

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric
Company Proposing Cost of Service and Rates
for Gas Transmission and Storage Services for
the Period 2015-2017.

(U39G)

Application 13-12-012
(Filed December 19, 2013)

**WRITTEN DIRECT TESTIMONY
UNITED ENERGY TRADING, LLC**

August 11, 2014

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1 **I. INTRODUCTION**

2 **Q Please state your name, position, and business address.**

3 A My name is Michael Huggins. I am the Managing Director for United Energy Trading,
4 LLC (“UET”), which does business in Northern California under the trade name Blue
5 Spruce Energy Services. UET’s primary address is 225 Union Boulevard, Lakewood,
6 Colorado 80228.

7 **Q Please describe your experience and qualifications.**

8 A I have been the Managing Director in charge of UET’s CTA program in Northern
9 California since 2010. My further experience and qualifications are set forth in my
10 résumé, which is appended to this testimony as Attachment 1.

11 **Q On whose behalf are you testifying?**

12 A I am testifying on behalf of UET. UET is a Core Gas Transport Agent in the Northern
13 California area served by PG&E.

14 **II. PURPOSE OF TESTIMONY**

15 **Q What is the purpose of your testimony today?**

16 A First, this testimony provides support for the positions expressed by Mark Fulmer on
17 behalf of the Core Transport Agent Consortium (“CTAC”), the Independent Storage

1 Providers (“ISPs”), other Core Transport Agents (“CTAs”), and other interested parties
2 which recommend that each CTA should specify its own storage. Second, this testimony
3 explains why the storage offered by ISPs is preferable, from an operational perspective,
4 from a market perspective, and from a consumer perspective.

5 **III. THE CTA PROGRAM HAS CREATED A ROBUST, COMPETITIVE MARKET**
6 **FOR CORE TRANSPORT**

7 **A. Commission Policy Promotes a CTA Designed to Offer Core Customers a Market-**
8 **Based Choice.**

9 **Q Would you please describe the Commission’s policy as it relates to Core Customers**
10 **and the CTA program?**

11 A The Commission has long investigated the options available to consumers in California’s
12 natural gas market. In D.98-08-030, the Commission first identified the goals to be
13 considered in developing long-term regulation strategy. These included:

- 14 1. To complement and enhance the benefits of electric restructuring.
- 15 2. To eliminate inappropriate cross-subsidies.
- 16 3. To guard against unnecessary barriers to the entry of competitors into various
17 aspects of the natural gas market.
- 18 4. To mitigate competitive abuses that may occur because one firm exerts inordinate
19 control over the functioning of the marketplace.
- 20 5. To enhance competition by providing separate rates for each major component of
21 utility service and allowing customers to choose to have other firms substitute
22 their services and charges where appropriate.

- 1 6. To ensure that the rates customers pay for utility services reflect the cost of those
- 2 services.
- 3 7. To preserve the low-costs currently enjoyed by California natural gas customers.
- 4 8. To provide adequate consumer protection.
- 5 9. To ensure that natural gas service is safe and reliable.

6 These considerations offer an important touchstone in this proceeding since, as
7 described below, PG&E is using what is essentially a monopoly position to further
8 competitive abuses.

9 **Q What has been the result of the Commission’s policies?**

10 A The Commission’s policies have engendered a robust market for retail gas services.
11 Northern California’s core customers may choose from PG&E, a traditional utility, and
12 from approximately 25 core transport agents, which offer an array of competitive rate
13 models. Over 20% of Northern California’s core customers are currently enrolled as CTA
14 clients and are empowered to take advantage of the cost savings afforded by a
15 competitive gas marketplace. UET alone serves about 60,000 customers in Northern
16 California.

17 **Q What has made the CTA program so successful in California?**

18 A D.98-08-030 and its progeny established the Commission’s policy of providing an
19 alternative to the traditional utility market for consumers. Core Transport Agents can
20 react more quickly to changing market conditions, bringing a reliable market option to
21 California’s gas consumers. UET believes, however, that this agility is in jeopardy
22 because of storage requirements imposed by PG&E. UET hopes that these proceedings
23 will ensure that the CTA program continues to be competitive.

1 **Q How can the CTA program be improved through this proceeding?**

2 A UET agrees with the general positions asserted by Mr. Fulmer and by the Joint ISPs that
3 each CTA should be able to choose its gas storage provider. Ample storage capacity
4 exists in Northern California to serve the Core, and the Firm Storage Requirements as
5 implemented simply are not necessary. The current Firm Storage Requirements,
6 moreover, prevent Core customers from benefiting from the current low-cost independent
7 storage options. Perhaps more importantly, the Firm Storage Requirements buttress
8 PG&E's already excessive storage capacity and discourage PG&E from evaluating its
9 own storage facilities and retiring those that no longer provide efficient services.

