

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE APPLICATION  
OF QUESTAR GAS COMPANY TO MAKE  
TARIFF MODIFICATIONS TO CHARGE  
TRANSPORTATION CUSTOMERS FOR  
SUPPLIER-NON-GAS SERVICES

Docket No. 14-057-31

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**DIRECT TESTIMONY OF KELLY B. MENDENHALL**

**FOR QUESTAR GAS COMPANY**

December 18, 2014

**QGC Exhibit 1.0**

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## I. INTRODUCTION

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

A. My name is Kelly B. Mendenhall. My business address is 333 South State Street, Salt Lake City, Utah.

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

A. I am employed by Questar Gas Company (Questar Gas or Company) as the Director of Regulatory Affairs. I am responsible for state regulatory matters in Utah and Wyoming.

**Q. Attached to your written testimony are QGC Exhibits 1.1 through 1.4. Were these prepared by you or under your direction?**

A. Yes.

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

A. The purpose of my testimony is to propose a new supplier-non-gas reimbursement rate for the transportation class. Supplier-non-gas costs include but are not limited to upstream pipeline transportation, storage and no-notice service. I will explain the reason for the charge and explain how the charge will be calculated.

## II. TRANSPORTATION IMBALANCE CHARGE

**Q. What is the Company attempting to accomplish with the introduction of this charge/rate?**

A. There are two objectives the Company is attempting to accomplish. First, the Company seeks to assign costs to transportation customers for the services they use on the system. Historically, the sales (GS, FS and IS) customers have paid for the entire cost of these services even though the transportation customers use these services on a daily basis. Second, the Company has proposed a new rate design to give customers an incentive to more closely match their nominations to their usage.

25 **Q. Please explain how transportation customers benefit from the use of supplier non-**  
26 **gas services.**

27 A. Each day a transportation customer must arrange for procurement and nomination of gas to  
28 be delivered to Questar Gas' system so that Questar Gas can transport the gas from the city  
29 gate to the customer's burner tip. QGC Exhibit 1.1 contains two simplified diagrams  
30 showing how this is done. There are three parties involved in this process. First, the  
31 customer, represented by the factory in the exhibits, will use a certain amount of gas in any  
32 given day. Typically the customer will use an agent, who will purchase gas supplies for the  
33 customer and nominate the gas to be delivered to the Questar Gas system. Questar Gas will  
34 then transport that gas from the city gate to the customer's location, where the gas is used.  
35 On any given day, the customer may use more or less gas than was nominated and delivered  
36 by the agent to Questar Gas' system. In QGC Exhibit 1.1 page 1, the customer used less gas  
37 than was delivered for them leaving Questar Gas to manage the excess gas supplies. In this  
38 example, Questar Gas used its No-Notice and upstream transportation service to deliver and  
39 inject the extra 10 Dth of gas into storage.

40 QGC Exhibit 1.1 page 2 shows the opposite situation. In this example, the customer used  
41 more gas than was delivered for them, and Questar Gas was required to use its No-Notice  
42 and upstream transportation service to withdraw an extra 10 Dths from storage to serve this  
43 customer.

44 **Q. Do transportation customers use these SNG services often?**

45 A. Yes. These imbalances occur every day. The Company has over 300 transportation  
46 customers. In order to calculate the rate for this filing, the Company used the daily  
47 imbalance information for these transportation customers. A calculation of the daily  
48 imbalances for the twelve months ended November 2014 for these customers resulted in just  
49 under 99,000 unique data points. Of those 99,000 data points about 94,600 represented a  
50 customer imbalance. When transportation customers were given a 5% imbalance tolerance  
51 the number of days with an imbalance decreased to about 80,000. This means that on a  
52 percentage basis, transportation customers had imbalances 96% of the time, and when they

53 were given a 5% imbalance tolerance they were out of balance about 82% of the time.

54 **Q. Do you believe this charge could help reduce transportation customer imbalances on**  
55 **the system?**

56 A. Yes, we believe this proposed rate change will encourage better nominations practices.  
57 Currently, transportation customers are not charged for supplier-non gas-services that are  
58 utilized if they don't nominate accurately. It should be noted that the Company's tariff  
59 currently has penalty provisions in place if a transportation customer has a commodity  
60 imbalance but there is no charge for their use of supplier non-gas services. The intent of this  
61 charge is twofold. First, to charge the transportation customers for services they use and  
62 second to encourage customers and agents to communicate better regarding nominations.  
63 This will result in a better match of customer nominations to their daily usage, fewer  
64 imbalances and fairer cost assessment.

