT?**

49 A. Many members of UAE rely on independent natural gas suppliers and marketing
50 companies to serve their natural gas supply requirements under the TS Rate
51 Schedule. A significant number of those marketing companies active on the
52 Questar system serving TS consumers have joined as Complainants in this Docket
53 and have identified potential consequences. For example, in the Direct Testimony
54 of Matthew Medura of CIMA ENERGY LTD, which is the supplier for several
55 UAE members, Mr. Medura warns that elimination of the pooling service
56 previously offered by Questar and the change to point-to-point nominations will
57 increase the risk of supply disruptions to customers. Mr. Medura further warns
58 that supply disruptions for specific customers can cause severe imbalance
59 situations and harsh imbalance penalties, especially during Operational Flow
60 Order periods by Questar. He also warns that third party suppliers may chose not
61 to do business at the citygate given the increased administrative activity needed to
62 make nominations and multi-cycle changes to multiple downstream contracts
63 rather than to a single pool, decreasing market liquidity and increasing costs for
64 TS customers. These likely consequences are unreasonable and unnecessary.

65 Requiring that each TS customer's delivered gas supply be tied directly to
66 a supply point unnecessarily exposes Utah businesses and industries to the

67 considerable risks of a specific supply point, including risks of supply disruption,
68 interstate pipeline maintenance, curtailments, adjustments and balancing
69 penalties. There should not be any procedural restrictions placed on a supplier's
70 ability to source gas supplies from alternative locations to satisfy a given
71 consumer demand.

72 **Q. PLEASE DESCRIBE IN MORE DETAIL SOME OF THE POTENTIAL**
73 **PROBLEMS WITH THE POINT-TO-POINT NOMINATION**
74 **PROCEDURE.**

75 A. First, let me speak to the increased risk of supply disruption. The Questar point-
76 to-point nomination procedure extends the TS customer's supply risk to the
77 reliability of an individual supply source instead of a supplier pool with a
78 negotiated priority of service from that pool. Point-to-point nominations expose
79 TS customers to regional supply risks beyond the Questar service territory. In this
80 circumstance, industrial customers cannot balance supply usage without re-
81 allocating upstream pipeline deliveries. Such supply disruptions may be the result
82 of a maintenance issue on upstream pipelines or other force majeure situations.

83 **Q. WHAT ARE THE POTENTIAL IMPACTS OF SUCH SUPPLY**
84 **DISRUPTION?**

85 A. The most significant problem resulting from a supply disruption is the
86 interruption of deliveries of gas by Questar to a TS customer. In this
87 circumstance, a natural gas consumer may be unable to operate its business. In

88 addition, this nomination procedure exposes the TS customer to a greater risk of
89 imbalance penalties imposed by Questar.

90 **Q. WHY DOES THIS INCREASE THE POSSIBILITY OF IMBALANCE**
91 **PENALTIES?**

92 A. Pooling allows suppliers to utilize multiple supply resources deliverable to the
93 citygate to expressly insulate TS customers from a specific source supply
94 disruption. The ability to allocate supply disruptions within a supply pool reduces
95 the impact of imbalances and potential penalties. Eliminating a supplier's ability
96 to provide curtailment allocations within a supply pool in the event of a supply
97 disruption, and forcing a delivery curtailment on a specific customer through the
98 nomination procedure, can cause severe imbalance situations that may result in
99 significant imbalance penalties during Operational Flow Order periods. Point-to-
100 point nominations limit the opportunities to mitigate the imbalance through the
101 allocation of reduced supplies within a pool.

102 **Q. HOW CAN THIS NOMINATION PROCEDURE RESULT IN REDUCED**
103 **COMPETITION?**

104 A. The point-to-point nomination procedure may require adjusting nominations
105 among multiple supply sources and multiple customers four or more times a day,
106 365 days a year. This nomination procedure introduces operational restrictions on
107 gas suppliers and increased operating costs, resulting in an additional hurdle to
108 fully access gas market opportunities that can be made competitively available to
109 Utah businesses. If these supply and nomination restrictions ultimately act to

110 reduce supplier participation in the Utah natural gas marketplace, that may act to
111 decrease natural gas supply competition and increase the costs to the Utah TS
112 consumers.

