

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION)	
OF QUESTAR GAS COMPANY TO MAKE)	
TARIFF MODIFICATIONS TO CHARGE)	DOCKET NO. 14-057-31
TRANSPORTATION CUSTOMERS FOR)	
SUPPLIER-ON-GAS SERVICES)	

DIRECT TESTIMONY (AMENDED)

OF

JEROME D. MIERZWA

FOR THE OFFICE OF CONSUMER SERVICES

JULY 21, 2015



10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

DIRECT TESTIMONY OF JEROME D. MIERZWA

I. INTRODUCTION

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Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jerome D. Mierzwa. I am a Principal and Vice President with Exeter Associates, Inc (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master’s Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation (“NFGD”) as a Management Trainee in the Research and Statistical Services Department (“RSS”). I was promoted to Supervisor RSS in January 1987. While employed with NFGD, I conducted various financial and statistical analyses related to the Company’s market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation’s (“NFG Supply”) rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting, and activities related to federal regulation. I was also responsible for preparing NFG Supply’s Purchased Gas Adjustment (“PGA”) filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFGD’s annual purchased gas cost proceedings.

25 In April 1990, I accepted a position as a Utility Analyst with Exeter. In
26 December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1,
27 1996, I became a Principal of Exeter. Since joining Exeter, I have specialized in
28 evaluating the gas purchasing practices and policies of natural gas utilities, utility
29 class cost of service and rate design analysis, sales and rate forecasting, performance-
30 based incentive regulation, revenue requirement analysis, the unbundling of utility
31 services, and evaluation of customer choice natural gas transportation programs.

32 Q. HAVE YOU PREVIOUSLY TESTIFIED ON UTILITY RATES IN
33 REGULATORY PROCEEDINGS?

34 A. Yes. I have provided testimony on more than 200 occasions in proceedings before
35 the Federal Energy Regulatory Commission (“FERC”) and state utility regulatory
36 commissions in Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Montana,
37 Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, Texas, and Virginia.

38 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

39 A. Exeter was retained by the Office of Consumer Services (“OCS”) to review the
40 proposal of Questar Gas Company (“Questar Gas” or “Company”) to implement a
41 transportation imbalance charge. My testimony presents the results of my review,
42 and also responds to the prefiled direct testimony of several intervening parties.
43 These intervening parties and their witnesses include:

- 44 • The Utah Association of Energy Users, Nucor Steel-Utah, and CIMA
45 ENERGY LTD (collectively, “Utah Energy Association”) –
46 Witnesses: Kevin C. Higgins and Jeff J. Fishman;
- 47 • U.S. Magnesium, LLC – Witness: Roger J. Swenson;

- 48 • Summit Energy, LLC – Witness: Michael R. McGarvey; and
49 • CIMA ENERGY LTD – Witness: Matthew Medura.

50 In testimony, the witnesses of the intervening parties present similar positions on a
51 number of issues. In responding to those positions in my testimony, I have attempted
52 to focus my response on the primary witness addressing a particular issue rather than
53 individually responding to each intervening witness.

54 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

55 A. My recommendations are as follows:

- 56 • Questar Gas’ proposal to implement a \$0.19064 per Dth charge on
57 transportation customer daily imbalances which exceed 5 percent of usage
58 is reasonable and should be approved; and
59 • Adopting a \$0.03675 per Dth balancing charge on all transportation
60 volumes as an alternative would also be reasonable.

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II. TRANSPORTATION IMBALANCE CHARGE

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Q. BRIEFLY DESCRIBE QUESTAR GAS' PROPOSAL TO IMPLEMENT A
TRANSPORTATION IMBALANCE CHARGE.

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A. As described in the direct testimony of Questar Gas witness Kelly B. Mendenhall, the
Company is proposing to assess transportation customers a charge of \$0.19064 per
Dth on daily imbalances between nominated volumes and usage that exceed
5 percent. The Company claims the intent of the charge is twofold: (1) to charge
transportation customers for the services they use; and (2) to give transportation
customers an incentive to more closely match their nominations to their usage.

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Q. HOW WAS THE \$0.19064 PER DTH CHARGE CALCULATED?

