REDACTED

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** **Exhibit No. DPU 1.0 SR** **Surrebuttal Testimony** **Douglas D. Wheelwright**

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Surrebuttal Testimony of

Douglas D. Wheelwright

September 20, 2018

Q: Please state your name, business address and title.

A: My name is Douglas D. Wheelwright; my business address is 160 East 300 South, Salt Lake City, Utah 84114. I am a Technical Consultant with the Division of Public Utilities (Division).

Q: On whose behalf are you testifying?

A: The Division.

Q: Have you previously filed testimony in this case?

A: Yes. I filed direct testimony on August 16, 2018.

Q: What is the purpose of your testimony in this matter?

A: I will provide comments related to the rebuttal testimony of Dominion Energy Utah (DEU or Company) representatives Kelly B. Mendenhall, Tina Faust and Michael Platt. I will also respond to the rebuttal testimony of Mr. Bela Vastag who filed rebuttal testimony on behalf of the Office of Consumer Services. The fact that I do not address every specific detail or issue should not be construed as acceptance.

Q. Mr. Mendenhall was critical of your analysis of DEU rates compared to the national average and states that "DEU still has among the lowest rates in the nation". Do you agree with this claim and are you persuaded to change your original position by any of the new information provided by DEU?

A. No. I was concerned with the large difference in the rankings until it was discovered that the DEU ranking is based on a Company generated calculation and is not based on EIA published annual data. The EIA natural gas price report demonstrates that on an annual comparison, DEU had the 17th lowest price as of year-end 2016. The complete annual data for 2017 will not be available until the end of September 2018. The EIA gas price ranking is also supported by the American Gas Association ranking of the surrounding states provided in chart 2 of my direct testimony. The source document for the U.S. Energy Information Administration (EIA) data used in my ranking has been included as DPU Exhibit 1.1 SR

Q: Can you explain why there is a significant discrepancy between the EIA Annual ranking of gas price in each state versus the DEU ranking?

A: The Division has had discussions with Michael Kopalek from EIA and representatives from DEU to understand the differences. Monthly gas price information is provided to EIA from natural gas distribution companies from all 50 states and the District of Columbia. Monthly price information from all participants is not always received on a timely basis and errors in the reporting are also identified on a regular basis. EIA compiles the monthly data and works directly with individual companies to resolve any missing or incorrect information before publishing the annual price comparison in September of the following year. The preliminary information for 2017 reflects missing information from 18 states.

In contrast, DEU uses the monthly information from EIA to generate its own 12 month rolling average price. For the months where no information has been provided, DEU enters the previous month value to calculate its own 12 month rolling average. The DEU calculation of a 12 month rolling average does not match the EIA annual value.

Q: Do you have any corrections or clarifications that you would like to make to your direct testimony based on this new information?

A: Yes. I would like to make one clarification to my direct testimony, which stated that DEU rates moved from the 2nd lowest to 17th lowest in just two years. The 2014 referenced material showing that DEU had the second lowest rates in 2014 was prepared by the Company using the internal calculation explained above. The internal calculation is not comparable or consistent with the 2016 EIA annual data and should not have been used for comparison. EIA annual data for the last several years has been provided as DPU Exhibit 1.1 SR and shows that DEU (Questar Gas) was ranked 14th lowest as of year-end 2014 not the 2nd lowest. Using comparable data from the same EIA source, DEU moved from 14th lowest rates in 2014 to the 17th lowest rates in 2016. While the amount of the movement is not as large, the point is still the same. DEU prices do not compare favorably to the surrounding states, DEU prices are not among the lowest in the country and the price of gas service in

Utah is moving closer to the national average price. DEU can no longer legitimately claim to have some of the lowest gas prices in the county.

Q: Does the discrepancy between the EIA values used in your analysis and the DEU values have anything to do with a six month or twelve month comparison as identified in Mr. Mendenhall's rebuttal testimony?

A: No. The difference has to do with DEU's internal calculation of a 12 month rolling average compared to the EIA annual calculation and has nothing to do with a six month versus a twelve month rolling average as suggested.

Q: Mr. Mendenhall suggests that any rate comparison should consider the recent cost savings associated with Company-owned supplies. Do you agree that it should be included and considered in the analysis?

A: No. The price comparison in my direct testimony was a review of the historical price of gas delivered to residential customers in Utah compared to the surrounding states as well as a comparison to the nation average price. The years that were being used for comparison were 2014 and 2016. The cost savings from tax reform identified by Mr. Mendenhall are not applicable until 2018. There also appears to be some inconsistency with the recommendation to consider the recent cost savings associated with Company-owned commodity cost when Mr. Mendenhall has suggested that commodity cost should not be included in the analysis of the LNG facility.

