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**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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**PREFILED REBUTTAL TESTIMONY OF ROGER J. SWENSON**

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US Magnesium LLC hereby submits the Prefiled Rebuttal Testimony of Roger J. Swenson in this docket.

DATED this 31<sup>st</sup> day of July 2015.

HATCH, JAMES & DODGE

/s/ \_\_\_\_\_  
Gary A. Dodge  
Attorneys for US Magnesium LLC

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 31<sup>st</sup> day of July 2015 on the following:

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/s/ \_\_\_\_\_

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF UTAH**

**Rebuttal Testimony of**  
**ROGER J. SWENSON**

**On behalf of US Magnesium LLC**

**Docket No. 14-057-31**

**July 31, 2015**

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

2 A. My name is Roger Swenson. My business address is 1592 East 3350 South, Salt Lake  
3 City, Utah.

4 **Q. Did you submit direct testimony on behalf of US Magnesium in this docket?**

5 A. Yes.

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

7 A. The purpose of my rebuttal testimony is to respond generally to the testimony of Douglas  
8 Wheelwright and Jerome Mierzwa in regards to new supplier-non-gas charges for the  
9 transportation class as proposed by Questar Gas.

10 **Q. What do you understand to have been the intention of Division witness Doug  
11 Wheelwright's testimony?**

12 A. Mr. Wheelwright's Direct Testimony states that it is limited to "broad topics and the  
13 purpose of the charges," but it seems to extend beyond that in some respects. Mr.  
14 Wheelwright makes some reasonable suggestions (such as the need for more analysis to  
15 get to an accurate basis for any charges and the need for broadening the required  
16 accuracy band), but he also offers some very specific recommendations that give me  
17 great concern and that, if accepted, will likely drive nomination accuracy in the wrong  
18 direction.

19 **Q. What specifically gives you this concern?**

20 A. I believe from reading Mr. Wheelwright's testimony that he believes that more accuracy  
21 in nominations is an important goal. However he suggests that a volumetric charge  
22 should be imposed on all transportation volumes to capture the costs as determined from  
23 a working group effort. By applying such a charge to all transportation volumes  
24 regardless of nomination accuracy, there would be a reduced incentive to match usage  
25 and nominations.

26 **Q. If a volumetric rate were charged to all transportation volumes, what do you believe**  
27 **would be the result?**

28 A. I expect that nomination accuracy would get worse. In essence, there would be no direct  
29 reason for a customer to try to do better, since all volumes will be forced to pay the same  
30 charge regardless of a given customer's nomination accuracy. US Magnesium is able to  
31 predict and control its gas usage in a fairly accurate manner. If all volumes pay the same  
32 socialized imbalance charge, there would be little reason to worry about nominating  
33 accurately since the cost of inaccurate nominations for other customers will be collected  
34 from US Magnesium even if it nominates perfectly and does not cause any of the  
35 suggested costs or impacts.

36 **Q. If this new socialized cost were to be imposed on a large customer like US**  
37 **Magnesium, what would it have an incentive to do?**

38 A. It would have an incentive to try to make up the additional cost, perhaps by managing its  
39 nominations and gas usage in a manner designed to create value to offset the new cost.

40 As a result, nominations and usage may become less closely matched while it attempts to  
41 cover an additional cost burden that it did not cause.

42 **Q. Do you have other concerns about any of Mr. Wheelwright's suggestions?**

43 A. Yes. He suggests that, because large customers would be easier to monitor and they  
44 represent a large portion of transportation volumes, the total burden of matching  
45 nominations and usage should be placed on them. He suggests that this would not be  
46 discriminatory because these customers are larger and more impactful. I take issue with  
47 what appears to be a legal opinion, and I am not comfortable with the arbitrary line that  
48 he seems to draw. If the 41<sup>st</sup> largest customer has no daily imbalance charges or  
49 constraints while the 40<sup>th</sup> largest transportation customer does, I question any logic that  
50 would suggest this would be non-discriminatory.

51 **Q. How do you respond to Mr. Wheelwright's example of a large customer with**  
52 **significant discrepancies between usage and nominations?**

53 A. The example provided by Mr. Wheelwright in his Chart 2 supports a point that I made in  
54 my direct testimony. Transportation customers have been working under defined monthly  
55 balancing guidelines for more than 20 years. Transportation customers and their agents  
56 know what needs to be done to avoid or minimize charges and penalties. Chart 2 reflects  
57 rational behavior under existing balancing guidelines. Moreover, as Mr. Wheelwright  
58 acknowledges, a supplier may have manipulated this particular customer's nominations  
59 to keep its customers in balance in the aggregate. Nevertheless, this specific customer's

60 significant nomination inaccuracies contribute to the imbalance volumes used in  
61 Questar's rate determination. If a new set of rules were in place, these swings would  
62 almost certainly not occur in this same way. If new rules and new charges cause  
63 substantially different behavior, then the basis proposed for rates suggested by the  
64 Company will clearly be wrong. That is why I propose using the upcoming year to show  
65 transportation customers what their costs would be if they were inaccurate.

