

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

SURREBUTTAL TESTIMONY

OF

JEROME D. MIERZWA

FOR THE OFFICE OF CONSUMER SERVICES

September 20, 2018

EXETER
ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

DIRECT TESTIMONY OF JEROME D. MIERZWA**I. INTRODUCTION**

1

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Jerome D. Mierzwa. I am a Principal and Vice President with Exeter
4 Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-
6 related consulting services.

7 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
8 PROCEEDING?

9 A. Yes, my direct testimony was submitted on August 16, 2018.

10 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

11 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed
12 by Dominion Energy Utah (“DEU”) witnesses Kelly B. Mendenhall, Tina M. Faust,
13 Michael L. Platt, and Bruce L. Paskett.

14 Q. IN YOUR DIRECT TESTIMONY YOU RECOMMENDED THAT
15 TRANSPORTATION CUSTOMERS SHOULD BE REQUIRED TO PAY
16 FOR A SHARE OF THE PROPOSED LNG FACILITY. MR.
17 MENDENHALL DISAGREES WITH YOUR RECOMMENDATION.
18 WHY DOES MR. MENDENHALL DISAGREE WITH YOUR
19 RECOMMENDATION AND WHAT IS YOUR RESPONSE?

20 A. Mr. Mendenhall claims that transportation customers would be assessed penalties if
21 they used gas supplies intended for sales customers such as supplies from the LNG
22 facility (Mendenhall Rebuttal, Lines 203-208). These penalties would compensate
23 sales customers for the use of the LNG facility by transportation customers. Recently
24 in Docket No. 18-057-T04, DEU has proposed tariff modifications to clarify its

25 curtailment procedures and penalties for transportation customers that use gas in excess
26 of quantities delivered to DEU on their behalf and use supplies intended for sales
27 customers. These proposed tariff modifications would alleviate my initial concern that
28 transportation customers would benefit from the proposed LNG facility but would not
29 pay for this benefit. If the tariff modifications in Docket No. 18-057-T04 are not
30 approved, my concerns remain valid.

31 Q. MS. FAUST ADDRESSES STATEMENTS IN YOUR DIRECT
32 TESTIMONY THAT CURRENTLY “100 PERCENT OF THE GAS
33 SUPPLIES RELIED UPON BY DEU SALES CUSTOMERS ARE
34 SOURCED FROM LOCATIONS THAT ARE SIGNIFICANT DISTANCES
35 FROM THE DEU SYSTEM AND DELIVERED BY UTILIZING
36 FACILITIES OWNED AND OPERATED BY THIRD PARTIES,” AND
37 THAT “THIS RELIANCE ON THIRD PARTIES HAS NOT HAD A
38 NEGATIVE IMPACT ON SERVICE RELIABILITY.” WHAT IS MS.
39 FAUST’S RESPONSE TO THESE STATEMENTS?

40 A. In summary, Ms. Faust testifies that my comments highlight the Company’s lack of
41 supply diversity. She claims the fact that 100 percent of the gas supplies come from
42 off-system sources is precisely her point, and it is evidence that an on-system source is
43 critical for supply diversity. Given past events, Ms. Faust claims that it has become
44 increasingly clear that total reliance on off-system supply source places the Company
45 and its customers at a greater risk of supply disruptions (Faust Rebuttal, Lines 185-
46 190).

47 Q. WHAT IS YOUR RESPONSE TO MS. FAUST?

48 A. As explained in detail in my direct testimony, significant diversity already exists in
49 DEU’s current off-system supply sources. In addition, as also explained in my direct

50 testimony, the proposed LNG facility would provide for approximately 10 percent of
51 the design day requirements of firm sales customers to be met from on-system sources
52 as opposed to 100 percent from off-system sources. The proposed LNG facility would
53 provide approximately 1,250,000 Dth of gas supply diversity on an annual basis. Based
54 on the sales data included in the Attachment to OCS 1.03 in Docket No. 17-057-20,
55 this reflects approximately 1 percent of total annual firm sales and 2 percent of total
56 winter firm sales. Therefore, the overall additional diversity provided by the proposed
57 LNG facility is not significant. Finally, it is my experience that it is not uncommon for
58 an LDC to rely 100 percent on off-system sources to meet its gas supply requirements.
59 The ability of LDCs to rely 100 percent on off-system sources has been enhanced as a
60 result of FERC’s mandated unbundling, as set forth in Order No. 636, which provides
61 LDCs and gas transport customers the ability to access diverse gas supplies connected
62 to upstream pipelines at various gas supply basins and benefit from well-head
63 competition in the price of gas supplies.

