

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)

SURREBUTTAL TESTIMONY

OF

JEROME D. MIERZWA

FOR THE OFFICE OF CONSUMER SERVICES

August 14, 2015

EXETER
ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

DIRECT TESTIMONY OF JEROME D. MIERZWA

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I. INTRODUCTION

2 Q.

WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
ADDRESS.

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4 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.

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8 Q.

HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
PROCEEDING?

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10 A.

Yes. My direct testimony was submitted as OCS Exhibit 1D.

11 Q.

WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A.

The purpose of my surrebuttal testimony is to respond to certain aspects of the rebuttal testimony of the following intervening parties and their witnesses:

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- U.S. Magnesium, LLC – Witness: Roger J. Swenson;

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- CIMA ENERGY LTD – Witness: Matthew Medura; and

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- The Utah Association of Energy Users, Nucor Steel-Utah, and CIMA ENERGY LTD (collectively, “Utah Association of Energy Users,” or “UAE”) – Witness: Kevin C. Higgins.

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II. U.S. MAGNESIUM, LLC

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Witness: Roger J. Swenson

21 Q.

MR. SWENSON CONTINUES TO CONTEND THAT THE NEW
BALANCING CHARGES PROPOSED BY QUESTAR GAS COMPANY
 (“QGC”) WILL INFLUENCE CUSTOMER BEHAVIOR AND,
 THEREFORE, THE BASIS FOR THE PROPOSED BALANCING

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25 CHARGES WILL BE WRONG. PLEASE ELABORATE UPON AND
26 ADDRESS MR. SWENSON’S COMMENTS.

27 A. Mr. Swenson is proposing that the upcoming year be used as a test period to show
28 transportation service (“TS”) customers what their costs would be under the new
29 balancing requirements and that balancing charges should then be based on their
30 behavior during this test period. As I understand his position, under this approach,
31 Mr. Swenson contends that balancing service charges would better match the actual
32 use of balancing services by TS customers. I have several observations concerning
33 Mr. Swenson’s comments.

34 First, it is important to keep in mind that rate design is not an exact science,
35 and the approach advocated by Mr. Swenson seems to imply that it is essential that a
36 scientific approach be followed in this proceeding. Such an approach need not be
37 followed. In addressing cost allocation issues in a recent PJM transmission rate
38 design case, the Federal Energy Regulatory Commission (“FERC”) put it this way:

39 As the Supreme Court has found, “allocation of costs is not a matter
40 for the slide-rule. It involves judgment on a myriad of facts. It has no claim
41 to an exact science.” The Commission recently articulated the same principles
42 in Order No. 890:

43 Our decisions regarding transmission cost allocation reflect
44 the premise that allocation of costs is not a matter for the
45 slide-rule. It involves judgment on a myriad of facts. It has
46 no claim to an exact science. We therefore allow regional
47 flexibility in cost allocation and, when considering a dispute
48 over cost allocation, exercise our judgment by weighing
49 several factors. First, we consider whether a cost allocation
50 proposal fairly assigns costs among participants, including
51 those who cause them to be incurred and those who
52 otherwise benefit from them. Second, we consider whether
53 a cost allocation proposal provides adequate incentives to
54 construct new transmission. Third, we consider whether the
55 proposal is generally supported by state authorities and
56 participants across the regions. [Opinion No. 494, Opinion
57 and Order on Initial Decision, Docket Nos. EL05-121-000
58 and EL05-121-002, April 19, 2007, footnotes omitted]

59 While these cost allocation standards are included in a transmission rate proceeding,
60 these standards are not unique nor limited to transmission costs of service.

61 Second, as is noted by Mr. Swenson, TS customers have been operating under
62 the current balancing requirements for more than 20 years. During these 20 years, TS
63 customers have not been assessed balancing charges, and have paid nothing for the
64 balancing services provided by QGC. The costs associated with providing balancing
65 services to TS customers were paid for entirely by sales customers. It is beyond
66 reason to believe that during the first year of operations under the proposed balancing
67 charges and requirements that revenues collected from TS customers will be so in
68 excess of the costs of providing balancing services that it would remedy more than 20
69 years of inequitable cost recovery. After the first year of operations under the
70 proposed balancing charges, rates will be re-determined and re-calculated consistent
71 with Mr. Swenson's test period concept in QGC's pass-through applications. This
72 will quickly assist in aligning the costs associated with providing balancing service
73 with the balancing charges, if any difference were to exist at all. The implementation
74 of the proposed balancing charges and requirements should not be further delayed,
75 and to do so would continue to unfairly burden non-TS customers. It is in the interest
76 of TS customers to delay the adoption of balancing charges as long as possible.

77 **III. CIMA ENERGY LTD**

78 **Witness: Matthew Medura**

79 Q. MR. MEDURA NOTES THAT UNDER THE COMPANY'S PROPOSAL
80 TO ADOPT A 5 PERCENT BALANCING TOLERANCE, A CUSTOMER
81 USING LESS THAN 10 DTH PER DAY WOULD HAVE NO
82 IMBALANCE TOLERANCE. SHOULD THIS BE A REASON TO
83 REJECT THE COMPANY'S PROPOSAL?

84 A. No. Mr. Medura’s concern can be addressed by providing all customers with a
85 minimum tolerance of 1 Dth per day. Such an allowance would not have a material
86 impact on system operations.