10 **Q What are the current Firm Storage Requirements?**

11 A The Gas Accords established the initial Firm Storage Requirements, which have carried
12 over without much change to the current Gas Accords V.¹ PG&E's particular formula for
13 determining each CTA's requirement may be found in PG&E's Gas Schedule G-CT.²

14 **Q Does the Firm Storage Requirement pose any problems for the CTAs?**

15 A The main problem with the scheme is that PG&E's storage reserved for CTA use is
16 conditioned upon a "take or pay" requirement, meaning UET must either use PG&E's
17 storage at its tariffed rate or it must pay PG&E to *not* use it. Unfortunately, however,
18 PG&E's tariffed rates are very expensive and far exceed the current rates charged by the
19 ISPs.

20 To a lesser extent, the Firm Storage Requirements themselves make CTAs less
21 nimble and less able to respond to market conditions, since they prevent CTAs from
22 capitalizing on fluctuations in the market. This would be less of a concern, however, if

¹ See, e.g., D.00-05-049 (Approval of Comprehensive Settlement).

² Available at http://www.pge.com/tariffs/tm2/pdf/GAS_SCHEDS_G-CT.pdf

1 PG&E's injections rates kept pace with the ISPs' injection rates. Instead, PG&E's
2 injections rates are far slower and make it more difficult for CTAs to react to and take
3 advantage of market conditions.

4 **Q Do PG&E's customer demands not require PG&E to ensure a storage supply to**
5 **meet Core demands?**

6 A Yes and no. Certainly, PG&E must ensure that customer demands will be met,
7 particularly during peak winter days. However, PG&E's current storage and the capacity
8 imposed on CTAs, even from a conservative calculation, is nearly three times what
9 would be necessary to meet demand. UET describes this storage glut in the following
10 section.

11 UET believes, moreover, that the Firm Storage Requirement coupled with the
12 "take or pay" policy means that CTAs are essentially underwriting PG&E's unneeded
13 facilities while expensive storage rates are being incurred and passed on to customers.
14 This is unnecessary since the ISPs provide safe and reliable facilities at the CityGate for
15 service to CTAs' customers at a fraction of PG&E's rates and on better terms.

16 **B. The ISPs Represent an Integral Part of the Commission's Policy Promoting Market-**
17 **Based Gas Options.**

18 **Q What are the storage options for a CTA in Northern California?**

19 A Four ISPs currently operate in Northern California: Wild Goose, Lodi, Gill Ranch,³ and
20 Central Valley. The combined capacity of the four ISPs equals that of PG&E, with 105
21 Bcf.⁴ Were it not forced to use PG&E's storage, a CTA operating in Northern California

³ Gill Ranch is co-owned by PG&E, with part of its facilities reserved for use by PG&E.

⁴ PG&E Gas Storage: Overview for California Energy Commission, dated April 24, 2013, found at www.energy.ca.gov/2013_energy_policy/documents/2913-04-24_workshop/presentationsISP_capacity,

1 could choose from any of these safe and modern storage facilities, all of which offer
2 advantages over PG&E.

3 **Q How do the ISPs’ storage facilities compare to PG&E?**

4 A Prior to 2012, CTAs could elect their own storage capacity, and UET regularly contracted
5 for use of ISP storage. ISPs’ rates are typically less expensive than PG&E’s—a fact that
6 has become more pronounced in recent years—and UET passed these rate savings on to
7 its customers through competitive rates. Even as recently as 2013, when UET was
8 required to take 50% of its storage from PG&E, it was still less expensive to pay-off
9 PG&E and use an ISP.

10 **Q Have the storage options provided by the ISPs contributed to the success of the Core
11 Aggregation program?**

12 A Yes. The ISPs provide safe and reliable storage facilities that are comparable, and in
13 some cases superior, to PG&E. The ISPs do not require UET to keep inventory “parked”
14 in its facility for months on end and, more importantly, offer very efficient injection rates.

15 **Q What is the difference between PG&E’s injection rate and the ISPs’ injection rate?**

16 A PG&E recently published its injection rate compared to those of ISPs as follows:

incidentally, is likely higher because PG&E’s figures do not appear to include expansion volumes recently added by the ISPs. For example, Wild Goose added 25Bcf in 2013.