64 Q. MS. FAUST CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
65 INDICATED THAT MOST GAS UTILITIES USE LNG FOR CAPACITY
66 AS WELL AS SUPPLY RELIABILITY, AND THAT THE DEU
67 INITIATED AMERICAN GAS ASSOCIATION (“AGA”) SURVEY
68 CONFIRMED THAT THE MAJORITY OF RESPONSIVE LDCs UTILIZE
69 LNG FOR SUPPLY RELIABILITY (FAUST REBUTTAL, LINES 274-282).
70 MR. PASKETT MAKES SIMILAR CLAIMS (PASKET REBUTTAL,
71 LINES 65-80). WHAT IS YOUR RESPONSE?

72 A. First, I would note that Ms. Faust asked herself whether she agreed that most LDCs use
73 LNG for capacity as well as gas supply reliability, but she does not indicate whether
74 she agreed or disagreed. More importantly, however, as I explained in my direct

75 testimony, maintaining system supply reliability refers to maintaining adequate
76 capacity and gas supply resource portfolios. Nearly 80 percent of the LDCs responding
77 to the AGA survey cited upstream transportation capacity contracts as a service used
78 to maintain system reliability and, therefore, the responding LDCs concur that
79 maintaining system supply reliability refers to maintaining adequate capacity and gas
80 supply resources.

81 In this proceeding, DEU is proposing an LNG facility to serve as a back-up gas
82 supply resource, not a combined capacity and gas supply resource. Ms. Faust cites
83 Southwest Gas as a recent example of a utility that is expressly building an LNG facility
84 as a back-up gas supply resource. However, no evidence has been presented that
85 constructing an LNG facility to serve as a back-up gas supply resource is a common
86 LDC practice and, in fact, the Southwest Gas example is the only example provided in
87 this proceeding of an LDC constructing an LNG facility solely for this purpose. This
88 implies that every other LDC in the country is able to maintain supply reliability
89 without building an LNG facility to serve as a back-up gas supply resource.

90 Q. ARE YOU SUGGESTING THAT AN LDC WITH AN ON-SYSTEM LNG
91 FACILITY WOULD NOT USE THAT FACILITY IF IT EXPERIENCED A
92 SUPPLY SHORT-FALL?

93 A. No, not at all. As just explained, on-system LNG facilities serve as both capacity and
94 gas supply resources. If an LDC experienced a supply short-fall on a particular day, it
95 would evaluate all of its options for addressing the short-fall, including its on-system
96 LNG facility. It may well be that of all the available options, on-system LNG was the
97 least-expensive option for addressing the short-fall and, therefore, the option selected
98 to be utilized. However, in nearly every instance that I am aware, addressing a supply
99 short-fall is not the primary purpose an LDC would construct an LNG facility.

100 Q. IN YOUR DIRECT TESTIMONY YOU STATED THAT SEVERAL OF
101 THE ALTERNATIVES TO AN LNG FACILITY EXAMINED BY DEU
102 REQUIRED THE ACQUISITION AND USE OF INCREMENTAL
103 UPSTREAM TRANSPORTATION CAPACITY AND THAT DEU DID
104 NOT FULLY EVALUATE THE USE OF EXISTING CAPACITY IN ITS
105 ANALYSIS OF ALTERNATIVES. PLEASE EXPLAIN YOUR CONCERN
106 IN ADDITIONAL DETAIL.

107 A. In my direct testimony I explained that if a disruption at a supply source were to occur
108 on a design day, the firm transportation capacity initially being used to deliver the
109 disrupted supplies would be available to deliver alternative supplies and the acquisition
110 of additional firm transportation capacity or the construction of new facilities may not
111 be necessary.

112 Q. WHAT WAS MS. FAUST'S RESPONSE TO YOUR CLAIM THAT DEU
113 DID NOT FULLY EVALUATE THE USE OF EXISTING FIRM
114 INTERSTATE PIPELINE TRANSPORTATION CAPACITY AND THAT
115 THERE ARE OPTIONS TO ADDRESS SUPPLY DISRUPTIONS THAT
116 USE DEU'S EXISTING FIRM CAPACITY?

