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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<p><b>In the Matter of the Formal Complaint Against Questar Gas Company Regarding Nomination Procedures and Practices for Transportation Service Customers</b></p>	<p><b>Docket No. 14-057-19</b></p> <p><b>PREFILED REBUTTAL TESTIMONY OF MIKE MCGARVEY</b></p>
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The Complainants in this docket hereby submit the Prefiled Rebuttal Testimony of Mike McGarvey of Summit Energy LLC.

DATED this 10<sup>th</sup> day of September 2014.

HATCH, JAMES & DODGE

/s/ \_\_\_\_\_  
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## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 10<sup>th</sup> day of September 2014 on the following:

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**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF UTAH**

**Rebuttal Testimony of Mike McGarvey**

**On behalf of Complainants**

**Docket No. 14-057-19**

**September 10, 2014**

1 **Q. Are you the Mike McGarvey who submitted direct testimony on behalf of the**  
2 **Complainants in this docket?**

3 A. Yes.

4 **Q. What is the purpose of your rebuttal testimony?**

5 A. I will respond to testimony filed in this docket by Tina Faust and William  
6 Schwarzenbach on behalf of Questar Gas Company (“Questar” or “Questar Gas”).

7 **Q. On lines 65-73 of her direct testimony, Ms. Faust discusses meetings with**  
8 **Summit and others regarding alleged concerns over the electronic**  
9 **confirmation process change required by Questar Pipeline. What is your**  
10 **response to her testimony?**

11 A. Our concern was not over the Questar Pipeline “Process Change,” but rather with  
12 the change simultaneously imposed by Questar Gas with respect to its nomination  
13 and confirmation process at its city gate, by unilaterally eliminating gas supply  
14 aggregation or pooling. It is the change made by Questar Gas, not Questar  
15 Pipeline, which causes our concerns.

16 **Q. Do you agree with Ms. Faust that QGC has never offered pooling (lines 77-**  
17 **78, 139-140)?**

18 A. No. Her claim that Questar Gas has never offered pooling is incorrect. Pooling is  
19 the aggregation, collection, consolidation, merging, union, combining or  
20 gathering of multiple volumes of natural gas, regardless of how it is titled. Ms.  
21 Faust’s testimony beginning on line 78 declares that Questar Gas has never  
22 offered a pooling service, but in the next sentence she acknowledges that, prior to

23 July 1, 2014, agents for TS customers were allowed to aggregate supplies. These  
24 statements are contradictory.

25 The fact that this pooling service existed without having been formally  
26 added to the Questar Gas tariff or reflected in written contracts is why we refer to  
27 the service as “informal.” It was the abrupt discontinuation of the informal  
28 service, and the refusal to adopt a formal process in its place, that is at the heart of  
29 our Complaint.

30 **Q. Ms. Faust claims that the Questar Pipeline “Process Change” has been**  
31 **beneficial to TS Customers (lines 86-118). Do you agree?**

32 A. I agree that the “Process Change” made by Questar Pipeline (i.e., electronic  
33 confirmations) is beneficial for TS Customers. It is important that both customers  
34 and Questar can identify upstream volumes in order to manage day-to-day  
35 operations, as well as peak day events and days such as December 5, 2013. What  
36 Ms. Faust’s testimony fails to acknowledge is that formal pooling agreements  
37 with customers or their agents would provide the same transparency and  
38 prioritization, while being much more concise and efficient. Pooling agreements  
39 would serve as the downstream contract for all supplies from Questar Pipeline to  
40 Questar Gas for each customer or agent, and could be clearly identified.  
41 Essentially, it would serve as a single agreement from which Questar Pipeline and  
42 Questar Gas would make confirmations for each marketer, instead of  
43 confirmations for each separate TS customer, to be balanced individually.

44                   With each supply source identified and ranked and distribution to each TS  
45                   Customer identified and ranked, transparency is a given for the customer, Questar  
46                   and the agent. The only difference is that pooling is far more efficient to operate,  
47                   balance and adjust, especially during events like those of December 5, 2013. The  
48                   method Questar Gas has chosen is antiquated and burdensome, and imposes  
49                   unnecessary and unreasonable nomination complexities. It places a higher degree  
50                   of risk on TS customers for reliable supply, and is not in the best interest of TS  
51                   customers or the public interest.

