

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
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DIRECT TESTIMONY OF WILLIAM F. SCHWARZENBACH

FOR QUESTAR GAS COMPANY

August 28, 2014

QGC Exhibit 2.0

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I. INTRODUCTION

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

2 A. My name is William F. Schwarzenbach. My business address is 333 South State Street,
3 Salt Lake City, Utah.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Questar Gas Company (Questar Gas or Company) as Director of Gas
6 Supply.

7 **Q. What are your qualifications to testify in this proceeding?**

8 A. I have listed my qualifications in QGC Exhibit 2.1.

9 **Q. Attached to your written testimony are QGC Exhibits 2.1 through 2.5. Were these**
10 **prepared by you or under your direction?**

11 A. Yes.

12 **Q. What is the purpose of your testimony in this Docket?**

13 A. The purpose of my testimony is to explain what nominations are and discuss the
14 nomination and scheduling process. I will also explain the nomination process change
15 implemented by Questar Pipeline on July 1, 2014 (Process Change) and the impact of this
16 change on the TS Customers. I will show that the use of a pooling contract on the Questar
17 Gas system, as proposed by the Complainants, is not the best method to be used for
18 providing gas supplies for TS Customers. Complainants claim that pools are necessary to
19 provide certain benefits to the TS Customers and the TS Customers' Agents (Agents). I
20 will explain that a practice currently in place can be used to provide these benefits while
21 also providing the TS Customers with transparency and reliability.

22 **II. NOMINATION AND SCHEDULING PROCESS**23 **Q. What are “nominations?”**24 A. Nominations are the method by which shippers communicate to a pipeline the amount of
25 natural gas that will be delivered to the pipeline, where it will be received into the pipeline,
26 and where the pipeline should deliver it.27 **Q. Can you explain the nominations and scheduling process?**28 A. I have attached as QGC Exhibit 2.2 a copy of a presentation given in a technical conference
29 on July 30, 2014. Page 5 of that presentation shows, graphically, the timeline for the
30 nomination and scheduling process.31 **Q. Please describe Page 5 of QGC Exhibit 2.2.**32 A. A party who wants to have gas shipped will first nominate a quantity of gas to a pipeline
33 receipt point. Then the receiving pipeline will confirm that nomination based on the
34 amount of natural gas actually received by the pipeline. The pipeline will then schedule
35 that gas to the delivery point. There are four opportunities each day to participate in this
36 process. Page 5 of QGC Exhibit 2.2 shows each nomination cycle in a different color.
37 Each cycle has a nomination deadline time, a confirmation time, and a time when gas is
38 actually scheduled to flow.39 **Q. Are nominations required on the Questar Gas system?**

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40 A. Yes. This process is available to shippers up to four times a day on interstate pipelines and
41 local distribution company systems. Shippers nominate separately on both the Questar
42 Pipeline Company (Questar Pipeline) system and on the Questar Gas system. QGC Exhibit
43 2.3 depicts a more detailed description of nominations on both the Questar Pipeline and
44 Questar Gas systems.

45 **Q. Please describe QGC Exhibit 2.3.**

46 A. A TS Customer or its Agent purchases gas from suppliers. Suppliers can nominate gas to
47 upstream receipt points (depicted as Suppliers 1, 2 and 3) on the pipeline system or to the
48 City Gate interconnect (depicted as Suppliers 4 and 5). If the supplier nominates gas to the
49 upstream receipt points (Suppliers 1, 2 and 3), then the TS Customer or its Agent takes
50 ownership of the gas on the pipeline and transports it from the receipt point to the City
51 Gate. This is done by nominating it on a transportation contract (shown in red) held by the
52 TS Customer or its Agent. If the supplier nominates gas to the City Gate (Suppliers 4 and
53 5), then the gas is transported on the supplier's transportation contract and delivered
54 directly to the TS Customer at the City Gate. In this case, the Agent never takes ownership
55 of the gas. Once the gas has been delivered to, or purchased at the City Gate, the TS
56 Customer or its Agent must nominate the gas to the TS Customer on the Questar Gas
57 system (depicted as TS Customers 1, 2 and 3).