117 A. Ms. Faust claims that upstream pipeline capacity is only firm if the Company utilizes
118 its primary receipt and delivery points (primary path of flow), and service from an
119 alternative receipt point to an alternative delivery point may not be provided on a firm
120 basis (Faust Rebuttal, Lines 359-369). If this were the case, I still have two concerns.
121 First, I do not believe DEU has fully evaluated the potential to contract for back-up
122 supplies at its primary receipt points rather than pursuing the construction of a new LNG
123 facility. Second, I would note that on a number of pipelines, receipts and deliveries at
124 alternative points can be considered firm, particularly when the flow of gas only utilizes

125 portions of the same primary path of flow. Such deliveries are considered secondary
126 in-path flows and can be provided on a firm basis. I also believe that DEU has not
127 sufficiently evaluated the use of secondary in-path flows in its analysis of alternatives
128 to the LNG facility.

129 Q. MS. FAUST ALSO CLAIMS THAT IF A SUPPLY DISRUPTION OCCURS
130 AFTER GAS HAS BEEN NOMINATED (THE DAY BEFORE FLOW)
131 NEW SUPPLIES WILL BE SUBJECT TO THE CONSTRAINTS OF THE
132 PIPELINE NOMINATION CYCLES AND, THEREFORE, NOT
133 AVAILABLE WHEN NEEDED (FAUST REBUTTAL, LINES 370-379).
134 WHAT IS YOUR RESPONSE?

135 A. As indicated in my direct testimony, in the response to OCS Data Request 2.03, DEU
136 indicated that in the past, there have been times when the upstream delivering pipeline
137 has allowed nomination changes to flow earlier than what was provided under current
138 pipeline nomination cycles.

139
140 Q. MR. PLATT CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
141 STATE THAT THE PROBABILITY OF OCCURRENCE OF THE
142 COMPANY'S DESIGN PEAK DAY IS ONE-IN-55 YEARS. MR. PLATT
143 DISAGREES WITH THIS CLAIM AND CONTENDS THAT THE
144 PROBABILITY OF OCCURRENCE OF THE COMPANY'S DESIGN DAY
145 IS ACTUALLY ONE-IN-20 YEARS (PLATT REBUTTAL, LINES 61-68).
146 WHAT IS YOUR RESPONSE?

147 A. The section of my direct testimony cited by Mr. Platt discusses the costs associated
148 with the proposed LNG facility. I present cost estimates assuming a one-in-55-year
149 probability of occurrence based on most recent actual observed experience, and an

150 estimate based on a one-in-30-year probability of occurrence. Based on a probability
151 distribution analysis, Mr. Platt claims that the probability of occurrence of DEU's
152 design day is one-in-20 years. If Mr. Platt were correct and the probability of
153 occurrence were one-in-20-years, if a supply disruption were to actually occur on a
154 design day, and the proposed LNG facility was able to alleviate the impact of the
155 disruption, the total cost to sales customers associated with maintaining service on this
156 one day would be \$450 million, or an average of \$375 per customer.

157 I would further note that there is no standard approach to determining the
158 probability of design day of occurrence used by LDCs. While some LDCs use the
159 probability distribution analysis approach suggested by Mr. Platt, other LDCs
160 determine the probability based on the actual number of observations over a specific
161 period of time.

162 Q. MR. PLATT CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
163 INDICATE THAT NNT SERVICE COULD BE USED ON AN
164 INTERRUPTIBLE BASIS TO ENSURE RELIABILITY (PLATT
165 REBUTTAL, LINES 86-94). IS THIS ACCURATE?

166 A. No, and in fact in response to OCS Data Request No. 1.08, I indicate that an LDC
167 should not rely on an interruptible service to meet design day demands. The section of
168 my direct testimony referenced by Mr. Platt discusses both the firm and interruptible
169 aspects of NNT service. My direct testimony does not recommend that DEU rely on
170 the interruptible aspect of NNT service to meet design day demands.

171 Q. MR. PLATT CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
172 STATE THAT ONLY 45 PERCENT OF COMPANIES RESPONDED TO
173 THE AGA SURVEY THAT WAS PROVIDED AS EXHIBIT 2.04. HE
174 CLAIMS THAT THIS IS EITHER A MISUNDERSTANDING OR

175 MISSTATEMENT (PLATT REBUTTAL, LINES 183-194). IS MR. PLATT
176 CORRECT?

177 A. No. In my direct testimony, I indicated that 45 percent of the LDCs responding to the
178 AGA survey operate an on-system LNG facility, and that this 45 percent only referred
179 to the LDCs responding to the survey which is a subset of all LDCs. Therefore, Mr.
180 Platt has misinterpreted my testimony. There is no disagreement that 45 percent of the
181 LDCs responding to the survey have on-system LNG.