113 **Q. HOW WILL THAT INCREASE THE COSTS TO THE TS CUSTOMER?**

114 A. Regional natural gas suppliers will increasingly consider the alternatives of
115 utilizing their available gas supply resources and pipeline transportation capacity
116 to serve markets on a single daily nomination versus the complex nature of the
117 point-to-point nomination procedure recently introduced by Questar. The ease of
118 operations in a competitive natural gas marketplace would favor the market with
119 reduced operational needs. If these supply and nomination restrictions act to
120 increase the costs to the suppliers to serve the TS customers, those costs will
121 likely be passed on to the consumer. Alternatively, the supplier will simply
122 choose to do business in easier, less operationally costly markets.

123 **Q. DOESN'T THIS INCREASE MARKET TRANSPARENCY?**

124 A. Questar has touted the advantages of "market transparency" as a positive outcome
125 from the point-to-point nomination procedure. None of the customers I represent
126 has complained of the lack of upstream supplier transparency. In fact, my
127 customers prefer to shift the burdens and risks of upstream resources to the
128 marketers. The so-called market transparency touted by Questar can also act to
129 provide disclosures that may breach an individual TS customer's confidentiality
130 desires. Moreover, the nature of required disclosures by the supplier of its supply
131 sources in the nomination procedure can be considered contrary to their

132 competitive position in the marketplace, further reducing their interest in serving
133 this market.

134 **Q. HOW MIGHT THIS REDUCE MARKET PARTICIPATION BY**
135 **POTENTIAL SUPPLIERS?**

136 A. If the operational requirements of a supplier to manage multiple point-to-point
137 nominations and balancing through multiple daily nomination cycles become too
138 onerous or costly, the supplier may seek other interstate pipeline accessible
139 markets, or markets or companies that have the ability to acquire gas supplies into
140 a pool, notably Questar itself.

141 **Q. ARE THERE OTHER PROBLEMS THAT YOU SEE WITH THE POINT-**
142 **TO-POINT NOMINATION PROCEDURE?**

143 A. In evaluating prospective natural gas suppliers, many TS customers place
144 considerable emphasis on the supplier's diversity of gas production sources as a
145 foundation to determine supply reliability. The point-to-point nomination
146 procedure greatly diminishes that service distinction with its attendant flexibility
147 and security.

148 **Q. QUESTAR CLAIMS THAT THE REQUIREMENT FOR ELECTRONIC**
149 **CONFIRMATIONS, AS WELL AS QUESTAR'S EXPERIENCE DURING**
150 **THE DECEMBER 5, 2013 CURTAILMENTS, SUPPORTS ITS DECISION**
151 **TO ELIMINATE GAS POOLING SERVICES. HOW DO YOU**
152 **RESPOND?**

153 A. My understanding from several gas suppliers is that electronic confirmations and
154 gas pooling services are not mutually inconsistent and, indeed, are common in the
155 industry. With respect to the December 5, 2013 curtailments, it should be
156 remembered that similar curtailments had not occurred on Questar in recent
157 memory, and also that Questar has admitted that its contact information and
158 processes for notifying customers in the event of curtailments were “rusty.” The
159 possibility of infrequent curtailments, and Questar’s inadequate preparation for
160 curtailments, do not justify the radical changes imposed by Questar or the
161 attendant risk of unreasonable consequences on Utah businesses.

162 UAE is eager to work with Questar to implement all procedures necessary
163 to better prepare Questar and its TS customers for future curtailments. Indeed, we
164 thought that such issues would be the types of issues discussed and resolved in the
165 working group context. UAE remains willing to work through all such issues in a
166 good-faith collaborative manner, and requests only that Questar be required to
167 treat its TS customers similarly in a fair and good faith manner.

168 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

169 A. Questar should be required to reinstate gas supply pooling services that have long
170 been available to TS customers at the Questar citygate receipt points. This may
171 include the creation of formal pooling arrangements to accommodate the needs of
172 all parties, including supplier delivery prioritization within supply pools. The
173 nomination procedure should include the allocation of nominations in a supplier
174 designated priority sequence and quantity or percentage in the event of a supply

175 disruption, and allow midday adjustments to supply pools if achievable within the
176 nominations schedule. In the absence of a supplier specified allocation, Questar
177 should be directed to reduce deliveries from the supply pool on a pro-rata basis.