58 **III. QUESTAR PIPELINE'S PROCESS CHANGE**

59 **Q. How did the nomination process work prior to Questar Pipeline's Process Change?**

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60 A. Prior to July 1, 2014, the Supplier or Agent would nominate on a Questar Pipeline contract
61 to the City Gate without referencing an actual contract on the Questar Gas system. The
62 Agent would then nominate on the Questar Gas system without reference to a Questar
63 Pipeline transportation contract.

64 **Q. How did this process work after Questar Pipeline's Process Change?**

65 A. Since July 1, 2014, a Supplier, TS Customer or its Agent is required to nominate gas on a
66 Questar Pipeline contract (shown in red on QGC Exhibit 2.3) to the City Gate referencing
67 an actual contract between Questar Gas and its TS Customer (shown in blue on QGC
68 Exhibit 2.3). A TS Customer or its Agent now nominates on the Questar Gas system by
69 referencing an actual Questar Pipeline transportation contract. This process is referred to
70 as "Contract and Entity Nominations" and enables confirmations to be done electronically
71 between Questar Pipeline and Questar Gas. Electronic confirmations provide for the
72 efficient management of gas supplies being delivered to the City Gate.

73 **Q. Is Questar Gas required to comply with the changes implemented by Questar Pipeline**
74 **on July 1, 2014?**

75 A. Yes. As explained in Ms. Faust's testimony, Questar Pipeline issued a notice effective July
76 1, 2014, that requires all shippers, including Questar Gas, to provide contract and entity
77 information on each of its nominations on Questar Pipeline. This provides Questar Pipeline
78 with the necessary information to electronically confirm supplies being nominated.

79 **IV. POOLING ON THE QUESTAR GAS SYSTEM IS NOT NECESSARY**

80 **Q. The Complainants claim that Questar Gas nominates to a City Gate "pool." Is that**
81 **accurate?**

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82 A. No. Questar Gas is not nominating to a City Gate pool. It does, however, employ a
83 methodology that Complainants could also use to enjoy the benefits they claim they would
84 receive utilizing a pool. Mr. McGarvey, Mr. Medura, and Mr. Pannier all observed that
85 Questar Gas is able to aggregate supplies. Questar Gas does not aggregate supplies using
86 a pool. It aggregates supplies utilizing a transportation contract on Questar Pipeline. This
87 is a good example of how the benefits desired by the Complainants can be achieved without
88 the use of a pool.

89 **Q. Please describe how this aggregation occurs.**

90 A. Questar Gas purchases supplies at many receipt points on the Questar Pipeline system as
91 shown on QGC Exhibit 2.3 (Suppliers 1, 2 and 3). Questar Gas then uses a transportation
92 contract (shown in red) to transport the gas purchased from the suppliers at the receipt
93 points on the Questar Pipeline system, to the Questar Gas contract at the City Gate. Gas
94 from multiple suppliers can be aggregated utilizing a single transportation contract.

95 **Q. Could Complainants utilize this same process in order to achieve benefits they seek
96 through pooling?**

97 A. Yes. This process provides Questar Gas access to liquid supply trading points on the
98 Questar Pipeline system, simplifies nominations for suppliers, and gives Questar Gas
99 control over the risk of the transportation of its supplies to the City Gates. If Complainants
100 were to use a similar process, it would provide them with the same benefits, and would
101 provide the “masking” desired by the Complainants by preventing upstream suppliers
102 from having access to the customer information on the Questar Gas system.

103 **Q. Complainants claim that pools are necessary to provide access to competitively priced
104 supplies on the Questar Pipeline system. Do you agree?**

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105 A. No. Gas supplies are commonly available at upstream receipt points on the Questar
106 Pipeline system. Examples of these points include Clay Basin, Red Wash, Blacks Fork,
107 Vermillion, Overthrust Pipeline, the CO2 Plant, and White River Hub. Questar Gas has
108 found there is adequate supply available at these points at competitive prices. In fact, these
109 are the points where most suppliers sell gas, as opposed to the limited suppliers that sell at
110 the Questar Gas City Gate. The availability of multiple suppliers provides true liquidity
111 at the upstream receipt points, as evidenced by the existence of daily trading indexes for
112 these points. The Questar Gas City Gates have no such index. Questar Gas, TS Customers,
113 and Agents for TS customers, including the Complainants, may buy gas at these upstream
114 receipt points on Questar Pipeline and do so on a regular basis.