87 Q. MR. MEDURA NOTES THAT YOUR DIRECT TESTIMONY CITES A
88 FEW EXAMPLES OF ALLEGED BALANCING REQUIREMENTS OR
89 COSTS PURPORTEDLY UTILIZED BY A FEW UTILITIES, BUT YOU
90 PROVIDE LITTLE DETAIL AS TO THE PROPER APPLICATION OR
91 COST COMPONENTS OF THOSE TARIFFS. WHAT IS YOUR
92 RESPONSE?

93 A. The balancing requirements and costs cited in my tariff are not alleged, as Mr.
94 Medura has characterized them. They are actual requirements and costs. Additional
95 detail concerning those requirements and costs were provided in the OCS’ responses
96 to data requests submitted by UAE which would also have been served on CIMA. If
97 Mr. Medura believed additional detail concerning the balancing requirements and
98 costs of other utilities was important, he had access to that detail through the OCS’
99 discovery responses.

100 Moreover, balancing charges assessed by other gas utilities are designed based
101 on the specific operating characteristics of those utilities. There is not a “one size fits
102 all” approach to designing balancing charges and tolerances. Therefore, little would
103 likely be accomplished by providing additional detail concerning the cost components
104 of the balancing charges of other utilities.

105 **IV. UTAH ASSOCIATION OF ENERGY USERS**

106 **Witness: Kevin C. Higgins**

107 Q. MR. HIGGINS AGREES WITH THE PROPOSAL OF MR.
108 WHEELWRIGHT OF THE UTAH DIVISION OF PUBLIC UTILITIES.
109 MR. WHEELWRIGHT PROPOSES TO ESTABLISH A TASKFORCE TO

110 ADDRESS THE BALANCING CHARGE AND REQUIREMENTS

111 PROPOSED BY QGC. DO YOU HAVE ANY COMMENTS?

112 A. Yes. As indicated on line 64 of Mr. Higgins testimony, UAE’s proposed balancing
113 charge would result in an average charge of \$0.00713 per Dth. As identified in my
114 direct testimony, QGC’s proposal would result in an average charge of \$0.03675 per
115 Dth, or a difference of about \$0.03 per Dth. Given the already long history of the
116 balancing charge negotiation process discussed in the rebuttal testimony of OCS
117 witness Mr. Mangelson and QGC witness Mendenhall, it appears unlikely that a
118 compromise would be reached in the suggested 60- to 90-day period envisioned under
119 Mr. Higgins’ taskforce approach.

120 Q. IN YOUR DIRECT TESTIMONY YOU AGREED WITH THE
121 COMPANY’S PROPOSAL TO INCLUDE A QUESTAR PIPELINE
122 TRANSPORTATION COMPONENT IN THE BALANCING CHARGE
123 CALCULATION. MR. HIGGINS CLAIMS THAT THIS OVERLOOKS
124 THE FACT THAT TRANSPORTATION CUSTOMERS ARE ALREADY
125 RESPONSIBLE FOR COVERING THEIR OWN TRANSPORTATION
126 COSTS. WHAT IS YOUR RESPONSE TO MR. HIGGINS?

127 A. I agree with Mr. Higgins that TS customers are responsible for covering their own
128 transportation costs. However, the Questar Pipeline transportation capacity paid for
129 by TS customers is not utilized to accommodate TS customer imbalances. QGC
130 transportation capacity, for which TS customers currently do not pay, is utilized to
131 accommodate TS customer’s imbalances.

132 Q. IN YOUR DIRECT TESTIMONY YOU INDICATE THAT NATIONAL
133 FUEL GAS DISTRIBUTION (“NFGD”) COMPANY ASSESSED DAILY

134 BALANCING CHARGES. WHAT IS MR. HIGGINS RESPONSE TO
135 YOUR DIRECT TESTIMONY?

136 A. Mr. Higgins claims that because the daily over-delivery DMT balancing charge
137 assessed by NFGD is assessed on the maximum cumulative daily over-delivery
138 imbalance during a month, NFGD's balancing charge is more akin to a monthly
139 balancing charge. NFGD's DMT service does not provide for monthly balancing as
140 Mr. Higgins suggests. Daily under-deliveries in excess of any over-deliveries at the
141 beginning of a day in excess of 2 percent are treated as a sale of gas by NFGD to the
142 DMT customer. Therefore, DMT customers must monitor imbalances on a daily
143 basis.

144 Q. MR. HIGGINS ALSO CLAIMS THAT THE 29 CENTS PER MCF
145 MONTHLY BALANCING CHARGE FOR NFGD YOU IDENTIFY IN
146 YOUR DIRECT TESTIMONY IS INCORRECT. WHAT IS YOUR
147 RESPONSE?

148 A. Mr. Higgins' claim that because the 29 cent balancing rate did not appear in NFGD's
149 tariff when he reviewed the tariff, the rate is incorrect. Mr. Higgins is wrong. The
150 29 cent monthly balancing charge was approved by the Pennsylvania Public Utility
151 Commission in an Order issued July 8, 2015, in Docket No. R-2015-2461373. The
152 rate became effective August 1, 2015, and this is why it did not appear in NFGD's
153 tariff when Mr. Higgins reviewed the tariff.

154 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.