BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE REQUEST OF DOMINION ENERGY UTAH FOR APPROVAL OF A VOLUNTARY RESOURCE DECISION TO CONSTRUCT AN LNG FACILITY	Docket No. 18-057-03

REBUTTAL TESTIMONY OF KELLY B MENDENHALL

FOR DOMINION ENERGY UTAH

September 6, 2018

DEU Exhibit 1.0R

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kelly B Mendenhall. My business address is 333 South State Street, Salt Lake City, Utah. I filed Direct Testimony in this proceeding on April 30, 2018.

Q. Attached to your rebuttal testimony is DEU Exhibit 1.05U. Was this prepared by you or under your direction?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I address certain issues raised by Mr. Wheelwright, Mr. Neale, Mr. Vastag, Mr. Ware, Mr. Mierzwa and Mr. Holden. Specifically, I will address testimony related to (1) Dominion Energy Utah's rates as compared to its peers and, (2) whether system needs drive the Company's proposal, not growth projections, (3) the protections in place that prohibit transferring assets without Commission approval, (4) the role of the Integrated Resource Plan (IRP) process, (5) whether Transportation customers should bear some of the costs associated with the proposed LNG plant, and (6) whether the Magnum Energy Midstream Holdings, LLC (Magnum) proposals would meet the system need at a significantly lower cost than the proposed LNG plant.

II. DEU's RATES ARE AMONG THE LOWEST IN THE NATION

Q. On lines 334-348 of his direct testimony, Mr. Wheelwright reviews some EIA price data and draws the conclusion that in just two years, the prices in Utah have moved from second lowest in the nation to near the national average. How do you respond?

A. Mr. Wheelwright is not comparing similar data in his analysis. DEU still has among the lowest rates in the nation. The snapshot that Mr. Wheelwright includes in Chart 3 of his testimony is a six-month trailing snapshot, and DPU Exhibit 1.4 is a trailing twelve-month snapshot. Mr. Wheelwright incorrectly concludes that DEU has moved from having the second-lowest rates in the nation to approaching the national average by comparing these two exhibits. The Tables below show updated EIA gas price comparisons for both the trailing six months and the trailing twelve months of June 2018. As Table 2 shows, on a twelve month trailing basis, DEU is ranked as the third lowest in the nation.

Table 1

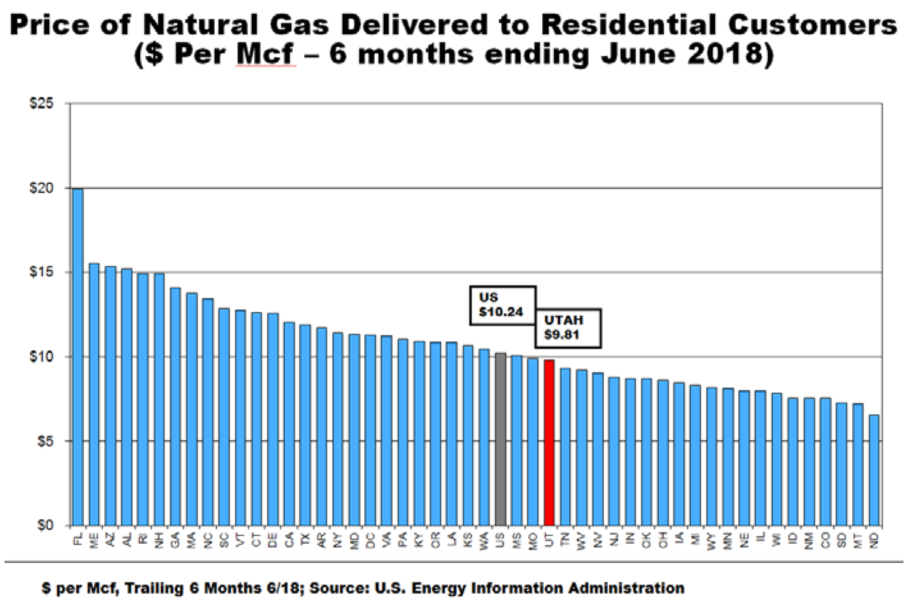
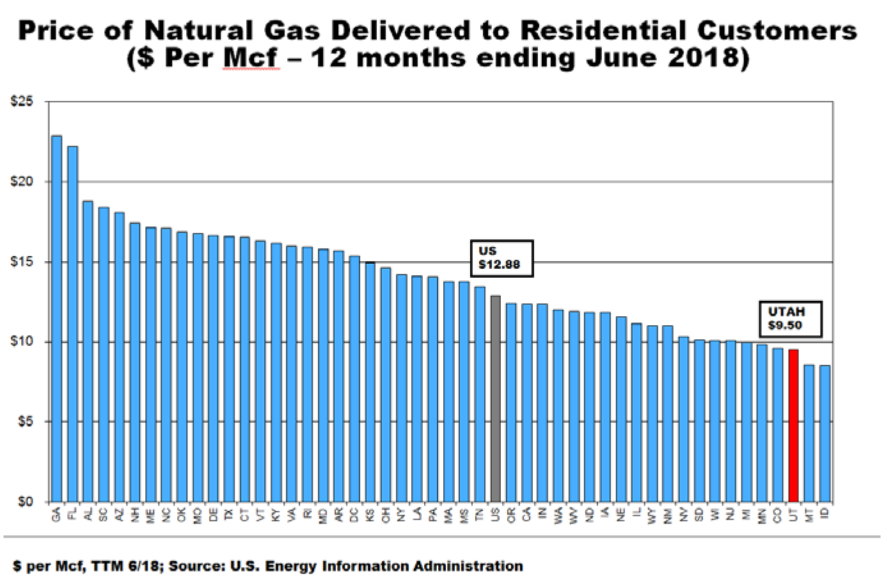