Q: Mr. Mendenhall was critical of your including a reference to the 2019 general rate case and stated that it had no relevancy to this case. Do you still believe that the Commission should consider the future rate case in this proceeding?

A: Yes. The requirements for a voluntary resource decision call for a review of the long-term impacts and other factors determined by the Commission to be relevant.[1] It is already known

[1] Utah Code § 54-17-402 (3) (b)

that DEU plans to file a general rate case in 2019 and that the 2016 general rate case was withdrawn by the Company as part of the merger stipulation.[2] The stated revenue requirement deficiencies identified by the Company in the 2016 general rate case were not resolved and remain outstanding. To ignore known information from the 2016 general rate case and not consider the potential impact of the 2019 general rate case filing would not meet the requirement to look at the long term impacts of the proposed LNG facility on customer rates.

Q: Mr. Mendenhall was critical of your estimate of the potential increase in the 2019 general rate case and that your focus on only one item fails to consider the many other items that contribute to the calculation of customer rates. How do you respond to this concern?

A: I agree that my estimate did not consider all aspects of a general rate case but I do not agree that the estimate is "speculative at best." While there may be some offsetting items in the 2019 general rate case, the Company clearly identified and documented the primary reason for filing the general rate case in 2016. The direct testimony of Mr. Barrie McKay states, "the timing of this case is driven primarily by the Company's ongoing investment in infrastructure."[3] The capital expenditures that were the driving force in the 2016 case have not been included in the current rates and additional capital spending has occurred since that time. Merger commitment #8 specifically states that "Dominion Questar Gas will continue its planned total capital expenditure program with an estimated $209 million investment in 2017, $208 million investment in 2018, and $233 million investment in 2019."[4] Since capital spending was the primary driver of the unresolved 2016 general rate case and capital spending has continued since that time, it is not speculative to surmise that these same issues will be included in the 2019 general rate case.

[2] Docket No. 16-057-01, Settlement Stipulation
[3] Docket No. 16-057-03, Direct Testimony of Barrie L. McKay, page 2, line 34.
[4] Docket No. 16-057-01, Settlement Stipulation, page 5, item 8.

Q: Mr. Mendenhall does not agree that the cost of gas should be included in the analysis of the LNG facility or the alternatives. Do you still believe that the commodity cost should be included and considered in the analysis?

A: Yes. This filing is an opportunity to review the application for the proposed LNG facility as well as a review of the alternatives that are available. In his rebuttal testimony, Mr. Mendenhall states "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 alternatives sources." The Company provides no support for this statement and does not dispute the calculation of $8.70 per Dth gas provided from the LNG facility.[5] Based on the required 30% withdrawal from the LNG facility each year, the Company will be forced to include this expensive gas into the cost of gas passed on to customers. The Division acknowledges and agrees that gas cost flows through the 191 account, but does not agree that commodity cost should not be considered as part of this analysis and does not agree that gas cost would be the same from any of the alternative choices. The volume of gas from the LNG facility may not be enough to increase the total per Dth cost for customers, however, DEU should not ignore the individual components that make up the total gas cost. If the goal is to select the optimal resource available to satisfy each portion of the gas requirement, it is doubtful that selecting $8.70 per Dth gas would be the best alternative resource available. If the LNG facility were to be approved and built, expensive gas from LNG storage would be forced into the resource mix due to the requirement to deplete 30% of the capacity on an annual basis.

Q: Do you agree with Mr. Mendenhall that the Dominion Energy investor presentation outlining future growth in net plant is irrelevant to this proceeding?

A: No. An understanding of the corporate expectation of projected growth in net plant should definitely be part of the discussion for a major plant addition for the utility. Mr. Mendenhall correctly points out that the proposed LNG facility is not planned to be in service until 2022,

[5] DPU Data Request 4.02U, DPU Exhibit 1.2.

but the purpose of this proceeding is to obtain approval to proceed with a major plant addition in 2018. The investor presentation identifies net plant growth as the first driver in sustainable earnings growth for 2017 – 2020 and also states that there are "Sustainable earnings drivers beyond 2020". The investor presentation and Mr. Mendenhall's statement that "the facility could be a factor in the future" emphasize that growth in net plant should be considered in the analysis of the proposed LNG facility.

Q: Mr. Mendenhall provided an update to the cost comparison analysis as DEU Exhibit 1.05U to include the holding cost for the gas supply. Does the updated information and the revised exhibit support the LNG facility as the best choice of the options that have been presented?

