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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 RICK PEMBERTON**

The Complainants in this docket hereby submit the Prefiled Direct Testimony of Rick Pemberton of Continuum Energy Services, LLC (previously known as Seminole Energy Services, LLC).

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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BEFORE

THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Rick Pemberton

On behalf of Complainants

Docket No. 14-057-19

August 7, 2014

I. Introduction

Q. Please state your name and business address.

A. My name is Rick Pemberton and my business address is Continuum Energy Services, LLC ("Continuum") 3732 SW Spring Creek Lane, Topeka, KS 66610.

Q. By whom are you employed and in what capacity?

A. I am employed by Continuum as Director of Commercial and Industrial Sales, Central Region. I am currently the acting Director of Commercial and Industrial Sales, Western Region which includes sales in the State of Utah.

Q. What is the nature of Continuum's business?

A. Seminole Energy Services, LLC was formed in 1998 as a non-regulated natural gas provider or marketer of natural gas to commercial and industrial customers. On August 1, 2014 Seminole changed its name to Continuum. In Utah, Continuum currently provides sales service to approximately 30 natural gas customers on the Questar Gas Company ("QGC") system served under QGC's TS Rate Schedule. Our QGC TS Rate Schedule customers include hospitals and medical centers, foundries, hotels, food processors and other end users of natural gas.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to demonstrate how the unilateral changes made by QGC to its long standing scheduling and nomination services on July 1, 2014 without the consent of the customers and without the Commission's approval (1) are detrimental to the transportation customers of QGC, (2) will complicate scheduling and nomination procedures for all parties during critical periods, (3) create discriminatory and anti-competitive problems, and (4) are not required or standard in the industry. The testimony presented leads to my recommendation that the changes in scheduling and nomination services implemented on July 1, 2014 should not be allowed to stand. If they are allowed to stand, I propose that the entire TS Rate Schedule and other provisions of the Tariff regarding imbalances and tolerances must be revisited by the Commission. The service offered to the TS Rate Schedule customers has been drastically changed without review of the impacts to Utah consumers or approval by the Commission.

II. Testimony

Change in policy is detrimental to QGC transportation customers.

Q. What is the change in policy?

A. Simply put, QGC unilaterally terminated pooling services, which had been offered by QGC for years previous, which allowed marketers to aggregate both supply sources and customer deliveries.

Q. How is this change detrimental to a TS Rate Schedule customer?

A. The change creates additional costs to the QGC customer and additional risks.

Q. How does the change in policy create additional costs to the TS Rate Schedule customer?

A. First, the pooling of customers' daily and monthly usages insulated each individual customer from costly daily and monthly balancing penalties. In the aggregate, Continuum's customers may have been in balance or within tolerance on a daily and monthly basis, causing no harm to QGC's system integrity. Individually, however, each customer may have been out of balance and in so being could be heavily penalized according to the QGC's imbalance tariff language. This creates unjust and unreasonable charges to the ratepayers of QGC when no harm is actually done to QGC.

Under the QGC tariff, customers must monitor their daily gas deliveries and must make adjustments to those daily deliveries to ensure a balance between gas received by QGC and gas consumed. The tariff allows a +/- 5% tolerance daily before penalties can be accessed. Daily penalties provided for in the tariff equal the higher of $1.00 per MMBtu or the difference between the monthly market price and the daily market price plus $0.25 per MMBtu. During this last winter that daily imbalance penalty could have been as high as $20.81 per MMBtu. By pooling all of the marketer's customers together, the +/- 5% tolerance is manageable. Without the pooling arrangement, each customer must stand alone and smaller customers will never fall within the tolerance level.

Q. Can you provide an example?

A. Yes. I will use as an example actual customer nomination and usage data from July 2014 for one small customer and for one larger customer. Usage data for these customers is shown in Exhibit A (Complainants Exhibit 3.1). During July 2014 the difference between the monthly market price and the daily market price was less than

$1.00 per MMBtu on each day of the month, so the potential daily penalty would be equal to $1.00 per MMBtu for all volumes on a daily basis consumed outside the +/- 5% tolerance. As shown in the first table of Exhibit A, the smaller customer consumed 93 MMBtu for the month with a delivery by Continuum of 118 MMBtu. As shown the daily nominations were equal to either 3 or 4 MMBtu on a daily basis and the 5% tolerance equates to 0 MMBtu per day. Therefore, in application there is no tolerance for this customer and it could be penalized for every volume of imbalance. The customer's usage luckily hit the nomination four days. The potential penalty totaled $55 and equated to $0.59 per MMBtu.

As shown in the second table in Exhibit A, the larger customer used a total of 1,541 MMBtu for the month. The daily nomination was equal to 39 or 51 MMBtu per day. The tolerance equated to either 2 MMBtu to 3 MMBtu per day. The tolerance was small but was enough so that the transport customer would not be penalized in 17 days. The total potential penalty would have been $85 or only $0.06 per MMBtu.

