

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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**SURREBUTTAL TESTIMONY OF KELLY B MENDENHALL**

**FOR QUESTAR GAS COMPANY**

August 14, 2015

**QGC Exhibit 1.0SR**

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1 I. INTRODUCTION

2 Q. Please state your name and business address.

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

5 Q. Did you previously file testimony in this case?

6 A. Yes.

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

8 A. The purpose of my surrebuttal testimony is to address rate and regulatory concerns and  
9 arguments presented by Mr. Higgins, Mr. Medura, Mr. Swenson and Mr. Mangelson. I  
10 organized the arguments raised by these witnesses into three categories. The three  
11 general topics I address are 1) the formation of a task force, 2) the use of a socialized  
12 charge and 3) other rate design issues.

13 II. FORMATION OF A TASK FORCE

14 Q. Please summarize the testimony of the parties on the subject of a task force creation.

15 A. Mr. Higgins (Higgins, lines 88-114), Mr. Medura (Medura, lines 82-84), and Mr.  
16 Swenson (Swenson, lines 116-117) all argue that the Utah Public Service Commission  
17 (Commission) should form a working group to develop a charge and framework. Mr.  
18 Mangelson (Mangelson, lines 29-63) notes that a task force is unlikely to produce a rate  
19 on which the parties involved will agree.

20 Q. Did the Company address these issues in rebuttal testimony?

21 A. Yes. In Section II.B. of my rebuttal testimony, I explained that the parties were too far  
22 apart for a working group to be worthwhile. Mr. Mangelson expressed similar concerns  
23 in his rebuttal testimony.

24 **Q. Mr. Higgins has proposed a new schedule, complete with a 60-90 day working**  
25 **group, time to prepare a report on areas of consensus, three to four weeks for direct**  
26 **testimony, three weeks for rebuttal testimony and two weeks for surrebuttal**  
27 **testimony. Is this proposed schedule necessary?**

28 A. No. The Company has confidence in the Commission's regulatory process. At the  
29 commencement of this docket, all parties participated in a Scheduling Conference and  
30 agreed to a lengthy schedule that provided ample opportunity to conduct discovery and  
31 analysis and to engage in discussions. The parties spent more than seven months  
32 conducting discovery, answering data requests and participating in technical conferences  
33 and other meetings to address the issues in this docket. There is currently substantial  
34 evidence on the record to show that the Company's proposal is just and reasonable and in  
35 the public interest. Mr. Higgins proposed schedule would delay this process at least four  
36 to six months, the overall docket would take over a year to complete and it would only  
37 delay a Commission decision.

38 **Q. Would Mr. Higgins' proposal for six total rounds of testimony and an additional**  
39 **working group change the Company's current proposal?**

40 A. No. The Company has reviewed all testimony and participated in technical conferences  
41 and discussions. This process has been thorough and, despite all of the analysis by all of  
42 the parties, the Company has not seen another proposed solution that solves both  
43 problems articulated in my direct testimony. The Company's proposal to have  
44 transportation customers pay for a service they receive remains unchanged. Until this  
45 proceeding is complete, the transportation customers will continue receiving these  
46 services without paying for them. Historically, the parties have often reached a  
47 settlement, even in contested matters. In this case, however, due to the nature of the  
48 issues, parties are on completely opposite sides. On some issues, such as how the rate  
49 should be assessed, the interveners can't even agree amongst themselves. A working  
50 group will only delay the process and a much-needed Commission order.

51 **Q. Mr. Higgins recommends that a Division led task force be assigned to investigate**  
52 **and evaluate six issues. (Higgins, lines 100-110). Do these issues need further**  
53 **discussion?**

54 A. These items have either been thoroughly discussed or are not at issue in this case. Items  
55 1) Appropriate cost components and 2) Calculating a socialized per Dth charge and an  
56 optimal charge on imbalances have been addressed extensively by all witnesses and are  
57 summarized in Sections III through V of my rebuttal testimony.