- **PG&E – Facilities and Capacities**
 - **McDonald Island, Los Medanos, Pleasant Creek and Gill Ranch**
 - **Working Gas - 105 Bcf**
 - **Injections – 635 MMcf/d**
 - **Withdrawal – 2,180 MMcf/d**
- **Independent Storage Providers**
 - **Wild Goose, Lodi, Gill Ranch and Central Valley**
 - **Working Gas – 105 Bcf**
 - **Injections – 1,840 MMcf/d**
 - **Withdrawal – 2,740 MMcf/d**

1
2 As shown above, PG&E’s injection rate is 635 MMcf/d while that of the ISPs is
3 1840 MMcf/d—almost three times as fast.⁵

4 The practical effect of this is threefold. First, it takes an inordinate amount of time
5 to inject enough gas to reach Firm Storage Requirement for winter. UET quite literally
6 and unnecessarily spends the entire summer trying to meet PG&E’s capacity
7 requirements. Second, because the injection rate is so slow, UET has to inject gas and
8 keep it in storage; otherwise, it will run out of time to inject gas for winter. Third, as a
9 result of the first two, UET cannot trade on the gas. This means that UET’s ability to
10 cycle gas through storage is effectively cut in half, and UET loses its agile response to
11 market conditions—it cannot hedge, short, etc.—and its customers lose out on the
12 competitive advantage garnered by choosing a CTA.

13 **Q Are there any other operational advantages with using an ISP?**

14 **A** Yes. ISPs typically permit CTAs to either use the contracted-for capacity or not. This
15 means gas can be moved in and out of storage. With PG&E’s facilities, gas must remain

⁵ Id. at 4.

1 in storage until put in the pipeline to consumers. This condition again impedes the CTAs'
2 ability to respond to market conditions.

3 **Q Which storage facilities offer the best service to UET and its customers?**

4 A Perhaps obviously, we prefer to use an ISP. They are significantly less expensive and
5 PG&E's slow injection rates place a substantial burden on CTAs.

6 **Q Does UET sell retail gas in other states?**

7 A Yes. UET participates in Ohio's retail market.

8 **Q How does Ohio's storage market compare to California?**

9 A Ohio, notably, provides storage to its competitive gas corporations free of charge, a
10 reflection of Ohio's policy that doing so levels the playing field, and the resulting savings
11 are ultimately passed on to consumers.

12 **C. Storage Supply in Northern California Far Exceeds Needs for Core Customers.**

13 **Q Does sufficient supply exist in Northern California to serve the Core?**

14 A According to information released recently by PG&E, yes. As mentioned above, PG&E's
15 facilities have the capacity to store 105 Bcf of working gas, with another 105 Bcf held by
16 ISPs, for a total of 210 Bcf—more than enough to serve the Core even during peak
17 demand months.

18 The withdrawal rates perhaps better exemplify the excess of supply. Again,
19 according to PG&E, customer obligations are summarized as follows:

- 20
- Average winter day demand: 3412 MMcf/d⁶
 - 21 • Cold day demand : 4212 MMcf/d
 - 22 • Abnormal Peak Demand: 4800 MMcf/d

⁶ Id. at 4.

1 The average supply, however, far exceeds even the Abnormal Peak Day demand,
2 again as demonstrated recently by PG&E:⁷

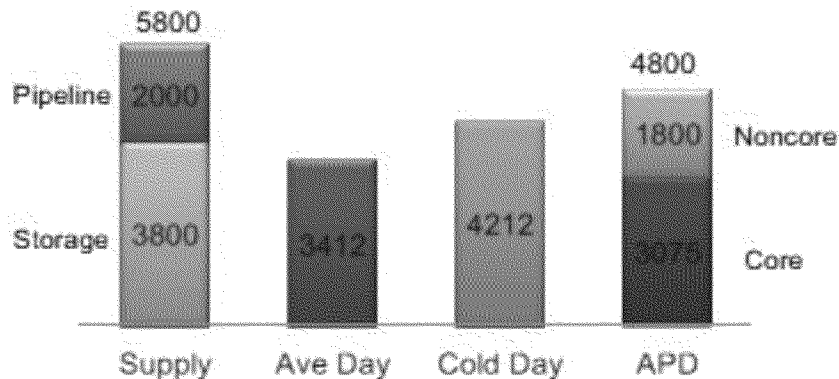
- 3 • PG&E withdrawal: 2,180 MMcf/d
- 4 • ISPs withdrawal: 2,740 MMcf/d
- 5 • Total withdrawal: 5,920 MMcf/d