182 Q. IN YOUR DIRECT TESTIMONY YOU NOTED THE SIGNIFICANT
183 SUPPLY DISRUPTIONS THAT OCCURRED DURING THE BOMB
184 CYCLONE OF 2018 AND THAT NO CUSTOMERS OUTAGES WERE
185 REPORTED AND NO PLANS TO BUILD LNG FACILITIES RESULTED.
186 WHAT WAS MR. PLATT'S RESPONSE TO YOUR TESTIMONY ON
187 THIS ISSUE?

188 A. Mr. Platt claims that there were no gas supply issues as a result of the Bomb Cyclone
189 because many companies already have on-system LNG facilities. He also claims that
190 although temperatures were cold during the Bomb Cyclone, temperatures did not reach
191 design day temperatures in major demand centers (Platt Rebuttal, Lines 195-213).

192 Q. WHAT IS YOUR RESPONSE TO MR. PLATT?

193 A. In the past, DEU has experienced gas supply disruption when temperatures were less
194 extreme than the design day temperature it utilizes for capacity and gas supply planning
195 purposes. DEU is requesting approval of an LNG facility in this proceeding to address
196 gas supply disruption that might occur on a design day. LDCs generally maintain a
197 balance between their capacity and gas supply resources and their projected design day
198 demands. Thus, if an LDC with an LNG facility were to experience a supply disruption
199 on a design day, their LNG facility would not be sufficient to address the supply

200 disruption. It is also likely that many of the LDCs that may have experienced supply
201 disruptions did not operate on-system LNG facilities. I believe it is reasonable to
202 expect that the LDCs that experienced supply disruptions during the Bomb Cyclone of
203 2018 also recognized, as does Mr. Platt, that the supply disruptions occurred at
204 temperatures less extreme than design day temperatures. Despite the similar
205 experiences of DEU and the LDCs that experience supply disruptions during the Bomb
206 Cyclone, there is no evidence that the other LDCs are actively pursuing the construction
207 of new or additional LNG facilities to address the potential for supply disruptions on a
208 design day. The logical conclusion from these observations is that the other LDCs have
209 found or have in place procedures to address design day supply disruptions without the
210 addition of incremental LNG facilities.

211 Q. MR. PLATT CLAIMS THAT IN A DATA REQUEST RESPONSE (OCS
212 DATA REQUEST 1.01 REQUESTED BY DEU) YOU INDICATED THAT
213 SEVERAL LDCS SECURE RESOURCES THAT EXCEED THEIR
214 PROJECTED DESIGN DAY REQUIREMENTS, AND CONCLUDES
215 THAT THIS IS EVIDENCE THAT LDCS AND COMMISSIONS ACROSS
216 THE UNITED STATES FIND IT PRUDENT TO BUILD A MARGIN OF
217 SAFETY INTO THEIR SUPPLY PORTFOLIO FOR RELIABILITY
218 (PLATT REBUTTAL, LINES 214-221). WHAT IS YOUR RESPONSE?

219 A. First, I would note that the design day forecasting models utilized by the other LDCs
220 referenced in my data request response do not utilize all of the independent variables
221 included in the Company's design day model. The independent variables included in
222 the Company's design day forecast model include:

- 223 • Heating degree days;
- 224 • Maximum windspeed;

- 225 • Average windspeed;
- 226 • Day of the week;
- 227 • Winter holiday indication; and
- 228 • Prior day demand.

229 Because all of these independent variables are not included in the forecasting
230 models of the LDCs identified in the data response, it is more likely that if design day
231 conditions were experienced, actual observed design day demands for these LDCs
232 would exceed forecasted design day demands than would DEU's actual observed
233 demands exceed forecasted design day demand.

234 In addition, the data request response referenced by Mr. Platt refers to
235 maintaining capacity resources in excess of design day demands or a capacity reserve.
236 In this proceeding, DEU is claiming it is necessary to maintain back-up gas supply
237 resources in excess of design day demands in the event a supply shortfall is
238 experienced, not additional capacity. DEU's proposal to maintain reserve supply
239 resources will cost sales customers hundreds of millions of dollars. In contrast, for
240 those LDCs identified in the data request response, the costs associated with
241 maintaining gas supply resources to fill their capacity reserve would typically be *de*
242 *minimis*, if there are any costs at all. This is because the costs associated with reserving
243 gas supplies for delivery to an upstream pipeline receipt point is typically *de minimis*,
244 or non-existent.