115 **Q. How do you respond to Complainants' claim that suppliers will be less likely to sell**
116 **gas at the City Gates?**

117 A. If, as the Complainants claim, suppliers will be less likely to sell gas at the City Gate, these
118 same suppliers should still be willing to continue to sell their gas at the upstream receipt
119 points.

120 **Q. If gas is purchased at the City Gate, who is responsible for the transportation of the**
121 **gas to the City Gate.**

122 A. When gas is purchased at the City Gate (Suppliers 4 and 5 on QGC Exhibit 2.3), the
123 supplier (not the TS Customer or its Agent) is responsible for the transportation of the gas
124 from the upstream receipt point to the City Gates. In most cases, these suppliers own
125 transportation capacity contracts on the pipeline that they use to deliver the gas. This
126 capacity can be firm, "flexed firm", or even interruptible. When suppliers sell gas at the
127 City Gate, the cost of transportation is part of the delivered price at the City Gate.

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128 **Q. What problems could arise as a result of a supplier having responsibility for**
129 **transportation?**

130 A. When the supplier (not the TS Customer or its Agent) takes responsibility for the
131 transportation of the gas, the supplier only sees this process as a means by which to move
132 its gas to a City Gate and does not know the needs of the end use customer. A supplier may
133 not understand that the gas is going to serve “schools, hospitals, greenhouses, etc. that
134 depend on consistent natural gas supply vital to their business and are not able to withstand
135 a 100% disruption.” Direct Testimony of Mike McGarvey, Lines 98-101. The suppliers
136 may choose to take on higher risk, by using transportation capacity with a lower priority
137 of service.

138 **Q. Do you know if the Complainants are utilizing suppliers with lower levels of**
139 **transportation service on the upstream pipeline?**

140 A. No. Questar Gas asked the Complainants to provide information and they indicated that
141 they “do not know all specific supply or transportation arrangements utilized by their
142 upstream suppliers” and refused to provide further detail. QGC Exhibit 2.4. Questar Gas
143 believes that it is in the TS Customers’ best interest to know how their supplies are being
144 delivered. By refusing to provide details in their response to the data request, the
145 Complainants have made it clear that they are committed to continuing to hide the details
146 of the risks associated with the transportation of their supplies.

147 **Q. Complainants claim “[g]as supplies purchased by the Agent for TS Customer delivery**
148 **are contractually firm at the citygate.” QGC Exhibit 2.4. How do you respond?**

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149 A. CIMA has indicated that “the Agents leave the form of delivery to the supplier and do not
150 keep data on gas suppliers by upstream delivery method.” See QGC Exhibit 2.4. This
151 illustrates that customers may be at risk.

152 **Q. On the other hand, if supplies are purchased at the upstream receipt points (QGC**
153 **Exhibit 2.3, Suppliers 1, 2 and 3), who is responsible for the transportation of the gas**
154 **to the City Gate?**

155 A. When supplies are purchased at the upstream receipt points, it is the responsibility of the
156 purchasing party, in this case the TS Customer or its Agent, to transport the gas to the City
157 Gate. The TS Customer or its Agent takes ownership of the gas and control over the type
158 of service (firm, flexed firm, interruptible) being used to transport the gas to the City Gate.

159 **Q. Can transportation contracts be used by TS Customers or their Agents the way**
160 **Questar Gas uses its transportation contract?**

161 A. Yes. TS Customers and Agents, including the Complainants, commonly use transportation
162 contracts this way. Transportation contracts are available from the pipeline on a firm or
163 interruptible basis. Transportation contracts can also be acquired through capacity release.
164 If the gas is purchased at the upstream receipt point (QGC Exhibit 2.3, Suppliers 1, 2 and
165 3), instead of the City Gate (Suppliers 4 and 5), the supplier that would have sold the gas
166 at the City Gate, can release the transportation capacity it would have used to move the gas
167 itself.

