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. 19-057-13

DIRECT TESTIMONY OF KELLY B MENDENHALL

FOR DOMINION ENERGY UTAH

April 30, 2019

DEU Exhibit 1.0

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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.

Q. By whom are you employed and what is your position?

A. I am employed by Dominion Energy Utah (Dominion Energy, DEU or Company) as the Director of Regulatory and Pricing. I am responsible for state regulatory matters in Utah and Wyoming. My qualifications are included in DEU Exhibit 1.01.

Q. Attached to your written testimony are DEU Exhibits 1.01 through 1.15. Were these prepared by you or under your direction, or if not, are they true and correct copies of the documents you purport them to be?

A. Yes.

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

A. I am the Company's policy witness, and I provide an overview of the Company's request for approval of its major resource decision in this docket and discuss why this request is in the public interest. I also introduce the witnesses who have provided the testimony that accompanies the Application. I summarize the requirements set forth in the Voluntary Resource Decision statute and accompanying regulations and identify where the Company has provided the Utah Public Service Commission (Commission) with evidence supporting each requirement. I present a quantitative evaluation of the various options and discuss the financial capability of the providers of each option. I also calculate the financial impact that each potential supply reliability option would have on customers. Finally, I discuss some of the ancillary cost-saving benefits that the preferred option could provide.

Q. Why did the Company file the Application in this matter?

A. As explained by Ms. Faust, the Company has experienced supply shortfalls in recent years due to unexpected weather events and other disruptions, as well as increased demand and growth both upstream of our system and on our system. When supply shortfalls occur upstream they are a result of events completely outside the Company's control. If these events had occurred on colder days or been of longer duration, they would have threatened DEU's ability to provide safe and reliable service to all of its customers and put customers at risk of supply curtailments. Supply shortfalls lasting even a few hours could impact customers' health and safety, cause property damage, and/or cause businesses to lose productivity. In recent years, other natural gas utilities experienced supply shortfalls leading to curtailments and, in some cases, natural gas utilities have experienced significant outages.

To ensure supply reliability in the future and meet its obligation to provide safe, reliable and cost-effective natural gas service to its customers, the Company has been evaluating options that were offered in response to its request for proposal (RFP). The Company believes that the optimal solution is the construction of an on-system, Company-owned Liquefied Natural Gas (LNG) storage facility designed, constructed, owned and operated by the Company (DEU-owned LNG Facility), located adjacent to the Company's demand center. The Company's Application requests the Commission to grant pre-approval of this voluntary resource decision under the Voluntary Request for Resource Decision Review statute, (Utah Code Ann. §54-17-402) and applicable Commission rules and regulations.

Q. Please introduce the witnesses for the Company in this Docket.

Tina Faust, Director of Gas Supply and Commercial Support, whose responsibilities include overseeing the Dominion Energy Utah Wyoming Idaho (DEUWI) gas supply department as well as the energy efficiency and commercial account departments, discusses the supply shortfalls experienced by DEU and the potential shortfalls that could occur in the future on the DEU System. Ms. Faust summarizes the need for additional resources to ensure gas supply reliability. Ms. Faust also discusses supply disruptions the Company's system has experienced and what other utilities have experienced in recent years. Ms. Faust's testimony is contained in DEU Exhibits 2.0 through 2.15.

William F Schwarzenbach III, Manager of Gas Supply, whose primary responsibilities include managing the gas supply on a daily, monthly and long-term basis for the Company, discusses and describes the RFP process the Company followed to identify supply reliability options to meet the Company's identified need. He also describes the Company's analysis of available options and summarizes the benefits and risks associated with each option. Mr. Schwarzenbach explains why the DEU-owned LNG Facility designed, constructed, owned and operated by the Company is the best solution to address the supply reliability risk identified by the Company. Further, he provides evidence that approval of the Company's Application in this docket is just, reasonable and in the public interest. DEU Exhibits 3.0 through 3.03 contain Mr. Schwarzenbach's testimony and accompanying exhibits.

Michael L. Platt, Manager of Engineering, is responsible for the System Planning and Analysis Group, Records Management, Research and Development, and both High Pressure (HP) and Intermediate High Pressure (IHP) geographic information system (GIS) teams. He has conducted analysis and modeling to determine the probability of occurrence of a cold weather supply outage and its consequences. He also compares the various options (RFP responses and DEU-owned LNG Facility) from a system planning standpoint. Mr. Platt's testimony is included in DEU Exhibits 4.0 through 4.04.