65 **Q. How did you calculate the rate?**

66 A. I used three components to calculate the rate. (1), I identified which services transportation  
67 customers were using and the volumetric rate for each service. I then multiplied the rates for  
68 these services by the (2) total net imbalances for the year to calculate an historical annual  
69 cost. I used this annual cost as the numerator to calculate the rate. Next, I divided the annual  
70 cost by (3) the number of customer daily imbalance Dths that were outside of a 5% tolerance  
71 to calculate the rate. A summary of the rate is shown below:

72 (1) Volumetric rates for services used X (2) total net imbalance volumes  
73 (3) Daily volumes outside of 5% tolerance

74 I will discuss each of these components in more detail.

75

**III. THE NUMERATOR**

76

**(1) Rates for Services**

77 **Q. What services are being used by transportation customers when they have a daily**  
78 **imbalance?**

79 A. Transportation customers will use transportation upstream of the city gate, storage and No-  
80 Notice service. All of these services are provided by the upstream pipeline and the rates  
81 charged have been approved by the Federal Energy Regulatory Commission (FERC). The  
82 table below shows a summary of these rates:

	Component	Volumetric Rate
1	Transportation	\$0.17652
2	No-Notice Transportation	\$0.02852
3	ACA Charge	\$0.00140
4	QPC Fuel Gas Reimbursement	\$0.09124
5	Clay Basin Demand	\$0.09381
6	Clay Basin Capacity	\$0.02378
7	Clay Basin Fuel Gas Reimbursement	\$0.09263
8	Injection/Withdrawal Avg	\$0.01415
9	Total Charge	\$0.52205

83 **Q. Can you please explain how the rates/charges are calculated?**

84 A. Yes. I will explain each of these charges in detail. QGC Exhibit 1.2 contains Questar  
85 Pipeline Company's (Questar Pipeline) tariff sheets and other source data for these rates.

86 **Q. Please explain the \$0.17 transportation charge.**

87 A. This charge is based on the interruptible transportation (T-2) charge that is included in the  
88 SNG costs Questar Gas customers pay to Questar Pipeline as shown as item 1 on page 1 of  
89 QGC Exhibit 1.2.

90 **Q. Why has the No-Notice Transportation Service been included?**

91 A. The No-Notice Transportation service gives the Company the flexibility to deliver gas to or  
92 from the system in between normal nomination cycles. This service is being used when load  
93 does not match nominations at the QGC/QPC gate stations. This includes imbalances for  
94 transportation customers. This service is paid for on a monthly basis by sales customers  
95 whether it is used or not. The monthly reservation charge is shown as item number 2 on  
96 QGC Exhibit 1.2, page 1. The \$0.86753 is multiplied by twelve months and divided by 365  
97 days to develop a \$0.02852/Dth rate.

98 **Q. What is the ACA Charge?**

99 A. The Federal Energy Regulatory Commission (FERC) receives an annual appropriation from  
100 Congress to defray its operating costs and recovers 100 percent of this appropriation through  
101 the collection of annual charges and filing fees. These annual charges and filing fees are  
102 assessed to recover costs incurred by the Commission in the performance of its regulatory  
103 responsibilities. Questar Pipeline is required to pay \$0.0014 per Dth to the FERC and it  
104 collects this charge from its transportation customers. The backup for this charge is shown  
105 as item number 3 of page 3 of QGC Exhibit 1.2.

106 **Q. How was the Questar Pipeline Fuel Gas Reimbursement percentage calculated?**

107 A. Currently, Pipeline transportation customers are required to deliver 1.97% in kind  
108 reimbursement to Questar Pipeline to cover the costs of fuel used, lost and unaccounted for.  
109 This charge is shown as item number 4 on page 1 of QGC Exhibit 1.2. In order to create a  
110 volumetric charge instead of an in-kind reimbursement, the Company used the weighted  
111 average cost of gas from the most recent pass through filing and applied 1.97% of that cost as  
112 a volumetric rate. In the last pass-through application the weighted average cost of gas was  
113 \$4.63135, and 1.97% of that amount is \$0.09124/Dth.

114 **Q. What is the Clay Basin Demand Charge?**

115 A. This is one of several charges at the Clay Basin storage reservoir. In plain terms, the demand  
116 charge gives Questar Gas deliverability rights into Clay Basin. This charge reserves a certain

117 amount of deliverability each day. This \$2.85338 monthly charge is shown as item number 5  
118 on page 2 of QGC Exhibit 1.2. In order to convert this monthly charge to a volumetric rate, I  
119 have multiplied the charge by 12 months and divided it by 365 days to come up with a daily  
120 charge of \$0.09381/Dth.