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168 **Q. Complainants claim that pools are required to simplify the nominations process for**
169 **suppliers selling gas to TS Customers or their Agents. Do you agree?**

170 A. No. If gas is purchased at the upstream receipt points (QGC Exhibit 2.3, Suppliers 1, 2 and
171 3), and transported using a transportation contract on Questar Pipeline, that single
172 transportation contract can be used as the downstream contract for the supplier's
173 nominations. This process provides the exact simplicity and flexibility requested by the
174 complainants.

175 **Q. Complainants claim that the Questar Pipeline Process Change is onerous and**
176 **burdensome on the third-party supplier, will increase the time spent on nominations,**
177 **and will increase costs to customers. Do you agree?**

178 A. The process can be more complex if the Agents choose to purchase gas at the City Gate
179 instead of at the upstream receipt points where gas supplies are more liquid. However, the
180 process is greatly simplified if the Agents purchase gas at the upstream receipt points (QGC
181 Exhibit 2.3, Suppliers 1, 2 and 3) because the third-party supplier would only have to
182 nominate to a single transportation contract (shown in red).

183 **Q. Complainants also claim that pools are necessary to protect confidentiality of TS**
184 **Customer information from suppliers. Is this true?**

185 A. No, for at least two reasons. First, as long as the Agent for the TS Customer takes ownership
186 of the gas at some point in the process, the Agent's contract will be in between the
187 supplier's contract and the TS Customer's contract. When an Agent purchases supplies at
188 upstream receipt points and transports the supplies on an Agent's own transportation
189 contract, suppliers will only see the Agent's transportation contract. Likewise, the TS
190 Customers will only see the Agent's transportation contract. This provides all of the

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191 confidentiality protection requested by the Complainants and also provides the
192 transparency to the TS Customers that Questar Gas believes is necessary for them to
193 understand the risks associated with the transportation of their gas supplies.

194 Second, it is my understanding that Questar Pipeline's Process Change is NAESB
195 compliant, that the disclosure of such information is necessary to comply with the Process
196 Change, and that the NAESB form agreement permits disclosure of terms "to the extent
197 necessary to implement any transaction."

198 **Q. Is it possible that the contracts Complainants reference are different than the NAESB**
199 **form agreement?**

200 A. It is possible. However, Questar Gas requested copies of such agreements, and
201 Complainants refused to provide them. QGC Exhibit 2.5.

202 **Q. Are pools necessary for TS customers to avoid imbalance charges?**

203 A. No. The Complainants have misunderstood this issue. Questar Gas has made no changes
204 to its Tariff. Under the current Tariff, imbalances are charged to customers on a monthly
205 basis. Agents for TS Customers are allowed to trade imbalances between their customers
206 and other Agents in order to aggregate their total monthly imbalances (Questar Gas Natural
207 Gas Tariff No. 400 (Tariff) at Section 5.09). Complainants' ability to aggregate these
208 imbalances has not changed.

209 **Q. Will additional imbalance penalties be incurred during periods of restriction?**

210 A. No. Daily imbalances are only incurred during periods of restriction. During these
211 restrictions, Section 5.09 of the Tariff still provides for aggregation and exchange of daily
212 imbalances in order to avoid these penalties as well.

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213 **Q. Has Questar Gas proposed additional charges related to TS Customers' use of no-**
214 **notice transportation and storage services?**

215 A. No, but Complainants could be anticipating such a charge. Questar Gas discussed such a
216 charge in the working group referenced above. Questar Gas will continue to evaluate and
217 discuss whether charges for these services are appropriate.

218 **Q. Why is Questar Gas considering such charges in the future?**

219 A. Questar Gas believes that the recent increase in TS Customers has caused an increased use
220 of no-notice transportation and storage services that are paid for by sales customers.
221 Questar Gas believes that imbalances created by TS Customer's usage differing from the
222 confirmed nomination utilizes services on the Questar Gas system that are not considered
223 in the TS rate schedule. The current Tariff does not provide for a methodology for charging
224 TS Customers or their Agents for the use of these services. As described in detail in Mr.
225 Pemberton's testimony, these services are used every day by the TS Customers. Mr.
226 Pemberton, in Table 3 of Complainants' Exhibit 3.1, shows an example of a TS Customer
227 that uses these services throughout the month of data provided. Despite the ongoing
228 differences between nominations and usage, the Agent only adjusts the nomination one
229 time during the month. He also presents that "the customer's usage luckily hit the
230 nomination four days" during that month of data (Line 71). Questar Gas believes that the
231 agent should be adjusting the nomination to match the expected usage rather than relying
232 on "luck" for the usage to match the nomination. These ongoing discrepancies also create
233 operational issues for Questar Gas as the operator of the distribution system.