The third table in Exhibit A reflects the total daily nominations made by Continuum during the month and the actual consumption reported by QGC for the Continuum customers by day. With the pooling service provided by QGC prior to July 1, 2014, Continuum nominated a monthly delivery of 58,877 MMBtu with a daily nomination ranging from 1,770 to 2,217 MMBtu per day. Over the month, the pool stayed within the QGC 5% daily tolerance on all days but three, and the potential penalty was limited to $5,132.

To summarize, had Continuum been permitted to continue pooling its customers' supplies during July 2014, the collective balance would have been within QGC's 5% daily imbalance tolerance window most days, resulting in limited potential penalties. Without the pooling services in July 2014, the sum of all of Continuum's customers' potential daily penalties, calculated in the same manner as the example, would total $17,856. Moreover, this data is for a summer month and Continuum did not experience any serious supply or transportation disruptions. Imbalance risks and penalties are likely to be more pronounced in winter months when supply disruptions are more common. These imbalances are primarily the result of natural variations in consumer usage. In aggregate, the imbalances are minor and would not significantly impact Questar Gas or its other customers. Because Continuum is now not permitted to use pools for its customers' supplies, however, those customers now face significant additional risks and potential penalties.

Without the pooling service, the smaller customer in my example could be penalized on its entire daily imbalance since it had, in application no tolerance. If the imbalance language remains the same and the pooling service is eliminated, the imbalance language in the tariff will discriminate against smaller users, in effect offering no tolerance whatsoever and will result in unjust and unreasonable costs.

The tariff provision allowing only a 5% tolerance was written when QGC's policy was to allow aggregation pools for supplies and deliveries. The 5% tolerance is unjust and unreasonable for customers if they must now stand alone because QGC has eliminated the pooling service. The pooling service should be restored. If it is not, the tolerance windows and imbalance penalties must be adjusted.

Q. Will other increased costs be caused by the change in the longstanding scheduling and nomination services implemented by QGC on July 1, 2014?

A. Yes. Continuum purchases its natural gas from a wholesale natural gas supplier that provides the gas for Continuum at the city-gate. The new policy requires that the wholesaler must nominate a supply for each of Continuum's customers for delivery to the city-gate on a daily basis. Prior to the change in policy the wholesaler would nominate a single volume to be delivered to Continuum at the city-gate. The new policy creates significant additional work for the wholesale supplier; dividing up the previous single volume into more than 30 nominations on a daily basis, and potentially during each of four cycles each day, which will greatly increase the time spent on nominations and the subsequent cost of doing business on the QGC system, which, in turn, will ultimately increase the costs to the consumers. If the increased costs of doing business on the QGC system cannot be passed on to the consumers, marketers and wholesale suppliers may leave the market area, which would dampen competition and further increase costs.

Q. Please explain further how the change in policy creates additional risks to the TS Rate Schedule customers.

A. Prior to July 1, 2014, QGC allowed the pooling of a marketer's supply sources at the city-gate, which insulated end-use customers from any daily fluctuations in supply from an individual supply source. The new policy requires that a supply point on the interstate pipeline system must be tied directly to an individual customer, which then exposes that customer to any supply disruption of that specific supply source and exposes that customer to subsequent imbalance penalties that incur due to the imbalance between the nominated delivery and actual consumption.

The sum of all aggregated supply sources may not be detrimental to the safe operation of the utility's system, but each supply source on its own, delivered to individual customers on a point-to-point basis, may be out of balance by more than the tolerance allowed and customers will be subject to costly penalties.

With the pooling of supplies and suppliers, any disruption of a single supply source, whether due to a force majeure event, maintenance requirement, or market conditions, could be remedied quickly. With the requirement of point-to-point nominations, replacement of lost supplies with subsequent multiple daily nominations would be much more burdensome, time consuming and costly to all parties.

Change in policy will complicate scheduling and nomination procedures for all parties during critical periods

Q. In addition to the complications and risks inherent in scheduling discussed previously are there any other concerns with the change in nomination procedures?

A. Yes. Customers served under the TS Rate Schedule are offered service on a firm basis for a contracted portion of their requirements and on an interruptible basis for the remaining portion of their requirements. The firm daily volume is subject to a Firm Demand Charge which is billed each month and the firm service portion of the TS Rate Schedule is not subject to the interruption provisions of the QGC tariff. The interruptible portion of the TS Rate Schedule service is offered on a reasonable efforts basis and is subject to the interruption provisions of the tariff. During a critical period, it would be in the Utah customer's best interest to have the marketer who understands and knows each of the individual customer's requirements pooling the required supplies and deliveries as opposed to a natural gas wholesaler who is concerned only with the sale of gas supply. The transfer of the knowledge from the marketer to the nominating party would be time consuming and risky for the individual consumer. The simplistic "point-to-point" nomination will be much more complicated during critical periods with the differing levels of services selected under the TS Rate Schedule by each individual customer.

A further complication due to the changed nomination procedure involves the timeliness of receiving actual customer usage data. Typically Continuum receives the previous day's actual meter reading data from QGC after noon the day after gas flow. This is well after the pipeline's cycle 1 timely nomination deadline for the next day of flow. For cycle 1 nominations, Continuum must use the history of usage for each customer that is at least two days previous to make an estimate and provide its suppliers the information to make nominations for each individual customer the next day. This estimate, using two-day-old history and nominating one day in advance, must fall within 5% of the individual customer's actual usage in order to avoid potential daily penalties authorized in QGC's tariff. If corrections are to be made after receipt of the previous day's data, Continuum must inform its suppliers of each individual adjustment necessary for nominations during cycle 2. If incremental supplies are required, they are typically more expensive, if they are even available.