121 **Q. Please explain the Clay Basin Capacity Charge.**

122 A. The Clay Basin Capacity charge covers the actual storage space being used in Clay Basin.  
123 This charge is \$0.02378/Dth as shown on item number 6 on page 2 of QGC Exhibit 1.2.

124 **Q. How was the Clay Basin Fuel reimbursement calculated?**

125 A. Customers are required to reimburse Questar Pipeline for actual gas used for fuel at the Clay  
126 Basin storage facility. Customers are charged monthly for actual gas used. Over the past  
127 year, that monthly amount has ranged from a low of 1.3% to a high of 3.0%. For purposes of  
128 this rate, the Company is proposing to use the Park and Loan 1 (PAL1) fuel reimbursement  
129 rate of 2.0% as shown on item number 7 of QGC Exhibit 1.2, page 2. The Company is  
130 proposing to use the same method to calculate the Clay Basin fuel gas reimbursement charge  
131 as it did for the QPC fuel gas reimbursement rate, by using 2.0% of the currently effective  
132 WACOG rate of \$4.63135. This yields a rate of \$0.09263.

133 **Q. How was the Injection/Withdrawal average calculated?**

134 A. Each time gas is injected or withdrawn from Clay Basin, the customer is charged either an  
135 injection or a withdrawal fee. These fees are shown on item 8 of QGC Exhibit 1.2 page 2. I  
136 have averaged the two rates together for an average rate of \$0.01415/Dth.

137 **Q. What is the total rate when all of these components are added?**

138 A. The total rate is \$0.52205/Dth. This total rate representing services used will be multiplied by  
139 the total imbalance Dths to calculate a total annual cost of service.



**(2) Netted Imbalance Volumes**

140 **Q. How are the total imbalance Dths calculated?**

141 A. I started with the daily usage data for all of the transportation customers for the twelve  
142 months ended November 30, 2014. Recognizing that some TS customers may pack (over  
143 deliver) to QGC's system and others may draft (under deliver) to QGC's system we calculate  
144 the daily imbalances by netting all of the customer's imbalances. For example, if one  
145 customer had an imbalance of +10 Dths and another customer had an imbalance of -10 Dths,  
146 those two imbalances would be netted to zero for the day. A summary of each of the  
147 cumulative, netted daily imbalances for all transportation customers is shown in the rate  
148 calculation model in QGC Exhibit 1.3. The total daily imbalances for the twelve months  
149 ended November 2014 amounted to 3,333,731 Dths. A summary of these daily netted  
150 imbalances is shown in the model in QGC Exhibit 3. This indicates the amount of services  
151 used for transportation customers. This number was multiplied by the volumetric rate of  
152 \$0.52205 to come up with a total annual cost of \$1,740,374. This is the amount that needs to  
153 be collected from the transportation customers.

154 **IV. THE DENOMINATOR**

155 **Q. How will the \$1.7 million be collected from customers?**

156 A. After discussions with internal personnel, the Division of Public Utilities (Division), the  
157 Office of Consumer Services (Office), TS customers, customer agents and the Utah  
158 Association of Energy Users (UAE), the Company is proposing that each customer be given  
159 a daily imbalance tolerance of 5%. This transportation imbalance rate would only be applied  
160 to those daily imbalance volumes outside 5%.

161 **Q. Can you provide an example?**

162 A. Yes. Assume a customer nominated 1,000 Dths on a given day, including 15 Dths for fuel,  
163 and that the customer used 900 Dths. The imbalance and the 5% tolerance would be  
164 calculated as follows:

Nomination	1,000 DTH
Fuel	15 DTH
Usage	900 DTH
Imbalance	$1,000 - 15 - 900 = 85$ DTH
5% tolerance	$5\% * (900 \text{ DTH}) = 45$ DTH
Usage outside of tolerance	$85 \text{ Imbalance} - 45 \text{ tolerance} = 40$ DTH

165 In this example, the amount outside of the tolerance would be 40 Dths (85 Dths – 45 Dths).  
166 Those 40 Dths would be assessed the charge and it is the sum of those Dths for each  
167 individual customer that is used in the denominator to calculate the final rate.

168 **Q. How many Dths did you calculate for the denominator?**

169 A. The total daily imbalances for each customer, adjusted for a 5% imbalance tolerance,  
170 amounted to 9,128,985. A summary of these imbalances is shown in the rate calculation  
171 model in QGC Exhibit 1.3. The \$1,740,374 million that needs to be collected is then divided  
172 by 9,128,985 Dths resulting in a rate of \$0.19064. This is the rate the Company is proposing.