52       **Q.    How do you responds to Ms. Faust’s suggestion that agents are not regulated**  
53       **and should not be asking the Commission for pooling to help their businesses**  
54       **(lines 124-128)?**

55       A.    Summit is not asking for a special service that is not standard practice throughout  
56       country. Aggregation of supplies into local distribution companies is common; to  
57       mandate otherwise is not. This is especially true at time when the potential for  
58       more nomination cycles is being reviewed by FERC, and when the demand  
59       landscape is changing rapidly. Coal fueled power generation is in less favor and  
60       is being replaced by more natural gas facilities. Natural gas fueled vehicles are  
61       expanding. These changes will undoubtedly have impacts on existing operations.  
62       Our request is simply to remove unnecessary nomination restrictions on supplies  
63       for Utah businesses, given that a simple, viable option exists. Our’s is not a  
64       request for the benefit of agents or marketers, but rather for the benefit of Utah  
65       businesses and institutions.

66 In my view, Ms. Faust and Questar are asking this Commission for  
67 permission to place unfair and unnecessary burdens on TS customers and their  
68 suppliers for selfish benefits, in an effort to regain customer base and volume. I  
69 do not believe that such a request is in the public interest, and I do not think that it  
70 should be tolerated.

71 **Q. In lines 129-134, Ms. Faust claims that pooling would “undo” benefits to TS**  
72 **customers and allow agents to “mask” information. Do you agree?**

73 A. Ms. Faust is mistaken in claiming that TS customers have benefitted from the loss  
74 of pooling. The contrary is clearly true, as explained and demonstrated in the  
75 testimony of multiple witnesses. The lost benefits could be easily restored  
76 through pooling arrangements. Transparency is the same, as each supply source  
77 is clearly identified.

78 Pooling allows agents to distribute and mitigate supply impacts. It appears  
79 to be Questar’s preference to force each TS customer to directly bear the brunt of  
80 any supply impact, regardless of circumstances. Just as the automobile industry  
81 has developed the ability to distribute impacts for the benefit of the occupants  
82 within a vehicle, pooling functions in a similar manner by distributing supply  
83 losses across a pool of customers so no one customer must shut down or turn off  
84 between cycles unless absolutely necessary. Having this risk and impact spread  
85 across a large group significantly minimizes potential impacts, allowing supply to  
86 be replaced in the next cycle without having to shut down or turn off a TS  
87 customer’s supply. The beneficiary is the TS customer and the reliability of its



88 supply. Ms. Faust and Questar Gas have yet to provide an option that protects  
89 individual TS customers at a level similar to that that existed when pooling was  
90 allowed.

91 **Q. Ms. Faust suggests that Questar might incur additional costs if pooling were**  
92 **restored. Do you agree?**

93 A. I have seen no evidence that attempts to identify or quantify any such costs.  
94 Given that pooling was allowed for many years under oral agreements, I doubt  
95 that significant additional costs would be incurred.

96 I do agree that a few new things would have to be implemented to  
97 formalize pooling arrangements. For example, new tariff language describing the  
98 service would be helpful, to avoid future disputes. Also, a pooling agreement  
99 could be used, which would presumably be similar to the contract used for TS  
100 customers, or to pooling contracts used by other LDCs. In addition, some data  
101 entry would be required in the Questline system to facilitate nominations. I doubt  
102 that the costs of these changes would be material. In any event, they would  
103 almost certainly be far outweighed by the savings that Questar itself would  
104 experience by not having to perform hundreds of daily confirmations. It would  
105 also significantly ease Questar's ability to manage peak day events like December  
106 5, 2013. Questar would also benefit from having to manage balancing for less  
107 than a dozen pooling agreements instead of for 400 plus TS customers.

108 **Q. On lines 31-38, Mr. Schwarzenbach describes Exhibit 2.2, which purports to**  
109 **illustrate nomination cycles. Is this description complete?**

110 A. No, the description is incomplete. It fails to include the information necessary to  
111 illustrate the informal pooling arrangements previously recognized by Questar  
112 Gas.