178 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND**
179 **RECOMMENDATIONS.**

180 A. Pooling increases supply security and reliability as the direct result of accessing
181 multiple supply sources, reducing the potential disruption of deliveries in the
182 circumstance of a specific supply source disruption.

183 Access to a competitive and reliable gas supply and transportation pool
184 provides consumers with advantages including daily demand balancing and
185 imbalance trading to limit economic penalties. Depending on competitive market
186 conditions and contractual terms of service, these penalties may fall on either the
187 supplier or the consumer, but ultimately are passed on to the consumer.

188 Questar's recent insistence of point-to-point nominations as the only
189 option increases the potential for supply disruption, imbalance penalties, contract
190 penalties, and Operational Flow Order restrictions for each TS customer.

191 The Questar nomination procedure should provide for supply pooling to
192 insulate Utah TS customers from single supply point risks and market disruptions.
193 Gas supply pooling allows gas suppliers to manage and disperse potential market
194 impacts across multiple customers in order to reduce costs, increase reliability and
195 reduce imbalance penalties.

196 As the operator of the interconnections with upstream pipelines, Questar
197 has the role of confirming nominations at the citygate and is responsible for
198 delivery of gas supplies received at the citygate to consumers with transportation
199 service. Questar has indicated that managing delivery allocations in the event of a
200 supply reduction is “difficult.” TS customers are paying for a service, and that
201 service can certainly accommodate a citygate supply pool nomination procedure.
202 The "burden" on Questar in notifying a broad group of TS customers in the event
203 of a curtailment could be greatly reduced if handled through electronic means and
204 notifications to the TS customer’s (supplier) agent.

205 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

206 **A. Yes.**

Education

- *B.S. Chemical Engineering, Carnegie-Mellon University*
- *B.S. Engineering and Public Affairs, Carnegie-Mellon University*

Expertise

- *Development and implementation of natural gas supply and market strategies*
- *Contract development and negotiation for natural gas related transactions*
- *Energy business valuation, M&A support*

Recent Selected Projects

- *Consultant to energy industry clients, including natural gas producers, electric and gas utilities, and industrial end-users*
- *Developed comprehensive Gas Price Risk Management Service for industrial, municipal, and utility gas consumers*
- *Represented natural gas industry intervenors providing expert witness testimony in PUC docket addressing utility Emissions Reductions Plan*

Director, Gas Services



In October, 2009, Jeff Fishman joined Energy Strategies as the Director of our Natural Gas practice area. He has over 32 years of experience in natural gas services and facilities. His work at Energy Strategies is focused on client natural gas supply and market strategies and implementation.

Mr. Fishman currently manages the natural gas supply requirements of a consortium of industrial and municipal gas consumers. He also directs the Energy Strategies Gas Price Risk Management Service for industrial, municipal, and utility gas consumers.

Prior to joining Energy Strategies, Mr. Fishman co-founded and directed Peak Energy, Inc., a consulting firm providing energy market and corporate development activities to a range of energy industry clients. Prior to establishing Peak, he founded and led the executive management team of Grand Valley Gas Company, an active participant in the creation and development of the deregulated natural gas market in North America.

Grand Valley, a publicly owned and traded company, grew from a start-up operation to one of the premier gas industry service companies operating in western North America. Mr. Fishman was actively involved in the natural gas marketplace and responsible for company management, growth, and profitability. He orchestrated and facilitated a series of corporate combinations within the natural gas services and facilities business which ultimately resulted in the western regional operations of Duke Energy.

Mr. Fishman started his energy career at Northwest Pipeline Corporation, where he directed the development and implementation of an unregulated natural gas gathering and processing business. His natural gas pipeline experience started with a focus on non-traditional gas supply projects management, including the development phases of a \$500 million gas treatment facility.

Prior to his affiliation with the energy industry Mr. Fishman performed project engineering and cost and scheduling functions in chemicals and metals processing and power generation, employed by both industry and contractor companies.