66 New rules with economic consequences will provide an economic incentive for  
67 customers who care about costs. US Magnesium's difference between its nomination and  
68 usage under the proposed new charge for daily inaccuracy will likely be much closer, and  
69 its suppliers might not be able to use the US Magnesium load for aggregate imbalance  
70 swings. Mr. Wheelwright's notion that the largest customers contribute so much of the  
71 inaccuracy may be misplaced, as the largest customers may often be the most accurate,  
72 but may be used to provide swing capacity for the inaccuracy of smaller users.

73 **Q. What do you think should be done in recognition of different types of transportation**  
74 **customers?**

75 A. I believe transportation customers should be allowed to choose between (1) paying a  
76 charge on all usage volumes (for customers who cannot or do not want to worry as much  
77 about nomination accuracy), or (2) paying a charge on imbalances beyond a reasonable  
78 tolerance level (for customers who can and want to minimize nomination inaccuracies to  
79 avoid additional costs). Also, transportation customers should be allowed to aggregate

80 nominations and imbalances at the agent level, allowing smaller customers to manage  
81 nomination inaccuracies in a more effective way.

82 **Q. What is your general reaction to the direct testimony filed by Mr. Mierzwa on**  
83 **behalf of the Office?**

84 A. Mr. Mierzwa suggests that additional costs should be imposed on transportation  
85 customers as quickly as possible because taking the time to get to a clear actual cost basis  
86 would cause delay. This suggestion should be rejected, particularly given that the current  
87 imbalance regime has existed for decades and very few utilities of which I am aware  
88 impose these types of daily imbalance requirements. It appears that for Mr. Mierzwa,  
89 getting the cost basis right is not as important as increasing transportation costs  
90 immediately. His suggestion seems to be that we should start charging transportation  
91 customers immediately for costs that they may or may not be causing, and worry about  
92 accuracy later. I strongly disagree with that type of approach.

93 **Q. Do you have concerns with other aspects of Mr. Mierzwa's testimony?**

94 A. Yes. While he agrees with Mr. Higgins that no incremental costs are caused by  
95 transportation customers, he essentially suggests that the Commission should engage in  
96 value-based rate making (line 116). If value, rather than cost-causation, is to be the basis  
97 for charges in this matter, numerous other value components must also be investigated.  
98 For instance, losses in the proposed rate determination (for transport that may not even be  
99 occurring if offsets are considered) are valued at the Questar cost of gas, which is roughly



100 double the value of market price. A value-based approach would impute losses at market  
101 value. Also, numerous examples of unused pipeline capacity being released at steeply  
102 discounted prices for those willing to use it when it is not needed should be taken into  
103 account in a value-based analysis. If rates are to be based on value rather than cost, every  
104 item in the determination of rates should be analyzed on a value basis. No such analysis  
105 has been attempted.

106 **Q. How does Mr. Mierzwa justify ignoring offsetting gas flows such as reductions in**  
107 **withdrawal that would occur if transportation customers are long?**

108 A. He suggests they should be ignored in this instance because interstate pipelines  
109 supposedly ignore it. In fact, when a counter-flow arrangement comes into play --  
110 usually called a backhaul -- the rates are generally significantly discounted. Often,  
111 backhaul transactions are charged at a fraction of the forward haul rate. Under Mr.  
112 Mierzwa's value-based approach, backhaul discounts should be taken into consideration  
113 in a value-based rate determination.

114 **Q. What is your overall conclusion from the testimony of the Division and the Office in**  
115 **this matter?**

116 A. I believe the Division is correct that more time and analysis is needed to develop a proper  
117 framework for a just and reasonable charge. During a future investigation period, the  
118 Company should be required to provide example costs to all customers in order to incent  
119 desired behavioral changes. A socialized volumetric charge should not be applied to all

120 transportation volumes, as it would not provide an incentive to be more accurate and in  
121 fact may provide an incentive to be less accurate. The Office's suggestion that  
122 transportation customers should be charged first and a proper basis for the charge should  
123 be determined later should be rejected. Moreover, basing a charge on the alleged value of  
124 a service rather than on incremental cost causation is inappropriate, particularly if the  
125 value of all other inputs to the rate determination are not also considered.

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

127 **A. Yes.**