6 In addition, PG&E estimated that an additional 2000 MMcf/d resides in the
7 pipeline supply, for a total supply of 7,920 MMcf/d. Using a somewhat conservative total
8 withdraw amount of 3,800 MMcf/d, PG&E graphically expressed a comparison of total
9 supply to customer demand as follows:⁸

➤ **Utility Obligation to meet all customer demands**

☐ **System Demand**

- * Average winter demand (Jan 2013) - 3,412 MMcf/d
- * Cold day demand (Jan 14, 2013) - 4,212 MMcf/d
- * Abnormal Peak Demand - 4,800 MMcf/d



10
11 PG&E's choice of 3800 MMcf/d appears a bit arbitrary, given that PG&E
12 acknowledges a total supply of 4,920 MMcf/d in that same report, but this may be
13 attributed to a desire to present conservative estimates.

⁷ Id. at 5.

⁸ Id.

1 Even taking that same conservative approach and pro-rating the withdrawal rates
2 of both PG&E and the ISPs, the glut of facilities offered by PG&E becomes apparent:

- 3 • Abnormal Peak Day: 4,800 MMcf/d
- 4 • Less Pipeline Supply: 2,000 MMcf/d
- 5 • Total Storage Needed: 2,800 MMcf/d
- 6 • Less ISP Supply (prorated) 2,116 MMcf/d
- 7 • PG&E Withdrawal Rate Needed: 685 MMcf/d

8 Nevertheless, PG&E maintains sufficient supply for 2,180 MMcf/d—more than
9 three times the rate needed. Of course, if we plugged in the ISPs' un-prorated withdrawal
10 rate of 2,740 MMcf/d, PG&E's needed withdrawal would be just 84 MMcf/d—or about
11 3,100% more than needed.

12 UET acknowledges and appreciates the utilities' role in presenting a conservative
13 and non-competitive business model to ensure supply to the Core. PG&E maintaining
14 three times the amount needed, however, represents not just overkill, it marks a gross
15 inefficiency ultimately passed on to the consumer.

16 **D. PG&E's storage does not offer value to CTAs or to consumers.**

17 **Q Is PG&E expensive?**

18 A Yes. PG&E's storage rate has been approximately \$.14 Dth/month for the last two years.
19 When PG&E has auctioned off unused CTA capacity, however, it has received
20 significantly less. In 2012, PG&E received about \$.08 Dth/month. In 2013, its auction
21 rate decreased to approximately .03 Dth/month. These days, PG&E is getting only \$.02
22 Dth/month. A good assumption is that PG&E's auction rate is comparable to the market

1 rate charged by ISPs. Accordingly, PG&E is likely charging CTAs \$.12 Dth/month in
2 excess of the market rate.

3 **Q How does this affect UET's customers?**

4 A UET estimates that, between PG&E's expensive storage and the take-or-pay Firm
5 Storage Requirements, UET passed \$500,000 on to its customers last year. This amount
6 does not account for lost opportunity costs (i.e., the inability to trade on gas in storage,
7 etc.) attributable to PG&E's operational restrictions, such as its slow injection rate and
8 excess capacity requirements.

9 **Q Do you believe that PG&E's current proposals are anti-competitive?**

10 A Absolutely. PG&E's current proposals retain all of the onerous restrictions that serve to
11 decrease CTA competitive structures. For example, CTAs would still be required to
12 "take-or-pay" their Firm Storage Requirements. CTAs would also be subject to PG&E's
13 slow injection rates and cycling restrictions.

14 Perhaps more importantly, PG&E's proposed revenue requirements would further
15 permit PG&E to use a monopoly position—i.e., the take-or-pay—to underwrite what are
16 obviously inefficient facilities. Put simply, if \$.02 Dth/month is the market price, and if
17 ISPs are ostensibly able to turn a profit at that rate, then even PG&E's current rate of \$.14
18 Dth/mo is already excessive. PG&E proposes a near-triple increase of that price. It is
19 plain that PG&E seeks to take advantage of its monopoly position to the detriment of
20 CTAs ... and to each core customer in Northern California. The Commission should see
21 PG&E's proposal for what it is: a revenue-grab with little market support or reasonable
22 relationship to actual storage costs.

1 **IV. UET's Recommendations**

2 **Q Does UET have any recommendations?**

3 A Like Mr. Fulmer and the Joint ISPs, UET recommends that the Commission release
4 CTAs from the 'take-or-pay' requirement. If the Commission determines that the CTAs
5 should maintain a Firm Storage Requirement, the Commission should allow each CTA to
6 demonstrate compliance with any storage requirements. As outlined above, releasing
7 CTAs from these terms will allow CTAs to take advantage of market variations as they
8 cycle gas through.