245 Q. MR. PLATT CLAIMS THAT THE MAJORITY OF LDCs FOR WHICH
246 INFORMATION IS AVAILABLE IN THIS PROCEEDING HAVE SOME
247 FORM OF ON-SYSTEM STORAGE AND BENEFIT FROM HAVING
248 ON-SYSTEM STORAGE (PLATT REBUTTAL, LINES 222-236). WHAT
249 IS YOUR RESPONSE?

250 A. As explained in my direct testimony and earlier in my surrebuttal, those LDCs that
251 currently have on-system storage utilize that storage as both a capacity and gas supply
252 resource. In this proceeding, DEU is proposing an on-system storage facility that
253 would serve as a back-up gas supply resource. There has been no evidence presented
254 of a single LDC in the country currently utilizing on-system storage solely as a back-
255 up gas supply as DEU proposes.

256 Q. IN YOUR DIRECT TESTIMONY YOU CLAIMED THAT THE RESULTS
257 OF THE AGA SURVEY WHICH INDICATED THAT 45 PERCENT OF
258 LDCS OPERATED ON-SYSTEM LNG FACILITIES WAS NOT A
259 RELEVANT FACTOR IN THIS PROCEEDING. MR. PASKETT CLAIMS
260 THAT THE 45 PERCENT FIGURE IS RELEVANT (PASKETT
261 REBUTTAL, LINES 38-57). WHY DOES MR. PASKETT DISAGREE
262 WITH YOUR CLAIM?

263 A. It appears that Mr. Paskett believes I found the 45 percent statistic irrelevant largely
264 because the AGA survey included only a small number of LDCs.

265 Q. IS THE SMALL SAMPLE SIZE THE PRIMARY REASON YOU FOUND
266 THE 45 PERCENT FIGURE IRRELEVANT?

267 A. No. As explained in my direct testimony, I have reviewed the capacity and gas supply
268 resource portfolios of approximately 40 LDCs. None of those LDCs with on-system
269 LNG facilities use those facilities solely as a back-up gas supply resource. Therefore,
270 it is likely that none of the 45 percent of LDCs with LNG facilities included in the AGA
271 survey utilize their LNG facility solely as a back-up gas supply resource to address
272 design day supply shortfalls as DEU is proposing in this proceeding. DEU has not
273 identified any LDCs that currently utilize their on-system LNG facility solely as a back-
274 up gas supply resource. I found the 45 percent statistic not to be a relevant statistic for

275 this proceeding primarily because based on the evidence presented in this proceeding,
276 none of the LDCs identified in the AGA survey with LNG facilities use that facility
277 solely as a back-up gas supply resource as DEU proposes in this proceeding. The
278 evidence presented in this proceeding indicates that the 45 percent of LDCs identified
279 in the AGA survey use LNG facilities as both a gas supply and capacity resource. To
280 be relevant to this proceeding, DEU should have initiated an AGA survey with
281 questions designed to determine whether LDCs with on-system LNG facilities use
282 those facilities as both capacity and gas supply resources or solely as back-up gas
283 supply resources, and also to assess how these LDCs would manage a supply disruption
284 that occurred on a design day.

285 Q. MR. PLATT ON LINES 106 - 111 ADMITS THAT PAST OUTAGES AT
286 COALVILLE, MONTICELLO, GLENDALE, SARATOGA AND OGDEN
287 VALLEY WOULD NOT HAVE BEEN PREVENTED BY THE
288 COMPANY'S PROPOSED LNG FACILITY. HAS DEU PROVIDED ANY
289 ANALYSIS AS TO WHETHER SIMILAR OUTAGES ALONG THE
290 WASATCH FRONT MIGHT NOT REQUIRE THE PROPOSED LNG
291 FACILITY TO BE SUCCESSFULLY AVOIDED OR RESOLVED?

292 A. Yes. In response to DPU 4.18 (attached as Mierzwa Exhibit 2.1S), the Company
293 provided its 2017 – 2018 Contingency Planning Analysis dated February 6, 2018.
294 This analysis modeled the impact on DEU's High Pressure System of the loss of a
295 major city gate station. The conclusion of this report stated: "Contingency analysis
296 indicates that in most cases if a gate station outage occurs, gas supply can be
297 reallocated to nearby stations to maintain system pressures."

298 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

299 A. Yes, it does.