173 **The final rate is calculated formulaically as follows:**

174 
$$(1)\frac{\$0.52205 \times (2)3,333,731}{(3)9,128,985} = \$0.19064$$
  
175

176 **Q. Did the Company look at using a different denominator than the volumes that were**  
177 **outside the 5% tolerance?**

178 A. Yes. The Company and interested parties discussed various ways to collect this cost from  
179 customers. We considered dividing the cost by all Dths used to come up with a flat  
180 volumetric charge for every Dth used. While this would cause the charge to be lower, it  
181 would charge all customers the same regardless of whether they managed their nominations  
182 accurately. Many of the stakeholders did not believe this was reasonable because it would  
183 assess some transportation customers costs for services that they did not use. Additionally,  
184 this rate did not seem to provide an incentive to customers to better match their nominations

185 to their usage. We also looked at charging for any mismatch between nominations and usage  
186 without allowing for a 5% tolerance. Based on feedback we received from stakeholders at  
187 various meetings, they preferred a 5% tolerance. Although this increased the complexity of  
188 the billing and the calculation, the Company is proposing this 5% tolerance option as a  
189 compromise.

190 **V. TARIFF SHEETS**

191 **Q. Have you updated the FT-1,TS and MT tariff sheets to include this new charge?**

192 A. Yes. The tariff has been updated to include an explanation of this charge. The updated rate  
193 sheets for the TS, FT-1 and MT classes also include this charge. Legislative and Proposed  
194 versions of these tariff sheets are included in QGC Exhibit 1.4.

195 **Q. When are you proposing the rate become effective?**

196 A. The Company is proposing that this rate become effective February, 1, 2015.

197 **Q. How will this rate be calculated going forward?**

198 A. The Company is proposing to calculate this rate along with the other Supplier Non-Gas rates  
199 in each pass-through application. The rate would be calculated based on the most recent  
200 twelve months of data, similar to what I have done in this application. The rate would be  
201 included as part of the FT-1, TS and MT rate schedules.

202 **Q. How will the Company treat the revenues collected from this charge?**

203 A. These revenues will be treated as a reimbursement to sales customers for the use of the  
204 upstream transportation, storage and no-notice transportation services that they are paying for  
205 in their rates. Any money collected from transportation customers will be credited to sales  
206 customers in the 191 account in each pass-through application.

207 **Q. Is the Company proposing to true up these rates for over collections or under**  
208 **collections in the amount of revenue?**

209 A. No. In a perfect world all TS customers would nominate volumes to match anticipated usage  
210 and no revenue would be collected. The Company is proposing to collect for the services  
211 that are used but there will not be an amortization for under or over collections.

212 **VI. IMPACT ON SERVICE**

213 **Q. Does the assessment of this new charge mean that the transportation customers will**  
214 **receive the same priority of service as the sales customers?**

215 A. No. The sales customers pay for the transportation, storage and no-notice transportation  
216 services on a firm basis as a daily demand charge, meaning that they pay for the services  
217 whether they are used or not. These services allow for maximum flexibility in gas supply and  
218 increase the reliability for the sales customers. The transportation customers are paying a  
219 volumetric rate for the services only when they are used, and these services will only be  
220 extended to transportation customers when available. There may be days when the upstream  
221 transportation, storage and no-notice transportation are being fully utilized by sales  
222 customers with no excess capacity. On these days the services will not be available to  
223 transportation customers.

224 **Q. Has the Company previously communicated this proposed charge to transportation**  
225 **customers?**

226 A. Yes. As a part of the nominations task force in Docket No. 13-057-05 the Company met with  
227 transportation customers and their agents. These meetings were held on February 28, March  
228 24 and May 13, 2014. The Company proposed different ideas and received feedback from  
229 the parties. Ultimately these discussions helped the Company form the rate calculation. The  
230 Company presented this rate at its annual customer meeting on September 16. On November  
231 13 the Company also presented the rate at the UAE breakfast.

232 **Q. Can you summarize your recommendations?**

233 A. Yes. To more properly match costs to the transportation customers who utilize the services,  
234 the Company is requesting that the transportation imbalance charge be added to the FT-1, TS  
235 and MT rate schedules effective February 1, 2015. In addition the Company is requesting  
236 that it be allowed to recalculate the rate as part of each pass-through filing and that the  
237 revenues collected from this charge be credited to all sales customers as a credit to the 191  
238 account in pass-through proceedings.

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

240 A. Yes.

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

I, Kelly B Mendenhall, 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.

\_\_\_\_\_  
Kelly B Mendenhall

SUBSCRIBED AND SWORN TO this 18th day of December, 2014.

\_\_\_\_\_  
Notary Public