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A. For the 12-month period ended November 2014, Questar Gas determined the netted
daily imbalance volumes of all transportation customers to be 3,333,731 Dth. That is,
for the 12-month period, the Company provided services to accommodate daily
differences which totaled 3,333,731 Dth between transportation customers'
nominations and usage. Questar Gas then identified the rates associated with the
interstate pipeline services used to accommodate daily imbalances. These interstate
pipeline services are all purchased by Questar Gas from Questar Pipeline Company
("QPC"). The various services used by the Company and the applicable rates are
presented in Table 1. As shown, the total rate for the services used by Questar Gas to
accommodate imbalances is \$0.52205 per Dth. The total rate of \$0.52205 per Dth
was then multiplied by netted imbalance volumes of 3,333,731 Dth to determine an
annual cost of accommodating daily imbalances of \$1,740,374. The annual cost of
accommodating imbalances was then divided by the total daily imbalances of each
customer for the annual period, adjusted for a 5 percent imbalance tolerance of
9,128,985 Dth, to arrive at the \$0.19064 rate.

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Table 1. Questar Gas Company Company Proposed Imbalance Charge	
Summary of Imbalance Charge Rate Components	Volumetric Rate (\$/Dth)
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 Average	\$0.01415
9. Total Pipeline Charges	\$0.52205
$\frac{3,333,731 \text{ Dth} \times \$0.52205/\text{Dth}}{9,128,985 \text{ Dth}} = \0.19064	

87 Q. ARE YOU IN GENERAL AGREEMENT WITH THE COMPANY’S
88 DESIGN OF THE TRANSPORTATION IMBALANCE CHARGE?

89 A. Yes, I am.

90 Q. MR. HIGGINS OF THE UTAH ASSOCIATION OF ENERGY USERS
91 RECOMMENDS THAT IF THE COMMISSION IS INTERESTED IN
92 CONSIDERING THE IMPOSITION OF A DAILY TRANSPORTATION
93 IMBALANCE CHARGE, THE COMMISSION SHOULD SPONSOR A
94 WORKSHOP PROCESS TO INVESTIGATE HOW DAILY BALANCING
95 WOULD BE BEST ACCOMPLISHED. DO YOU AGREE WITH MR.
96 HIGGINS’ SUGGESTION?

97 A. No. A number of technical and settlement conferences have already been held in an
98 attempt to implement an imbalance charge; these efforts have been unsuccessful. It is
99 unlikely that additional workshops will resolve the issue and would only serve to

100 further delay reaching a resolution. Until the issue is resolved, transportation
101 customers will continue to pay nothing for the balancing services that they are
102 provided by Questar Gas.

103 Q. MR. HIGGINS RECOMMENDS THAT THE TRANSPORTATION COST
104 COMPONENT OF \$0.17652 PER DTH SHOULD BE REMOVED FROM
105 THE IMBALANCE CHARGE RATE CALCULATION. DO YOU AGREE?

106 A. No. The \$0.17652 per Dth transportation cost component is the 100 percent load
107 factor equivalent of the rates Questar Gas pays QPC for firm transportation service.
108 MR. HIGGINS claims that there is no evidence that the transportation cost
109 component is an incremental charge and that it is actually incurred by Questar Gas to
110 accommodate imbalances. MR. HIGGINS is correct that this is not an incremental
111 charge assessed to Questar Gas for accommodating transportation customer
112 imbalances. However, Questar Gas uses the firm transportation capacity paid for by
113 sales customers to provide balancing service. The intent of reflecting the \$0.17652
114 per Dth charge in the rate calculation is to reimburse sales customers for the value of
115 the services that transportation customers are using. In essence, it is as if Questar Gas
116 has released capacity to transportation customers at the 100 percent load factor rate
117 for QPC firm transportation service.

118 Q. MR. HIGGINS CLAIMS THAT THE COMPANY'S CALCULATION OF
119 THE \$0.19064 PER DTH IMBALANCE CHARGE DOES NOT TAKE
120 INTO ACCOUNT THE REDUCTION IN STORAGE ACTIVITY THAT
121 RESULTS WHEN TRANSPORTATION CUSTOMERS' IMBALANCES
122 AND THE IMBALANCES OF QUESTAR GAS SALES CUSTOMERS
123 MOVE IN OPPOSITE DIRECTIONS ON A GIVEN DAY. WHAT IS
124 YOUR RESPONSE TO THIS CLAIM?

125 A. Questar Gas' calculation of the proposed \$0.19064 per Dth charge reflects the
126 inclusion of storage injection and withdrawal charges consistent with how interstate
127 pipelines assess their customers these storage charges on a daily basis. Interstate
128 pipelines individually assess storage injection and withdrawal charges on a daily basis
129 for each customer to whom they provide storage service. Interstate pipelines do not
130 waive storage injection and withdrawal charges for those customers whose injection
131 or withdrawal activity is in the opposite direction of the activity of the majority of
132 their customers.