Michael L. Gill, DEU Director of Engineering, is responsible for managing the Company's Engineering Department which consists of approximately 120 employees with primary responsibility for the design, construction, and mapping of the capital infrastructure projects for the Company's distribution system. Mr. Gill will describe the DEU-owned LNG Facility and describe its proposed design and construction timeline. Mr. Gill also provides evidence relating to the anticipated cost of the DEU-owned LNG Facility as well as the Company-related costs associated with the RFP respondent options. Mr. Gill also discusses the ancillary benefits that would become available by constructing the DEU-owned LNG

Facility. Mr. Gill's testimony and supporting materials are contained in DEU Exhibits 5.0 through 5.17.

Bruce Paskett, Senior Associate at Structural Integrity, Inc., has extensive experience with the design and operations of on-system LNG facilities, as well as consulting the industry on issues such as pipeline safety. In his testimony, Mr. Paskett discusses the supply-reliability risk and his assessment of the reasonableness of the Company's analysis. Mr. Paskett's testimony and credentials are included as DEU Exhibits 6.0 through 6.01.

II. SUPPLY RELIABILITY EVIDENTIARY REQUIREMENTS

Q. Please describe the requirements for a voluntary resource decision application.

A. The Company seeks the Commission's pre-approval for the construction of the DEU-owned LNG Facility pursuant to the Voluntary Resource Decision Statute, Utah Code Ann. §54-17-402, and applicable Commission rules and regulations. In reviewing an application for a voluntary resource decision, the Commission determines whether approval is in the public interest, taking into consideration: (i) whether it will most likely result in the acquisition, production, and delivery of utility service at the lowest reasonable cost to the retail customers; (ii) long-term and short-term impacts; (iii) risk; (iv) reliability; (v) financial impacts upon the utility; and (vi) other factors determined by the Commission to be relevant. *See* Utah Code Ann. § 54-17-402(3).

Q. What are the filing requirements for approval of a Voluntary Resource Decision?

A. Utah Admin. Code § R746-440-1 provides the filing requirements for a Voluntary Resource Decision application. These requirements include: (a) a description of the resource decision; (b) information to demonstrate that the utility has complied with applicable requirements; (c) the purpose and reasons for the resource decision; (d) projected costs and engineering studies, data, information and models used in the utility's analysis; (e) descriptions and comparisons of other resources or alternatives evaluated in lieu of the proposed resource decision; (f) sufficient data and information to support the proposed resource decision; (g) an analysis of the estimated effect on utility's revenue requirement; (h) financial information demonstrating adequate financial capability to implement the resource decision; (i) major contracts proposed for execution or use in connection with the resource decision; (j) information showing that the utility has or will obtain any required authorizations from the appropriate governmental bodies; and (k) other information as the Commission may require.

Q. Has the Company provided evidence relating to each of these requirements?

A. Yes. I have attached as DEU Exhibit 1.02 a summary of the requirements of applicable statutes and regulations and identified where in the Application and accompanying testimony the Company has provided evidence that satisfies each requirement.

As DEU Exhibit 1.02 shows, the Company has addressed each of these requirements in its direct testimony and accompanying exhibits. The Application in this matter, along with my direct testimony and the direct testimony of Ms. Faust, Mr. Schwarzenbach, Mr. Platt, Mr. Gill, and Mr. Paskett, provide the evidence required to determine whether construction of the DEU-owned LNG Facility is in the public interest. The evidence provided shows that the Company's request for approval of its resource decision is just and reasonable and in the public interest and therefore should be approved.

III. EVALUATION PROCESS

Q. In addition to the requirements you describe above, was there any specific direction from the Commission that you considered in your evaluation process?

A. Yes. In its October 22, 2018 Order in Docket No. 18-057-03 (the Company's prior request for pre-approval to construct an LNG facility), the Commission stated that "we cannot now properly evaluate the reasonableness of the LNG facility as a means of improving supply reliability, because we do not have adequate assurance other more cost-effective options are not available." Order issued October 22, 2018; Docket No. 18-057-03, page 18.

Q. What has the Company done since the order to provide adequate assurance that other more cost-effective options are not available?

