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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

**In the Matter of the Formal Complaint
Against Questar Gas Company Regarding
Nomination Procedures and Practices for
Transportation Service Customers**

Docket No. 14-057-19

**PREFILED DIRECT TESTIMONY
OF MICHAEL PANNER**

The Complainants in this docket hereby submit the Prefiled Direct Testimony of Michael Panner of CIMA ENERGY LLC.

DATED this 7th day of August 2014.

HATCH, JAMES & DODGE

/s/ _____

Gary A. Dodge
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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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Complainants Exhibit 5.0
Direct Testimony of Michael Pannier
UPSC Docket 14-057-19

BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Michael Pannier

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 Michael Pannier. My business address is 1120 West 122nd Ave Suite 300,
4 Westminster, Colorado, 80234

5 Q. By whom are you employed and what is your function?

6 A. I am employed by CIMA ENERGY LTD (“CIMA”) and I am a Marketing and Scheduling
7 Representative, Western Division.

8 Q. What are your qualifications for testifying in this proceeding?

9 A. I have been employed by CIMA as a natural gas scheduler and marketing representative for the
10 past three and a half years. My primary areas of responsibility include the daily scheduling and
11 marketing of physical natural gas on many of the pipelines in the Western United States and in
12 Canada. As it pertains to the issue at hand, one of my primary responsibilities over the past few
13 years at CIMA has been managing the purchasing, scheduling, nominating and balancing of
14 physical natural gas for our multitude of Utah business and institutions who are TS customers
15 on Questar Gas' system.

PURPOSE AND RECOMMENDATIONS

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to explain my company's objections to Questar Gas Company's
19 ("Questar Gas") termination of pooling services that had been informally provided and were a
20 common practice on its system for a number of years. In addition, by abandoning cooperative
21 efforts in Nomination and Scheduling Working Groups, Questar Gas has made it apparent that it
22 is utilizing Questar Pipeline's July 1st requirement for "point-to-point" nominations as a way to
23 end discussions about Questar Gas' continued provision of such pooling services, thus giving

24 Questar affiliates a competitive advantage against marketing companies like CIMA and others.

25 This adds unnecessary risks and costs to gas suppliers and customers in Utah.

26 My testimony will explain the costs and risks to Utah businesses that contract with
27 CIMA and others for gas supplies while utilizing Questar Gas' TS tariff for delivery of
28 suppliers. It will also explain why we believe that Questar Gas can easily and feasibly create a
29 formal pooling arrangement on its system, while still abiding by Questar Pipeline's July 1st
30 point to point requirements.

31 I will also discuss how pooling arrangements like the type we are requesting are
32 common practice for many pipelines and local distribution companies ("LDC's") across the
33 United States. All in all, the creation of a formal pool for companies who do business on QGC's
34 system will be mutually beneficial to all in that it solves Questar Pipeline Company's point to
35 point nomination concerns, marketing groups' confidentiality concerns and customers' concerns
36 over increased costs and risks.

37 **Q. Would you please explain in more detail why you believe the elimination by Questar Gas
38 of a pooling service that had been offered for years, unless replaced by another pooling
39 arrangement, will cause additional and unnecessary costs, risks and concerns for gas
40 suppliers and transportation customers in Utah?**

41 A. Yes, the elimination of the pooling service and the change to "point-to-point" nominations as
42 the sole option will increase the risk of supply disruptions to specific customers, rather than
43 spreading that risk among a group of customers via supplier ranking of supply curtailments
44 among its customers. Supply disruptions will now be aimed at a specific customer and can
45 cause severe imbalance situations that may result in harsh imbalance penalties during
46 Operational Flow Order periods ("OFO's") issued by Questar Gas. Further, the duplicative

47 nature of the point-to-point nomination procedure on both the upstream and downstream side of
48 the citygate will increase the potential for error in making multiple cycle changes to
49 nominations during OFO's, as companies like CIMA try to stay within the tolerance mandated
50 by Questar Gas. Ultimately this increases imbalance penalty risk to TS customers.

51 Another consequence of the point-to-point requirement is that third party suppliers to
52 marketers and TS customers at the citygate will have less incentive to do business at the citygate
53 given the increased administrative burden of making nominations and multi-cycle changes to
54 multiple downstream contracts rather than to a single pool. Simply stated, many marketers may
55 well choose to sell their supplies elsewhere to avoid these burdens. This will decrease market
56 liquidity for TS customers in Utah and will likely increase the cost of gas delivered at the
57 citygate.

58 In addition, the elimination of pooling removes the "masking" of TS customer
59 downstream contracts from third party suppliers and, in my view, violates the confidentiality of
60 commodity purchase and sales agreements between TS customers and their marketers required
61 by NAESB gas supply contracts.