113 Natural gas is nominated on pipelines with a specified point for delivery.  
114 When that delivery point is an interconnection with another entity, such as a  
115 citygate or other interconnect, the nomination will include a “Downstream”  
116 identifier that specifies the agreement or pool with which it is intended to confirm  
117 for delivery on the other side of the citygate or interconnect. Conversely, the  
118 receiving entity needs to have a nomination in place with an “Upstream” identifier  
119 that specifies which agreement is providing the supply of natural gas. The use of  
120 Upstream and Downstream identification is used for every nomination on every  
121 pipeline. It is the matching of each Downstream and Upstream, along with  
122 volumes, which permit confirmations to be matched together.

123 Prior to July 1, 2014, Summit nominated gas on Questar Pipeline to the  
124 Questar Gas citygate with a Downstream pool contract identifier of “SummitCG”  
125 (Summit City Gate) for all supplies. Each Agent/Marketer providing supplies to  
126 customers used its own Downstream identifier to combine or pool supplies for  
127 distribution to TS Customers. This common Downstream is what comprised the  
128 informal pooling provided by Quester Gas, that they now deny ever existed.

129 **Q. Do you have any comments or observations on QGC Exhibit 2.3?**

130 A. Yes. By examining QGC Exhibit 2.3 it becomes clear the nomination process  
131 described by Questar is incomplete. Looking at the illustration of the Questar

132 Pipeline to Questar Gas Systems along the bottom of the Exhibit, the components  
133 of a nomination are presented but how they function is not explained. The  
134 Downstream on the Questar Pipeline System side identifies the agreement or pool  
135 on the other side of the citygate and the Upstream on the Questar Gas System side  
136 is used to identify the agreement providing supply to the citygate.

137 Prior to July 1, 2014, the Questar Pipeline System Downstream was an  
138 informal verbal pool agreement, as described above, not the TS Customer  
139 agreement. This is where and how the various supplies from the Questar Pipeline  
140 System were pooled.

141 The second Illustration above does not accurately show how Questar now  
142 requires TS suppliers to make nominations. Instead of having all supplies  
143 converge at the “Questar Gas City Gate” for distribution to TS customers within  
144 the Questar Gas system, the Supplier must now nominate each specific supply  
145 source to a specific TS customer individually, greatly multiplying and  
146 complicating the number of nominations, the process and the necessary  
147 confirmations. This multiplication of operations is what threatens the supply  
148 security of TS customers, because each TS customer is now directly impacted by  
149 any upstream variance at its supply source, rather than sharing the benefits of  
150 distributive supplies.

151 **Q. On lines 59-63, Mr. Schwarzenbach describes how nominations occurred**  
152 **prior to July 1, 2014. Is it complete and accurate?**

153 A. It fails to reflect that the process prior to July 1, 2014 was antiquated and was  
154 performed manually. The Downstream was not a written contract, but an oral  
155 pooling agreement or arrangement. Nominations were directed to supplier pools  
156 based on these oral arrangements. Questar did, however, require the identification  
157 of the upstream agreement, contrary to Mr. Schwarzenbach's suggestion. The  
158 "Svc Req Prop" field in the Questline nomination entry screen pinpoints the  
159 Upstream contract providing supply on Questar Pipeline. Questar Gas  
160 nominations, both prior to and after July 1, 2014, cannot be validated and  
161 submitted without the "Svc Req Prop" field having been populated correctly. The  
162 manual antiquated confirmation process was seriously out of date in comparison  
163 to the practices of most other natural gas utilities.

164 **Q. What about Mr. Schwarzenbach's description of the process since July 1,**  
165 **2014 (lines 64-72)?**

166 A. The referenced illustration in QGC Exhibit 2.3 is incorrect. A more accurate  
167 illustration is found on QGC Exhibit 2.2 page 10 or the Summit Energy Technical  
168 Conference Handout page 6 titled "Questar Gas Nomination Diagram, Began July  
169 1, 2014," where the true nature of point-to-point nominations can be found.

170 **Q. In lines 83-89, Mr. Schwarzenbach describes the "methodology" used by**  
171 **Questar to secure and deliver gas supplies. What do you think of his**  
172 **description?**

173 A. His explanation of perceived benefits of the Questar "methodology" for  
174 "aggregation" of supplies upstream is incorrect and incomplete. Questar Gas has

175 a single Downstream agreement, which it uses for all supplies. In response to  
176 data request UAE 1.11, Mr. Schwarzenbach admitted that all supplies to Questar  
177 Gas are received on a single transportation agreement with Questar Gas, identified  
178 as “9888888.”