58 **Q. Mr. Higgins suggests that Item 3), Timing and mechanisms for periodic**  
59 **adjustments, should be discussed in a working group. Have parties already**  
60 **addressed this issue?**

61 A. Yes. In my direct testimony I recommend that the rate be calculated based on the most  
62 recent twelve months of data in each pass through case. (Mendenhall direct, lines 198-  
63 206). Mr. Wheelwright agrees with this approach (Wheelwright Direct, lines 285-287).  
64 Mr. Medura also addresses this issue and suggests that “twice-per-year adjustments are  
65 not reasonable” (Medura Rebuttal, line 25).

66 **Q. Do you agree with Mr. Medura’s statement that semiannual adjustments are “not**  
67 **reasonable”?**

68 A. No. With the exception of general rate cases and the economic assistance charge, the  
69 Company’s rate changes, including pass through, conservation enabling tariff, demand  
70 side management and infrastructure tracker, occur on a semiannual basis. Recalculating  
71 the transportation imbalance charge semiannually, concurrent with the pass through filing  
72 is a reasonable approach, considering that the upstream costs included in this charge are  
73 typically pass-through costs. These calculations represent the cost for services already  
74 provided to the transportation customers. Because they have already used these services,  
75 and have the ability to control the use of these services in the future, a semiannual  
76 adjustment is just and reasonable.

77 **Q. In issues 4 and 5 of Mr. Higgins work-group proposal, he proposes that the group**  
78 **discuss 4) reasonable daily balancing tolerance levels and 5) reasonable daily**  
79 **imbalance procedures and policies. In addition, Mr. Medura argues that the 5%**  
80 **tolerance may be too restrictive. Do these issues merit further discussion?**

81 A. No. The Company is proposing a daily transportation services balancing charge tolerance  
82 that is identical to the daily commodity balancing levels that have already been approved  
83 by the Commission. Section 5.09 of the Company's Utah Natural Gas Tariff No. 400  
84 (Tariff) already outlines the daily commodity balancing tolerance levels and the daily  
85 imbalance procedures. The first sentence under the subsection "Daily Imbalances" states,  
86 "The Company will allow  $\pm 5\%$  of a customer's volumes delivered from upstream  
87 pipelines as a daily imbalance tolerance window." The section further discusses the  
88 commodity balancing provisions for transportation customers. The Commission has  
89 already determined this to be a reasonable tolerance range.

90 **Q. Has the Company made any proposals related to this language?**

91 A. Mr. Schwarzenbach discussed in his rebuttal testimony that tariff improvements would be  
92 necessary if the Commission adopts the socialized rate, but the Company is not  
93 recommending any Tariff changes if the Commission adopts the Company's original  
94 proposal.

95 **Q. The last item on Mr. Higgins discussion list is 6) reasonable means for utilizing**  
96 **aggregation at the supplier agent level for charges. Has this already been**  
97 **addressed?**

98 A. Yes. I discussed this issue in section VI. B. "Aggregation" of my rebuttal testimony. In  
99 addition to Mr. Higgins, Mr. Swenson (Swenson Rebuttal, lines 79-81) and Mr. Medura  
100 (Medura Rebuttal, lines 31-34) continue to argue for the aggregation of customer  
101 volumes at the agent level for purposes of assessing this charge.

102 **Q. Please summarize the Company's position on aggregation.**

103 A. In my rebuttal testimony (Mendenhall Rebuttal, lines 360-372), I agreed with Mr.  
104 Mierzwa's assessment that aggregating the imbalances would create a double counting

105 situation resulting in the Company never collecting the full cost of the balancing services  
106 from transportation customers.

107 **Q. Can you provide an example to clarify this argument?**

108 A. Yes. QGC Exhibit 1.1SR provides an example of the problems that aggregation would  
109 cause. Assume there are three transportation customers that are served by one agent.  
110 Customer 1 is over-delivered by 400 Dth (Column C, line 1), Customer 2 is under-  
111 delivered by 350 Dth (Column C, line 2) and Customer 3 is over-delivered by 80 Dth  
112 (Column C, line 3). The deliveries, usage and imbalances for this customer are shown in  
113 lines 1-4 of the exhibit. The net imbalance for these three transportation customers is 130  
114 Dth (column C, line 4). The absolute imbalance outside of a 5% tolerance is 353 Dth  
115 (column E, line 4).