Table 2



Q. Why are the six month and twelve month comparisons so different?

A. The majority of other LDCs have larger seasonal volatility than DEU which means their customers pay a higher proportional amount of their bill in certain seasons of the year. The six month chart does not take this seasonal difference into account and so it makes the Utah bill look higher and the national average look lower than they really are on an annual basis. As the six month chart shows, the national average is $10.24 for six months ended June 2018 compared to a national average of $12.88 for the twelve months ended June 2018. The twelve month average should be used because it eliminates these seasonal differences between utilities.

Mr. Wheelwright also neglects to consider more recent cost savings associated with Company-owned supplies. For example, on June 1, 2018, the Utah Public Service Commission (Commission) approved a $100 million rate decrease that was driven primarily by the reduction in the commodity rate and the impact of tax reform.

Customers should continue to see Company-owned commodity costs decrease in the future. Going forward, the Wexpro II Agreements provide that the overall percentage of Wexpro gas in DEU's supply portfolio will reduce from 65% to 55%, and that the higher cost Wexpro I gas will be replaced with lower cost gas from Wexpro II properties.

Q. Mr. Wheelwright criticizes your cost comparison because is excludes commodity costs. Why did your analysis show non-gas costs and exclude commodity costs?

A. A comparison of non-gas costs is useful because it provides an all-in look of what it costs to serve a customer, from the customer's meter to the point where gas enters the upstream pipeline. It is a measure of the Company's efficiency in serving its sales customers by showing on a per unit basis, the cost of storage facilities, upstream pipelines, mains, services, meters and labor. It is helpful in this instance to note that DEU provides safe, reliable, natural gas service in a very efficient manner. That is what my analysis intended to demonstrate for the Commission.

Q. Mr. Wheelwright speculates that the 2019 rate case increase could be 10-12% due to capital spending (lines 355-373). Do you agree with this estimate?

A. Mr. Wheelwright's estimate of what the increase may be in the 2019 general rate case has no real relevancy to this case as each capital investment should be reviewed on its own merits. I disagree with Mr. Wheelwright's rate case increase estimate as it is speculative at best.

In an effort to support his case, Mr. Wheelwright focuses on a single item in a general rate case, and neglects to consider many other items that contribute to the calculation of customers' rates. For example, about one third of the annual capital investment is included in the infrastructure tracker, not in a general rate case. Because small rate increases occur during infrastructure tracker proceedings, it helps to mitigate general rate increases.

Mr. Wheelwright also fails to consider that a large amount of the capital investment is related to customer growth which brings with it added revenue that offsets the cost. It is also important to note that the $14.5 million rate reduction the Company made related to tax reform in Docket 17-057-26 will also help to offset some of the capital investment that has been made since the last general rate case.

As another example, Mr. Wheelwright also ignores the savings associated with the Questar Corporation/Dominion Energy, Inc. merger. Those savings include the $75 million pension funding that was made by shareholders, which, along with other cost synergies from the merger have reduced annual O&M (excluding DSM and bad debt costs) considerably from the $136.9 million pre-merger level in 2015. Mr. Wheelwright's claim of a 10-12% rate increase is formed using incomplete and inaccurate information.