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234 **Q. Would providing pools on the Questar Gas system reduce the risk of gas supply**
235 **disruptions to TS Customers?**

236 A. No. The use of pools on the Questar Gas system would not reduce the risk of supply
237 disruptions for TS Customers. The risk of supply disruptions is not impacted by a change
238 in the nominations process. Supply risks include the reduction of production due to plant
239 or well issues and transportation capacity reductions on pipelines due to capacity
240 allocations and force majeure events. Pooling on the Questar Gas system only impacts the
241 way these reductions are passed on to customers whose supplies have been reduced. This
242 type of pooling does not change the risk to the TS Customers. However, it can result in
243 greater consequences for Questar Gas operationally.

244 **Q. Please explain.**

245 A. Regardless of whether the nominations from each supply source are spread over multiple
246 customers, or consolidated to one customer, the impact on the Questar Gas system will be
247 based on the total reduction of supply to the City Gate. If a reduction at the City Gate is
248 significant enough to impact the operation of the system, this reduction will be passed on
249 to the TS customers whose supply has been reduced, whether it be one, or many.

250 **Q. How would nominations that are spread over multiple customers impact the Questar**
251 **Gas system?**

252 A. A situation that requires smaller reductions by many customers is actually more
253 problematic to Questar Gas as the operator of the distribution system. The experience of
254 December 5, 2013 showed that many of the TS customers do not understand the risks
255 associated with their gas supplies and are not able to reduce their usage when an event

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256 happens. Again, as Mr. McGarvey explained in his testimony (Lines 98-101) many of
257 these TS customers are “schools, hospitals, greenhouses, etc. that depend on consistent
258 natural gas supply vital to their business and are not able to withstand a 100% disruption.”

259 If the customers are unable to reduce their usage to the required level the entire Questar
260 Gas system could experience operational problems. This would impact both Sales and TS
261 Customers on the Questar Gas system.

262 **Q. How can the risk to the Questar Gas system be reduced?**

263 A. With the transparency that is now provided to the TS Customers, they can work with their
264 Agents to adjust the level of risk of the transportation of their gas. If the Agent for the TS
265 Customer were to take on the responsibility of transporting supplies from the upstream
266 receipt point to the City Gate, they would have the ability to do the nominations for the TS
267 Customers they represent and provide and adjust the rankings for these customers. This
268 would also give them more control over the level of risk of their supplies based on the type
269 of transportation contracts used to transport their supply to the City Gate.

270 **Q. Is pooling on the Questar Gas system in the best interest of TS Customers?**

271 A. No. Pooling on the Questar Gas system will allow Agents for the TS Customers to continue
272 to keep information from the TS Customers regarding the risk associated with how their
273 gas is delivered to the Questar Gas City Gate. All of the other requests by the
274 Complainants in this case can be provided through other means at no additional cost to the
275 TS Customers.

276 Questar Gas believes that providing the TS Customers with information regarding the risks
277 associated with the delivery of their gas supplies may lead to an adjustment in the type of

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278 transportation service being used by the agents to transport the TS Customers' gas.
279 Providing TS Customers with information to enable them to adjust the risk associated with
280 the transportation of their gas is in the best interest of both Sales and TS Customers on the
281 Questar Gas system.

282 **Q. Do you have any recommendations?**

283 A. Yes. For the reasons stated above, the Complainants' proposal should be rejected.

284 **Q. Does this conclude your testimony?**

285 A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, William F. Schwarzenbach, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

William F. Schwarzenbach

SUBSCRIBED AND SWORN TO this ___ day of August, 2014.

Notary Public