116 **Q. How would the rate be calculated using the Company's proposal?**

117 A. The Company would multiply the netted 130 Dth by the \$0.52/Dth<sup>1</sup> to calculate a total of  
118 \$68 that would need to be collected from these customers. Notice that the 130 Dth is  
119 aggregated in this step. Then the \$68 would be divided by 353 Dth (170 + 183 + 0) to  
120 calculate an average rate of \$0.19/Dth. This would be the transportation imbalance  
121 charge.

122 **Q. How would this charge be assessed under the Company's proposal?**

123 A. This is shown in lines 8-11 of the exhibit. The \$0.19 charge would be assessed to each  
124 customer based on their volumes outside of the 5% tolerance imbalance as shown in  
125 Column F. In this example, \$68 would be collected for these customers. In this example,  
126 the Company has collected the right amount of revenue from these transportation  
127 customers for the services they used.

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<sup>1</sup> The \$0.52/Dth represents the rates per Dth for imbalance services used as calculated and discussed in the Direct testimony of Kelly B Mendenhall, QGC Exhibit 1.0, Section III.

128 **Q. How would the charge be assessed if it were aggregated at the agent level as the**  
129 **interveners suggest?**

130 A. This calculation is shown in lines 12-15 of the exhibit. In this case, the agent would net  
131 (again) the imbalances of Customer 2 with customer's 1 and 3 and this net imbalance of  
132 130 Dth would be within the 619 Dth aggregated 5% tolerance so that no charge would  
133 be assessed. So although the customers used \$68 in imbalance services, they would pay  
134 no charge.

135 **Q. Mr. Medura states that imposing a fee on aggregated agent-level imbalances in**  
136 **excess of a tolerance level of 10-15%, customers and agents will have an incentive to**  
137 **more closely match nominations and usage (Medura Rebuttal, lines 80-82). Does the**  
138 **example show otherwise?**

139 A. Yes. The example shows the result of a 5% tolerance. Mr. Medura's proposal to allow a  
140 10%-15% tolerance would assure that the customers and their agents would rarely incur  
141 any costs for upstream balancing services even though they would be using them on a  
142 daily basis. Because the volumes were netted once during the rate calculation and again  
143 during the rate assessment, this double netting allows the transportation customers to  
144 avoid paying for the services they use and requires the sales customers to continue  
145 subsidizing for the costs of these services. This would defeat the two purposes of this  
146 proceeding: charging customers for the services they use, and incenting customers to  
147 nominate correctly on a daily basis.

148 **III. USE OF A SOCIALIZED CHARGE**

149 **Q. What is the socialized charge?**

150 A. This is the interveners' assessment of Mr. Wheelwright's proposal to spread the  
151 imbalance costs over all transportation volumes using a flat volumetric rate. Intervenors  
152 have referred to this as a "socialized" charge because it spreads costs across all  
153 transportation customers rather than charging each customer for the services they use.  
154 Mr. Higgins, (Higgins Rebuttal, lines 49-58), Mr. Swenson (Swenson Rebuttal, lines 21-  
155 41, 73-79), and Mr. Medura (Medura Rebuttal, lines 22-30) all offer criticisms about the



156 socialized charge but they all conclude that transportation customers should be allowed to  
157 choose this option.

158 **Q. Should the transportation customers be given a choice between two different rate**  
159 **designs?**

160 A. Assessing one set of costs with two different rate designs would likely result in an  
161 incorrect collection of costs. There is no need for two separate rate designs because the  
162 Company's proposal already gives these customers a choice. Transportation customers  
163 who cannot or do not want to worry about nomination accuracy can use the services and  
164 pay the \$0.19/Dth charge for every Dth of imbalance they have outside of the 5%  
165 tolerance imbalance. For small customers with small volumes, the charge would be  
166 minimal and it may be more economic to pay the charge than to manage nominations  
167 more closely. Customers who can and want to minimize nomination inaccuracies to avoid  
168 additional costs can improve their nomination practices and reduce the services they use  
169 and charges that they pay. Each customer can choose which approach meets their  
170 business needs.