III. THE COST ANALYSIS SHOULD NOT INCLUDE COSTS OF COMMODITY

Q. Mr. Wheelwright asserts that carrying charges and the cost of gas should have been included in DEU Exhibit 1.05 (Lines 75-78). What is your response to Mr. Wheelwright's assertion?

A. Mr. Wheelwright is correct that my analysis did not include carrying charges on the cost of gas or the cost of gas in the annual cost calculation (Wheelwright, lines 75-78). I agree that carrying charges should have been included not only for the LNG option, but for all of the storage options. I have updated DEU Highly Confidential Exhibit 1.05U to reflect this change. However, I do not agree that the cost of gas should have been included.

Q. Why should the cost of gas not be included in the analysis?

A. Mr. Wheelwright correctly points out that customers are not charged any commodity cost for natural gas until they use the gas in their homes. He also correctly points out that gas costs are passed through the 191 account. Because this is the case, the only incremental cost impact that any of the supply reliability options at issue would have on a customer would be the carrying cost associated with holding the gas until it is used. As far as the actual commodity cost goes, the cost to the customer would be the same regardless of whether the gas came from the LNG facility or from one of the other alternative sources.

Q. Mr. Wheelwright and Mr. Neale both argue that the Company should not fill the proposed LNG facility with Wexpro gas (Neale lines 387-396) and Mr. Wheelwright suggests that doing so would increase costs to customers. Do you agree?

A. Not necessarily. DEU will optimize the way it fills the LNG tank using the same SENDOUT model it uses to select supply resources for purposes of IRP modeling. It will consider carrying costs and price forecasts just as it does for planning and scheduling other storage injections.

IV. SYSTEM NEEDS DRIVE THE PROPOSAL TO CONSTRUCT AN ON-SYSTEM LNG FACILITY, NOT INVESTOR EXPECTATIONS

Q. Mr. Wheelwright and Mr. Vastag both suggest that the Company's proposal to construct an on-system LNG facility is driven by investor expectations, not actual system needs. In doing so, both point to a 2018 investor presentation that discusses growth being driven by a 6-7% growth in rate base. Mr. Vastag also notes that the LNG plant is included as a growth project in the presentation. (Wheelwright, lines 397-403 and Vastag, lines 275-291). How do you respond to their claims?

A. I disagree with Mr. Vastag's and Mr. Wheelwright's inference related to the referenced investor presentation. Ms. Faust, Mr. Platt and Mr. Paskett have all provided substantial evidence detailing the system requirements that are driving the need for the Application in this docket. The cited slide states the 6%-8% growth is expected between 2017 and 2020. The 2022 in-service date and general rate case filing cycle means that the Company will not see any revenue or rate relief for this project until 2023, well outside of the EPS forecast time frame shown in this slide. To draw the conclusion that the LNG facility is driving the 6%-8% growth rate is simply incorrect. While the facility could be a factor in the future, the prudency determination will be known before the facility is ever included in an EPS estimate that is given to investors. For this reason alone, the investor presentation is irrelevant to this proceeding.

The presentation demonstrates nothing more than that the Company is providing information it must provide to investors. Investors, like regulators, want to have as much information about a Company's plan as soon as possible. The Company relies on equity and fixed income investors to provide the capital necessary to fund projects that provide safe and reliable service for customers. The Company competes with other utilities for the finite amount of equity and fixed income capital. The Company's ability to successfully attract investor capital is enhanced to the extent that the Company can clearly explain to investors how capital will be used and in what jurisdictions. The slide is footnoted to say that the project is "Subject to regulatory approval." Dominion Energy has been transparent with the investment community as to the overall status of the project.

V. THE LNG FACILITY CANNOT BE TRANSFERRED OR SOLD WITHOUT COMMISSION APPROVAL

Q. Mr. Neale expresses concern that an LNG facility could be transferred to a non-regulated affiliate and proposes that the control, sale or transfer be prohibited without Commission review and approval (Neale, lines 1367-1382). Does this type of provision already exist for the Company?

A. Yes. Paragraph 27 of the Settlement Stipulation in Docket 16-057-01 states, "Dominion Questar Gas will not transfer material assets to or assume liabilities of Dominion or any other Dominion subsidiary without Commission approval." An LNG facility would definitely fall under the definition of "material asset".