133 Q. AS A GENERAL MATTER, MR. HIGGINS CLAIMS THAT DAILY
134 BALANCING REQUIREMENTS FOR TRANSPORTATION
135 CUSTOMERS ARE RARE, AND FOR THOSE THAT DO IMPOSE A
136 DAILY BALANCING REQUIREMENT, THE DAILY TOLERANCE IS
137 SIGNIFICANTLY GREATER THAN THE 5 PERCENT PROPOSED BY
138 QUESTAR GAS. HE ALSO CLAIMS THAT MONTHLY BALANCING IS
139 THE STANDARD APPLIED ACROSS THE COUNTRY. WHAT IS YOUR
140 RESPONSE?

141 A. I would agree that daily balancing is less common than monthly balancing. However,
142 it also is common for those gas utilities which require monthly balancing to also
143 assess transportation customers a balancing charge on each dekatherm (or Mcf) of
144 throughput. Questar Gas does not currently assess either a daily or monthly balancing
145 charge. A sample of the gas utilities assessing a monthly balancing charge include
146 the following:

- 147
- National Fuel Gas Distribution Corporation (“NFGD”) – 29 cents per Mcf;
 - Peoples Natural Gas – 44.42 cents per Mcf (General Service customers) / 8.64 cents per Mcf (Industrial customers);
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- 150 • Chesapeake Utilities Corporation (Delaware Division) – 59 cents per Mcf
151 (Large Service customers) / 12 cents per Mcf (High Load Factor customers);
152 and
- 153 • Duke Energy Ohio – 19.4 cents per Mcf.

154 I would further note that in addition to providing monthly balancing service,
155 NFGD also provides a daily metered transportation (“DMT”) service which includes
156 a 2 percent daily over-delivery imbalance tolerance. Over-deliveries in excess of
157 2 percent are assessed a charge of 63.51 cents per Mcf. Under-deliveries in excess of
158 deliveries are sold to DMT customers under the otherwise applicable sales rate
159 schedule. Delmarva Power & Light Company requires daily balancing and assesses
160 an imbalance charge of 33.88 cents per Mcf on all daily imbalances with no tolerance.
161 In summary, it is my experience that balancing requirements and the applicable
162 charges are based on the circumstances and costs particular to each gas utility.

163 Q. MR. HIGGINS CLAIMS THAT THE IMBALANCE QUANTITIES
164 REFLECTED IN THE DESIGN OF QUESTAR GAS’ PROPOSED DAILY
165 IMBALANCE CHARGE WERE DETERMINED UNDER A MONTHLY
166 BALANCING REGIME AND THAT THIS IS INAPPROPRIATE. WHAT
167 DOES MR. HIGGINS RECOMMEND?

168 A. MR. HIGGINS recommends that before a revenue requirement for a new daily
169 imbalance charge is determined, transportation customers and suppliers should be
170 given advance notice that a cost for daily imbalances will be imputed for recovery
171 through a future daily imbalance charge. That is, if Questar Gas is going to design an
172 imbalance charge that will be assessed in the future based on actual transportation
173 customer imbalances measured during a historic period, transportation customers
174 should be notified that their activity during the historic period will affect the
175 calculation of that imbalance charge.

176 Q. SHOULD IMPLEMENTATION OF A DAILY IMBALANCE CHARGE BE
177 DEFERRED UNTIL TRANSPORTATION CUSTOMERS ARE NOTIFIED
178 OF THE PROPOSED CHANGE IN BALANCING REQUIREMENTS AND
179 IMBALANCE CHARGES ARE SUBSEQUENTLY RECALCULATED TO
180 REFLECT ANY CHANGE IN IMBALANCE QUANTITIES?

181 A. No. MR. HIGGINS' proposal is unnecessary and the implementation of a daily
182 imbalance charge should not be further delayed. Under Questar Gas' proposal, a
183 transportation customer can completely avoid the daily imbalance charge by limiting
184 daily imbalances to 5 percent. Moreover, Utah Association of Energy Users' witness
185 Fishman acknowledges that if transportation customers were provided the opportunity
186 suggested by MR. HIGGINS, it is unlikely that transportation customers would
187 meaningfully reduce imbalances (direct, lines 65-67).