Change in policy will create anti-competitive problems.

Q. How does the change in policy create discriminatory and anti-competitive problems?

Anti-competitive effects will occur if current gas suppliers elect not to continue selling gas to Utah TS Rate Schedule customers at the city-gates, leaving that market less liquid and more dominated by QGC's marketing function. Discriminatory impacts will occur to Utah TS Rate Schedule customers because they will be subjected to costs and risks to which they were not previously exposed, and to which similar QGC customers will not be exposed.

With the additional responsibilities and burdens transferred to Continuum's suppliers, the cost of the supply will increase. The pooled sales services of QGC will appear much more attractive than the services Continuum can offer the QGC prospects without the ability to pool supplies and deliveries.

In addition, Continuum is now forced to provide confidential and proprietary information to its potential competitors. By requiring nominations on a point-to-point basis, Continuum customers must be identified to our gas suppliers in order for them to make nominations on the interstate system for delivery to QGC. In order to properly nominate, details of our confidential contracts with end-users must be disclosed.

Other pipelines are FERC regulated and utilities still offer pooling.

Q. Do other utilities in the market areas served by Continuum offer pooling services for supplies and for deliveries?

A. Yes. Continuum operates in 23 states as a retail marketer to industrial and commercial customers. In Continuum's Central Region of which I am most familiar, Continuum serves 31 distinct utility/pipeline/state combinations; for example Black Hills Energy/Northern Natural Gas Company – Iowa, and Black Hills Energy/Northern Natural Gas – Kansas are two different utility/pipeline combinations because of the different rate structures and delivery requirements of both the utility and pipeline in the different states. Of the 31 different pipeline/utility/state combinations, I have identified only three that do not offer pooling serves. The other 28 pipeline/utility/state combinations offer pooling services to the benefit of their customers. Among the larger interstate pipelines of the referenced combinations are Northern Natural Gas, Natural Gas Pipeline Company of America, ANR Pipeline Company, Southern Star Central Gas Pipeline, Panhandle Eastern Pipe Line Company, Tallgrass Interstate Gas Transmission and Texas Eastern Transmission. Among the larger referenced LDC utilities are Black Hills Energy, Ameren Corporation, Alliant Energy, MidAmerican Energy, Oklahoma Natural Gas, Kansas Gas Service Company and Laclede Energy.

There are many examples of pooling tariffs and form agency agreements. The Missouri Gas Energy tariff, for example, specifically allows "aggregation" (Section A.4, Sheet No. 59.1): https://www.missourigasenergy.com/MGE/companyInfo/gogreen.jsp?xacontent=Company%20-%20Tariffs&xatitle=Company%20-%20Profile&xaimg=0&xasubtitle=Tariffs%20Book&xaimgright=OverviewCompanyInfo.jpg

The Atmos Energy Kansas tariff authorizes pooling or aggregation via an "Aggregation Service Agreement" ("Kansas Rates" attachment; Section C.1, Sheet 77 of 110; see also pages 80 and 94): http://www.atmosenergy.com/about/tariffs.html?st=KS#tariffs

Xcel Energy's Colorado tariff includes a form "Agency Agreement" ("Natural Gas Rate Book," "Entire Natural Gas Tariff Book", Sheets T38-T42) and provide for "Aggregate Balancing" (Sheet T41): http://www.xcelenergy.com/About_Us/Rates_&_Regulations/Rates,_Rights_&_Service_Rules/CO_Regulatory_Rates_and_Tariffs

The use of aggregation pools is standard in the industry. If these utilities offer balancing services to their end-users in other states, I do not understand why QGC should not do the same for its Utah business customers.

III. Conclusion and Recommendations

Q. Please summarize the impacts of the change in the long standing scheduling and nomination practices implemented by QGC on July 1, 2014 which eliminated the use of aggregation pools for the scheduling and balancing of supplies and deliveries to consumers.

A. The use of pools for the aggregation of supply and deliveries is standard in the natural gas industry throughout the country and is offered by almost all utilities that receive gas from FERC regulated interstate pipelines. Nearly all of these utility tariffs provide for balancing pools and have been approved and supported by the States' public utility or public service commissions. QGC's unilateral elimination of aggregation pool services has exposed Utah's businesses to higher costs and a higher risk of imbalance penalties and interruption of supply. The new nomination and balancing procedures are unreasonable and burdensome and are anti-competitive in operation.

I recommend that QGC be required to provide suppliers and TS Rate Schedule customers the option of aggregated pooling services. I recommend that the changes in scheduling and nomination services imposed by QGC on July 1, 2014 on its TS customers and their suppliers should not be allowed to stand. If they are allowed to stand, I recommend that the entire TS tariff should be revisited by the Commission. The services and values offered under the TS Rate Schedule have been drastically changed without review of the impacts to Utah consumers or approval by the Commission.