62 I believe the elimination of pooling services for TS customers gives QGC an unfair
63 competitive advantage and unfairly discriminates against TS customers and marketing
64 companies like CIMA. Similarly situated companies who elect to purchase natural gas directly
65 from Questar Gas will not face the consequences described above. To my knowledge and
66 understanding, Questar Gas does not make direct point-to-point nominations on Questar
67 Pipeline for each of its gas sales customers, but rather effectively pools gas supplies for these
68 customers at its citygate using its own Questar Pipeline Transportation agreement #241. If

69 Questar Gas has the ability to “informally” pool its gas using this contract, a level playing field
70 should be offered to other TS customers and marketing companies like ours.

71 Q. What are you asking the Commission to do in order to remedy the concerns you have
72 expressed?

73 A. CIMA respectfully asks the Commission to require QGC to offer CIMA a single contract,
74 downstream of Questar Pipeline at the Questar City Gate. This Questar Gas Pool Contract will
75 be unique to CIMA (other marketers who choose to set up a similar service will likewise have a
76 unique pooling contract). In my professional opinion, a pooling agreement will solve every
77 concern discussed above. It will abide by Questar Pipeline's electronic point-to-point
78 requirements as all supply points will be nominated to one pool contract that is specific to each
79 entity (i.e. CIMA). On the downstream side of this pool contract, the gas will be nominated to
80 specific end use customers using their individual customer contracts. Any supply disruptions
81 will be easily tracked to an individual company's pool agreement and then followed through to
82 TS customers via rankings. If Questar Pipeline or Questar Gas face any issues or concerns, they
83 will immediately know who to contact based on where the affected supply is coming from,
84 who's pool it is nominated to, and the end use customers it is serving.

85 A pool contract also solves the issue of tying specific supply points to individual
86 customers, and mitigates or avoids the risk to TS customers of balancing and penalties during
87 OFO's. With a pool of supplies from a multitude of supply points, if one supply point is
88 curtailed, the supplier on Questar Gas can disperse the risk such that one customer is not subject
89 to the negative effects of that curtailment.

Finally, pooling would solve both the confidentiality and increased burden issues mentioned above. When buying city gate delivered supply from third party suppliers (who in

92 some cases are competitors), we would be able to provide them with our pooling agreement as
93 opposed to disclosing our individual customer contract numbers. Third party suppliers will also
94 favor this, as the administrative burden of point to point nominations to multiple end-use
95 businesses would be eliminated in that we can provide them with one downstream contract (the
96 CIMA pool) as opposed to numerous individual customer contracts.

97 **Q. Is this type of NAESB-compliant service with pooling for which you advocate utilized
98 widely within the U.S. gas markets?**

99 A. Yes. CIMA utilizes pooling services on numerous local distribution companies, including
100 Citizens Gas, Vectren, SEMCO, Nicor, Consumers (Michigan), Peoples, Southern California
101 Gas, PG&E and PSCO, to name just a few.

102 To my knowledge and understanding, this type of pooling service is standard throughout
103 the industry. In my experience, Southern California Gas' system would be a great example for
104 Questar to mimic in terms of pooling. Southern California Gas is an LDC that receives gas
105 from a multitude of pipelines, allows aggregation of supplies via individual pooling contracts,
106 and distributes gas to specified customers out of this pool. A copy of applicable Southern
107 California Gas tariff provisions is attached as Exhibit A (Complainants Exhibit 5.1).

108 **Q. Can Questar Pipeline accommodate this type of pooling structure?**

109 A. Yes. CIMA has long nominated gas from Questar Pipeline to formal pools on other pipelines
110 throughout the region, including Kern River Gas Transmission Company, Wyoming Interstate
111 Company and Colorado Interstate Gas.

112 SUMMARY

113 **Q. Please summarize why you believe the Commission should require Questar Gas to provide
114 formal pooling services for its TS customers.**

115 A. This complaint arose out of the Questar Gas general rate case in Docket 13-035-05 and the
116 Commission's subsequent Report and Order issued February 21, 2014. That order precipitated
117 CIMA's participation in the Nominations and Scheduling Working Group, where we were
118 presented with discussions and materials from Questar Gas confirming their understanding of
119 the critical need by TS customers and their agents for continued availability of pooling services
120 and Questar Gas' ability to accommodate the same. The collaborative momentum gained in the
121 first two Working Group meetings was abruptly halted immediately prior to and during the third
122 meeting, with very little explanation. Questar Gas argued that the point-to-point requirement
123 was a Questar Pipeline issue and that all pooling discussions would be halted.

124 As described above, the abrupt end to discussions regarding pooling contracts puts QGC
125 at a competitive advantage over CIMA and other competitors. This competitive advantage will
126 come at the expense of Utah businesses and entities that currently utilize TS service, as costs
127 and risks will increase. Formal pooling agreements on Questar Gas' system represent a feasible
128 and a utilitarian solution that would solve all of the concerns outlined above, and will also solve
129 all of Questar's legitimate concerns.

130 Q. **Does this conclude your direct testimony?**

131 A. Yes.