A: No. DEU Exhibit 1.05U summarizes the [redacted] that have been presented in this docket. Since one of the goals in this process is to look for the lowest reasonable cost option, I have changed the order of the information presented in Exhibit 1.05U to sort the results beginning with the lowest annual impact to the customer bill. (Column E) The revised sort has been included as DPU Exhibit 1.2 SR and provides a different perspective of the options that have been presented for review. An emphasis on the cost of each available option and the potential impact to a customer's bill should be an important consideration in the analysis process. By ranking the presented options by the annual impact to customer bills, the LNG facility ranks [redacted] of the options provided.

Q: Ms. Faust claims that your recommendation to look for large volume and short term duration solutions is inconsistent with your other recommendations that the 150,000 Dth per day may be more than what is needed. Can you explain why you believe that your recommendations are not inconsistent?

A: The application stated that there is a need for additional supply resources in the event of a supply cut due to unforeseen conditions. The initial application identified cold weather conditions as a possible reason for supply cuts but also identified earthquakes and landslides as possible reasons for disruptions to supply. Extreme cold weather events would generally be short term in duration while landslides and earthquakes could have long term consequences if there were a break or disruption in the pipeline system. The application itself was inconsistent in identifying the need for an LNG storage facility.

My initial analysis was intended to identify the extent and duration of the purported problem and then examine the various alternatives to satisfy that requirement. Based on my review of the information that was provided, supply cuts due to cold weather conditions in the past have been short in duration and lower than the 150,000 Dth. This would suggest a need for a storage or supply option that could provide resources that would be available on short notice and could last for a few days. A break or disruption to the pipeline system could require a large volume of gas to be delivered to the distribution system in order to maintain system pressure. The purpose and need for an LNG facility has not been clearly defined or outlined by DEU. It appears as though DEU has determined that the solution to all problems is an LNG facility and then backed into the need instead of identifying the specific problem and then looking for the appropriate solution. According to Ms. Faust testimony, "The Company has sized the facility to match the supply reliability need now and into the foreseeable future"[6]

Q: What do you believe is the problem that needs to be solved in this docket?

A: The amount and duration of supply disruptions has not been clearly defined by DEU; however, Mr. Platt provides a good definition for what I believe should be considered in an RFP going forward. The proposed resource "is not meant to create ultimate reliability for all scenarios within the realm of possibility. It is meant to provide reliability in the most probable situations when a portion of the upstream supply is compromised due to outages on a portion of the system."[7] The Company has identified supply disruptions due to cold weather conditions as the most likely situation that could be encountered in the future. Issues related to earthquakes, landslides, or transporting LNG to remote locations should not be part

[6] Rebuttal Testimony of Tina M. Faust, page 3, line 75.
[7] Rebuttal Testimony of Michael L. Platt, page 7, line 174.

of the discussion or the decision making process. This is the essence of the Division's position. Once the need has been clearly defined, the RFP process will help identify the various solutions to meet the specific need.

Q: Ms. Faust questioned your statement that the Commission should be skeptical about the Company's motives in reaching its decision to construct an LNG facility. Do you still believe that the Commission should question the motives behind the recommendation?

A: Yes. The Commission should be cautious before allowing the Company to spend nearly [redacted] without a clear understanding of other perhaps less expensive options that may be able to accomplish a similar outcome. Another reason to be skeptical is clearly outlined in the Company's rebuttal testimony. The Company has been considering LNG as a potential solution to several different problems for several years. An LNG facility was evaluated in 2014 as an alternative to replacing capacity in the aquifers. The Company considered LNG as a possible solution to meet peak hour needs. The Company is now recommending LNG to satisfy a supply shortfall need. It appears that the Company wants an LNG facility and is looking for ways to justify the resource, which should create a considerable amount of skepticism.

Q: You have expressed concern that DEQP will have access to the LNG facility through the joint operating agreement. Ms. Faust stated that the joint operating agreement does not govern any DEU on-system facilities or pipelines, nor would it ever govern such facilities in the future.[8] In a similar way, Mr. Platt stated that the amount and timing of LNG flowing onto the system would not be shared with other companies including DEQP. How do you respond?

A: The daily management of system pressures on the DEU distribution system is under the jurisdiction of the Gas Control department. DEU and DEQP share a common Gas Control department that manages the system pressures from a single facility in the DEU building.

[8] Rebuttal Testimony of Tina M. Faust, page 15, line 394.