171 **Q. Mr. Medura testifies that a customer using 20 Dth or less per day may have no**  
172 **tolerance at all. He argues this as a reason why aggregation should be used.**  
173 **(Medura, lines 37-47). Do you agree?**

174 A. No. In fact, Mr. Medura's example shows one of the advantages of the proposed rate  
175 design. By only charging the rate on the total daily imbalance, customers with lower  
176 levels of usage will have lower total imbalances and therefore lower imbalance charges.  
177 While the majority of transportation customers use more than 20 Dths per day, when this  
178 uncommonly-low usage does occur, Mr. Medura is correct that a customer using 20 Dths  
179 would have a minimal tolerance. If that customer, for example, nominated 20 Dths, and  
180 used 18 Dths, they would be about 10% out of tolerance. Their cost would be about  
181 \$0.19/day or about \$6/month to pay for the imbalance services they used. Ultimately,  
182 this customer could decide whether to improve their nominations to less than a 10%  
183 imbalance, or pay \$6/month for services they are using.

184

**IV. OTHER RATE DESIGN ISSUES**

185 **Q. What other rate design issues were discussed in rebuttal testimony by intervening**  
186 **parties?**

187 A. Mr. Swenson discusses the difference between rates based on “value” and rates based on  
188 “cost” (Swenson Rebuttal, lines 96-105). He also argues that backhaul rates are generally  
189 discounted and that this should be taken into account in the rate calculation (Swenson  
190 Rebuttal, lines 106-113).

191 **Q. How do you respond to the value argument?**

192 A. The rate calculation reflects the cost of moving a Dth of gas to or from the city gate at the  
193 rates sales customers currently pay. All of the charges for transportation, storage, no-  
194 notice and fuel are based on the rates sales customers pay for these services. In this case  
195 the “value” and the “cost” are the same.

196 **Q. Should an adjustment be made to take into account the discount on backhaul rates?**

197 A. Gas moving to or from the city gate on Questar Pipeline would incur the maximum  
198 \$0.17/Dth charge. There is not a discounted backhaul rate for volumes traveling from the  
199 city gate to Clay Basin. Thus, no adjustment to the transportation rate is warranted.

200 **Q. Did Mr. Higgins raise any additional issues with respect to rate design?**

201 A. Yes. Mr. Higgins criticizes Mr. Mierzwa’s assessment that the Questar Gas proposal is  
202 consistent with how interstate pipelines assess charges to customers. He argues that is  
203 not an interstate pipeline and that the pipeline does not see the sales and transportation  
204 customers as two different customers. (Higgins Rebuttal, lines 208-219).

205 **Q. Do you agree with this assessment?**

206 A. I agree that Questar Gas is not an interstate pipeline but in this case the Company is  
207 proposing to assess costs incurred for services used on the Company’s interstate pipeline  
208 contract. Mr. Schwarzenbach explains in his rebuttal testimony that the only way  
209 Questar Gas can manage imbalances on a daily basis is through the use of services  
210 provided by an interstate pipeline. Therefore, in this proceeding Questar Gas

211 recommends allocating upstream transportation, storage and no-notice pipeline costs that  
212 have been contracted by Questar Gas for its sales customers to transportation customers  
213 who use the services on the Questar Gas system. On an upstream transportation system,  
214 if gas is delivered, a shipper is charged whether it is physically moved or not. Questar  
215 Gas' proposal follows this same approach when calculating the proposed rate.

216 **Q. Mr. Higgins states that the interstate pipeline does not see the sales and**  
217 **transportation customers as two different customers. How does Questar Gas view**  
218 **the customers?**

219 A. Questar Gas views these customers as two distinct customer groups. In general rate cases  
220 all of their costs are separately identified and assessed. This proposed rate design values  
221 the services that the transportation customers use and charges them for these services.

222 **Q. Does the Company have any recommendations?**

223 A. The Company asks the Commission to approve its original proposal as filed in QGC  
224 Exhibit 1.0.

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

226 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 14<sup>th</sup> day of August, 2015.

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