179 Contract 9888888 is the agreement that Questar Gas uses to distribute to  
180 its gas supply customers. Because it is used as the Questar Gas Downstream  
181 contract identifier for all supplies, it functions in the exact same manner as the  
182 informal Downstream identifiers used by TS suppliers prior to July 1, 2014.

183 Instead of formalizing pooling agreements in response to Questar’s  
184 Pipeline’s move to electronic confirmations, Questar chose instead not to  
185 recognize or offer pooling contracts, and to require that all nominations be made  
186 on a point to point basis, thus deliberately adding unnecessary complexities and  
187 risks for TS customer deliveries that do not exist for other Questar customers.  
188 Fairness would suggest parity on such issues as among different rate schedules,  
189 but Questar refuses without good cause to offer such parity.

190 **Q. How do you respond to Mr. Schwarzenbach’s description of the**  
191 **“aggregation” allegedly used by Questar on Questar Pipeline (lines 90-116)?**

192 A. Mr. Schwarzenbach’s testimony attempts to ignore and confuse Questar’s  
193 historical acknowledgement of oral pooling arrangements with irrelevant  
194 descriptions of upstream supply and transportation variants on Questar Pipeline.  
195 His testimony describes practices that are not only outside the jurisdiction of this  
196 Commission, but that are not relevant to any issues in this docket.

197 Summit is certainly aware of the variety of upstream assets and practices  
198 available at varying costs. None of those assets or practices, however, provides  
199 comparable benefits or services for TS customers at comparable costs.

200 Each company providing gas supplies to Utah companies determines the  
201 precise mix of available assets, resources and practices to be used to deliver  
202 reliable supplies. Each company contracts with Utah customers to deliver  
203 supplies using those assets, at prices influenced by market forces, reputation and  
204 reliability. The specific mix of assets, resources and practices used by each  
205 company is highly confidential and proprietary. Each supplier's ability to deliver  
206 reliable supplies ultimately determines its success in competing in this market.

207 Mr. Schwarzenbach's description of Questar's upstream practices is unhelpful and  
208 irrelevant to this dispute. The question is whether Questar can properly dictate to  
209 its TS customers the specific upstream supply or transportation options that they  
210 must use, regardless of customer wishes or costs. I believe the answer is clearly  
211 no.

212 **Q. What about Mr. Schwarzenbach's discussion of reduced supply liquidity at**  
213 **the city gate (lines 117-121)?**

214 A. Mr. Schwarzenbach either does not understand or chooses to ignore the nature of  
215 our Complaint. We are not asking for relief as to supply locations upstream on  
216 Questar Pipeline. Any such relief would be outside the jurisdiction of this  
217 Commission, and those supply options are not relevant to our complaint.

218                   Our Complaint addresses liquidity, cost and risk impacts deliberately  
219                   created by Questar for TS customers at its citygate. By eliminating pooling, it has  
220                   impacted the market for third party gas supplies at the citygate. To sell at the  
221                   citygate, a third party supplier must now provide potentially burdensome  
222                   nomination and balancing services for TS customers. This added responsibility  
223                   and labor imposed on suppliers is unattractive, and will certainly decrease citygate  
224                   delivered supply liquidity and/or increase costs. Suggesting that supplies be  
225                   sourced at upstream supply points or transported on other transportation  
226                   arrangements is a simple attempt to confuse and avoid the issue presented. Such  
227                   suggestions fail to remedy the manipulative damages caused at its citygate for TS  
228                   customers. In short, Questar suggests that Utah businesses and institutions should  
229                   lose a valuable gas supply option and service that has existed for years, without  
230                   any legitimate reason or justification, other than undisclosed corporate gain.

231   **Q.   Mr. Schwarzenbach dismisses the argument that pooling/aggregation will**  
232   **reduce the risk of gas supply disruptions (lines 239-254). How do you**  
233   **respond?**

234   A.   It cannot reasonably be disputed that sharing or distribution of supply risk among  
235   pools benefits TS customers during periods of interruption. With pooling, the  
236   need for individual customer curtailment is uncommon. Moreover, Questar itself  
237   (or at least its other customers) benefit from pooling, in that the balancing of  
238   pooled TS supplies upstream of its citygate is much simpler and easier to manage  
239   compared to balancing usage for each of hundreds of TS Customers.

240 **Q. Does this conclude your rebuttal testimony?**

241 **A. Yes.**