Gas control personnel are DEQP employees. Gas control employees manage system pressures for both entities and allocate a portion of their time to DEU.[9] While Company representatives state that the amount and timing of flows from the LNG facility would not be shared with DEQP, it is difficult to see how a common Gas Control charged with maintaining system pressures for both entities would not have access to this information. In response to DPU Data request 9.13, DEU stated the following;

> In emergency or unforeseen situations that are not caused by weather, Gas Supply and Gas Control would monitor pressures and make a determination if the LNG facility should be used to maintain those pressures. The use of the LNG resource is under the direction of the Director of Engineering and the VP and General Manager of Dominion Energy Utah.[10]

Based on the response, it appears that the operation of the LNG facility will be jointly managed by employees of DEU and Gas Control to determine when to use the proposed facility. Copies of DPU Data Request 9.10 and 9.13 have been included as DPU Exhibit 1.3 SR for reference.

Q: DEU has stated that it will use the SENDOUT model to determine the most cost-effective way to fill the LNG tank. Have you been able to determine if DEU would use Wexpro gas or market purchases to fill the proposed LNG facility?

A: Yes. Ms. Faust and other witnesses have stated that the SENDOUT model would be used to determine the most "cost-effective" option to fill the proposed facility. While this response sounds like DEU will look for the least expensive resource to fill the proposed facility, in reality there are a number of predetermined parameters or guidelines that the SENDOUT model uses to determine the resource selection. In response to DPU Data request 9.07, the Division asked the Company to run the SENDOUT model as if the LNG facility were in place to determine which resource would be selected by the model. Results from the model run were recently received and have not been fully analyzed or reviewed but do show that Company owned (Wexpro) supplies were chosen for filling the facility during the summer

[9] DPU Data Request 9.10.
[10] DPU Data Request 9.13.

months with purchased gas supplies at other times of the year. Since DEU has indicated that the facility will require 150 days to fill and the facility will likely be filled during the summer months, it is likely that the SENDOUT model would select mostly or only Wexpro gas. It is important to remember that during the summer months DEU does not have any market purchase activity, which would also indicate that the model would choose Wexpro production. The Company statement the SENDOUT model would be used to determine the most cost effective way to fill the facility does not accurately represent the predetermined parameters by DEU representatives. Copies of DPU Data Request 9.07 and the corresponding results of the SENDOUT model runs have been included as DPU Exhibit 1.4 SR. The Company elected to use September 2022 through February 2023 as the time frame to fill the facility. This time frame does not match the statements of Company witnesses and it is unlikely that the facility would be filled during the heating season. This raises the question of why a September-February time frame was chosen. Year 2 and year 3 model runs indicate that injections to the facility would begin as early as April and continue through the summer months.

Q: Mr. Vastag was critical of the Division's position in this docket. Do you agree that DEU has not identified or addressed the specific need for the proposed LNG facility?

A: Yes. As stated earlier in this testimony, DEU has not clearly identified the need for this facility. Mr. Platt stated that the proposed facility is meant to provide reliability in the most probable situations when a portion of the upstream supply is compromised due to outages on a portion of the system."[11] This condition would most likely be a restriction of supply due to cold weather conditions. Cold weather conditions have historically been short in duration and could be satisfied by several of the options identified.

Q: Mr. Vastag was critical of the Division's position concerning DEU's selection of the LNG facility as the least reasonable cost option. Do you agree with the Office that DEU

[11] Rebuttal Testimony of Michael L. Platt, page 7, line 174.

has failed to demonstrate that the proposed LNG facility represents the least cost option?

A: Yes. As shown in DPU Exhibit 1.2 SR, the identified options have varied impact to customer rates and DEU has not demonstrated why other less expensive options would not accomplish the same outcome. DEU Exhibit 2.11 identifies the reasons for selecting the LNG facility, however it appears that many of these items have been hand selected and may not have been given the same initial requirements for a fair comparison of the options. That is the primary reason for the Division's recommendation for a new RFP to solicit new bids once a clear set of requirements has been identified.

Q: Can you summarize the Division's position and recommendation?

A: The Division's position remains unchanged from the position filed in its direct testimony. DEU has not demonstrated that the proposed LNG facility is in the public interest or that the proposed facility is the lowest reasonable cost alternative. The Division has identified unanswered questions concerning the quality of the analysis, the ongoing operational cost, and the necessity of the large increase in the rate base.

The Commission should order DEU to clearly define the needed capabilities and issue an RFP to meet the specified need and requirement. The Commission should identify a new schedule in this docket or a new docket in order to allow sufficient time to complete the RFP process. Already filed testimony and evidence that has been provided in this docket could still be considered in another phase or docket.

Q: Does this conclude your surrebuttal testimony?

A: Yes.