VI. THE IRP PROCESS AND THE VOLUNTARY RESOURCE DECISION PROCEEDING ARE SEPARATE, WITH SEPARATE REQUIREMENTS

Q. Mr. Ware asserts that the Company has not provided sufficient information and analyses in its IRP and that a more robust discussion in the IRP would have provided additional evidence that regulators could have used in the decision making process. (Ware, lines 218-244).

A. I certainly agree with Mr. Ware that information included in IRPs can be considered as evidence in other proceedings such as this one, and would point to the Company's most recent IRP as evidence supporting the Application in this docket. The Company recognizes that there are multiple proceedings where information can be provided to the Commission relating to its gas supply planning and proposed capital projects. The Company believes that in this proceeding, it has provided sufficient evidence for the Commission to make a determination that its application for an on-system LNG storage facility is prudent and in the public interest.

To the extent that the Office has concerns about the data provided in the IRP dockets, it should (and has) raised those issues in that docket and the Company will address them there. I would further point out that this docket, itself, provides a robust process by which the Office of Consumer Services (Office) and any other interested party can conduct detailed discovery, comment upon, and raise any issues related to the proposal. The Company knew that the analysis associated with this particular voluntary resource decision would include hundreds of pages of data and testimony. It would be cumbersome, and inappropriate, to make the case for this decision solely within the context of the IRP process. The IRP process includes a summary of the Company's analysis. The Application in this docket contains the detail related to the analysis. While Mr. Ware expresses concern that the primary need for the LNG facility has changed over time, as Ms. Faust will discuss, the Company's experience and access to other viable services has also changed over time. One of the reasons why the Company files annual IRPs is because the gas supply group is constantly reviewing the gas supply landscape and determining what resources are needed to meet the customers' needs. The Company is filing this preapproval docket in 2018, and the 2017 IRP discussed that an LNG facility was being pursued specifically for supply reliability reasons. Considering that this facility would not go into service until 2022, if approved, the Commission and other interested parties have had ample time to thoroughly vet this issue in this proceeding.

VII. TRANSPORTATION CUSTOMERS SHOULD NOT PAY FOR THE PROPOSED ON-SYSTEM LNG FACILITY.

Q. Mr. Mierzwa suggests that transportation customers should be required to pay for the facility (Lines 455-471). How do you respond?

A. The LNG facility is not being proposed to address supply reliability for transportation customers. This facility is being constructed for the benefit of DEU's firm sales customers. If the Company were to charge transportation customers for this facility, then it would need to construct a larger facility to ensure that transportation customers have access to the resource.

Also, I mentioned in my direct testimony that penalties exist for transportation customers that use the sales customers' gas supplies. If Parties do not think the current penalty provides enough of an economic incentive, or if Parties think that TS customers will be using this facility and not paying for it, then the solution should be to increase the penalties or to take all of the penalties received and apply them to the cost of the LNG facility instead of returning them to customers through the infrastructure rider.

VIII. THE MAGNUM OPTIONS WOULD NOT SAVE CUSTOMERS $6.5 TO $10 MILLION PER YEAR

Q. Mr. Holder makes the claim that the Magnum option will save customers $6.5 million to $10 million per year (lines 114-116). Do you agree?

A. No. Mr. Holden makes a number of statements in his testimony that lack any evidentiary support. This cost comparison is one of those claims. Mr. Holden has provided no evidence to support his analysis. As 1.05U shows, when the LNG facility is compared to the four Magnum options, the LNG facility is considerably less expensive than three of the options. The fourth Magnum option is comparable in annual cost to the LNG option, but it is worth noting that this option was provided to Dominion a couple of weeks before this docket was filed and would require more capital investment by Magnum than the other three options. Mr. Gill provides additional evidence questioning the validity of the Magnum cost estimate in his rebuttal testimony.

Q. Mr. Holder also takes exception to the statement you made in your testimony that "other options" are "short-term options," and he argues that the Magnum option is a long-term solution (lines 256-274). Do you agree with this statement?

A. I would agree with Mr. Holder that, if the Magnum storage project does everything Mr. Holder says it can do in his testimony, it would be a long term option. However, the Company has concerns about the viability of Magnum's proposed options.

Q. Does this conclude your testimony?

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 6th day of September, 2018.

GINGER JOHNSON
Notary Public State of Utah
My Commission Expires on:
August 4, 2019
Comm. Number: 684539

Ginger Johnson
Notary Public