188 Q. SUMMIT ENERGY WITNESS MCGARVEY CLAIMS THAT THE QPC
189 FUEL GAS REIMBURSEMENT CHARGE INCLUDED IN THE DESIGN
190 OF QUESTAR GAS' DAILY IMBALANCE CHARGE IS IMPROPERLY
191 CALCULATED. DO YOU AGREE WITH WITNESS MCGARVEY?

192 A. Witness McGarvey claims that the QPC fuel gas reimbursement charge was
193 mistakenly derived based on Questar Gas' cost of gas. He claims that the charge
194 should be based on a market cost of gas. I disagree. The QPC fuel gas
195 reimbursement charge is a percentage charge assessed on the quantity of gas being
196 transported. For example, if Questar Gas needed QPC to deliver 100 Dth to its
197 system, a fuel charge of 2 percent would require the Company to purchase 102 Dth
198 for upstream delivery to QPC. As such, the cost of the fuel reimbursement charge to
199 Questar Gas is based on its cost of gas (fuel), not a market price. Therefore, the

200 appropriate cost of gas to be used in the imbalance charge calculation is the
201 Company's cost.

202 Witness McGarvey also claims that Questar Gas' daily imbalance charge
203 calculation is based on a 1.97 percent QPC fuel reimbursement charge and that the
204 current charge is 1.86 percent. While this may be technically correct, adjusting the
205 charge results in an immaterial change in the calculated imbalance charge.

206 Q. WITNESS MCGARVEY CLAIMS THAT THE PROPOSED DAILY
207 IMBALANCE TOLERANCE OF 5 PERCENT SHOULD BE REJECTED
208 BECAUSE QUESTAR GAS DOES NOT HAVE THE NECESSARY
209 TELEMETERING SERVICES IN PLACE FOR TRANSPORTATION
210 CUSTOMERS TO MONITOR DAILY IMBALANCES. IS THIS A
211 REASON FOR REJECTING THE PROPOSED 5 PERCENT TOLERANCE?

212 A. No. Transportation service is an elective service. Therefore, transportation
213 customers should be responsible for monitoring their own usage on a real-time basis
214 and for paying the costs associated with any necessary telemetering services.

215 Q. WITNESS MCGARVEY RECOMMENDS THAT QUESTAR GAS
216 EXPLORE OTHER METHODS TO RECOVER THE COSTS
217 ASSOCIATED WITH PROVIDING BALANCING SERVICE SUCH AS A
218 PER-DTH CHARGE ON ALL TRANSPORTATION CUSTOMER
219 VOLUMES. WOULD YOU OPPOSE SUCH AN APPROACH?

220 A. No. However, under witness McGarvey's suggested per-Dth approach; the incentive
221 to minimize imbalances is significantly reduced.

222 Q. HAVE YOU PREPARED A CALCULATION OF A VOLUMETRIC PER-
223 DTH BALANCING CHARGE AS SUGGESTED BY WITNESS
224 MCGARVEY?

- 225 A. Yes. A calculation of a volumetric per-Dth daily charge is presented in Table 2. As
 226 shown, the volumetric balancing charge would be \$0.03675 per Dth.

Table 2. Questar Gas Company OCS Volumetric Balancing Charge	
Netted Imbalance Volumes	3,333,731 Dth
Imbalance Cost Rate	<u>\$0.52205/Dth</u>
Imbalance Costs	\$1,740,374
Annual Transport Volumes ⁽¹⁾	47,355,069 Dth
Volumetric Imbalance Charge	\$0.03675/Dth
⁽¹⁾ Amended based on updated Questar Gas Response OCS 3.02U Attachment 1.	

- 227 Q. CIMA ENERGY WITNESS MEDURA RECOMMENDS THAT
 228 IMBALANCES WOULD BE BETTER MONITORED AND MANAGED
 229 AT THE SUPPLIER LEVEL IN AGGREGATE THAN AT THE
 230 INDIVIDUAL CUSTOMER LEVEL AS QUESTAR GAS HAS
 231 PROPOSED. DO YOU HAVE ANY COMMENTS CONCERNING
 232 WITNESS MEDURA’S RECOMMENDATION?

- 233 A. It is my understanding that Questar Gas has contracts with individual customers
 234 rather than suppliers. Therefore, at this time, witness Medura’s proposal is not
 235 feasible. I also note that in calculating the proposed imbalance charge, the Company
 236 has already calculated the costs associated with accommodating balances on an
 237 aggregate basis. That is, the positive and negative imbalances of all transportation
 238 customers have already been netted.

- 239 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

- A. Yes, it does.