9 UET believes that CTAs should ultimately be released from the Firm Storage
10 Requirement. UET believes its customers would be best served by a CTA market that
11 produces low-cost gas and can maximize market advantages.

12 **V. PG&E's customer "confidentiality" policies are anti-competitive.**

13 **Q Do these proceedings implicate PG&E's billing policies and procedures?**

14 A Probably yes. As Judge Long recently held on CTAC's *Motion to Compel Response to*
15 *Data Requests*, PG&E's practices and policies regarding consolidating billing under Gas
16 Rule 23 are likely implicated by Issue No. 23 of the Scoping Memo.

17 **Q Do any of PG&E's billing practices burden CTAs?**

18 A Yes. Specifically, PG&E's practice of extending payment plans under Gas Rule 23 to a
19 CTA's customers and then refusing to advise the CTA whether the plans exist or the
20 terms of the plans.

21 **Q What justification has PG&E offered for this practice?**

22 A PG&E told UET that its practice is based on confidentiality provisions in Gas Rule 9M
23 and Gas Rule 23E.(1)(h).

1 **Q Do these Gas Rules in fact provide a basis for these practices?**

2 A No. Gas Rule 9M requires only “written consent” from the customer, which UET obtains
3 because each customer signs an agreement making UET the customer’s “exclusive agent”
4 for PG&E’s accounts. Gas Rule 23E.(1)(h) does not even apply to customer information;
5 it describes the circumstances under which PG&E can disclose a CTA’s confidential
6 information.

7 **Q Does UET have a recommendation regarding the payment plans?**

8 A Yes. UET agrees with CTAC that the Commission should require PG&E to consult with
9 the CTA before placing a customer on a payment plan, and obtain consent for those
10 terms, within certain parameters. Further, the Commission should require PG&E to
11 disclose the terms of all plans involving CTA customer accounts.

12 **Q Does this conclude your testimony?**

13 A Yes.

Respectfully submitted,

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United Energy Trading, LLC

Michael G. Huggins

EDUCATION: **University of Illinois** at Urbana-Champaign
B.S. in Actuarial Science, 1992

WORK EXPERIENCE:

United Energy Trading, LLC, 225 Union Blvd., Suite 200, Lakewood, CO 80228

Period of Employment: March 2009 - Present

Managing Director – Gas Marketing

- Manage the natural gas trading desk for the Denver office.
- Helped create and manage Blue Spruce Energy Services, LLC and Kratos Gas & Power, LLC – two retail natural gas subsidiaries of UET.
- Responsible for supply and optimizing assets such as transport and storage related to our retail companies.
- Responsible for management of over 10 Bcf of storage.

High Sierra Energy, LP, 3773 Cherry Creek North Drive, Suite 655, Denver, CO 80209

Period of Employment: April 2007 – March 2009

General Manager – Gas Marketing (March 2008 – March 2009)

- Oversaw the creation of High Sierra Natural Gas Marketing, a wholesale natural gas marketing subsidiary of High Sierra Energy, LP.
- Managed, traded, and originated for HSNGM.

Senior Risk Manager (April 2007 – March 2008)

- Helped set up the Mid-Office and Risk department for High Sierra.
- Involved in the creation of the Risk Policy and procedures for Marketing.
- Performed Mark-to-Market and monitored the risk limits for all of the Marketing Subsidiaries.

Western Gas Resources, Inc., 1099 18th Street, Suite 1200, Denver, CO, 80202

Period of Employment: January 1995 – April 2007

Senior Risk Management Trader

Duties:

- Swap and exchange related trading/hedging to optimize company assets such as storage, transport, production, and for corporate commodity price hedging.
- Performed hedging, pricing, and structure work for natural gas assets/activity across the country with a major focus on the Rockies.
- Trading, and hedging work with several derivative instruments including exchange traded futures and options, fixed price and basis swaps, and OTC options.
- Helped prepare corporate hedging strategies for WGR's production of several commodities including natural gas, crude oil, ethane, propane, isobutane, normal butane, and natural gasoline.
- Performed valuation of physical transactions with embedded options.
- Performed several statistical/analytical studies on market influences.
- Maintained integrity of Risk Management System information (mark to market, etc.) and accurate records of hedging activities.
- Was the major design influence behind WGR's Risk Management System (RMS), an in-house risk management/marketing price exposure system.
- Helped design and implement a Value at Risk reporting structure.