A. The Company issued the RFP for supply reliability options on January 2, 2019 and received responses from three interested parties on March 4, 2019. In doing so, the Company utilized its RFP process, the same process it uses for purposes of procurement Company-wide, and the RFP detailed the supply reliability need and the information requested to be provided by each respondent. The Company also indicated to respondents that their proposals would be compared with an option already under consideration: the DEU-owned LNG Facility.

Q. Did the Company consult with the Division of Public Utilities (DPU) and Office of Consumer Services (OCS) as it developed its RFP?

A. Yes. The Company sought input from the DPU, including their consultant Allen Neale, and OCS, both of which provided valuable feedback that we incorporated into the final RFP. We appreciate their time and effort in providing suggestions to this process.

Q. Please describe the proposals received by the RFP respondents.

A. The Company broadly distributed the RFP to potential respondents and received six proposed supply reliability options from three respondents. Prometheus Energy provided two [redacted]. Prometheus Energy's response to the RFP is attached to my testimony as DEU Highly Confidential Exhibit 1.03. Magnum Energy Midstream (Magnum) provided three proposals, [redacted]. Magnum's response to the RFP is attached to my testimony as DEU Highly Confidential Exhibit 1.04. Finally, United Energy Partners, LLC (UEP) provided a proposal to [redacted]. UEP's proposal is attached to my testimony as DEU Highly Confidential Exhibit 1.05. All of these proposed options were similar in that they proposed [redacted] as the solution to address potential supply reliability shortfalls.

Q. Has the Company evaluated the options?

A. Yes. A summary of that evaluation is provided as DEU Highly Confidential Exhibit 1.06. The Company evaluated and compared all of the options including the DEU-owned LNG Facility. A comprehensive review of relevant quantitative and qualitative factors led to the determination that the DEU-owned LNG Facility is the preferred option to meet Dominion

Energy Utah's supply reliability needs. I present the quantitative factors including the revenue requirement impact, and other financial and credit considerations. Mr. Schwarzenbach discusses in his testimony the qualitative factors that were considered.

IV. REVENUE REQUIREMENT IMPACT

Q. Commission Rule R746-440-1(g) requires that the Company perform an analysis of the estimated effect that a resource decision will have on the utility's revenue requirement. Has the Company performed this analysis?

A. Yes. A detailed revenue requirement calculation for each of the six proposed options along with the proposed DEU-owned LNG Facility is shown in DEU Highly Confidential Exhibit 1.07, which is attached to my testimony.

Q. Please explain the various columns on the summary sheet.

A. The total annual cost for each option was broken into four different categories. The Capital Costs, shown in column A, represent the capital investment, including reinforcement (reinforcement includes any additional and necessary costs to the existing DEU system to ensure proposal will provide delivery to the necessary location on DEU's system) , required for connection to the Company system in order to meet the Company's need. Reinforcement costs, if applicable, were either calculated by the Company's consultant (in the case of the DEU-owned LNG Facility) or by the Company's engineering department estimating personnel under the direction of Mr. Gill. Column B shows the associated annual revenue requirement for the capital investment. Column C shows the annual contract costs that would be paid to the third-party provider for each option. Column D shows the imputed debt calculation that would be required if applicable. Column E shows the credit support costs that would be required for each option due to creditworthiness issues. Column F shows the total impact of all of the costs and columns G and H show the impact of each option on the customer's bill.

A. Capital Costs

Q. Please describe the capital investment and levelized revenue requirement shown in columns A and B.

A. [redacted] The capital investment required for each option is shown in column A, and I will provide additional information about each option in the narrative below. Column B shows the levelized revenue requirement for each of the capital investment options. This levelized revenue requirement for each option was calculated over a 25year period using the Company's currently allowed return of 7.64%. [redacted]

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

[redacted]

Q. Please summarize the capital costs shown in Column A line 7 for the DEU-owned LNG Facility.

A. The capital costs of [redacted] represent the construction, land and AFUDC costs related to the construction of the DEU-owned LNG Facility.

Q. How have these costs changed from the capital costs presented in Docket No. 18-057-03?

A. These costs are approximately [redacted] higher than what was provided in the prior docket. The increase is driven by a combination of inflation and Allowance for Funds Used During Construction (AFUDC). The updated costs are summarized in the table below:

Cost Categories	Amount
Materials and Construction	[redacted]
Land	[redacted]
Internal Labor	$5,835,000
AFUDC	[redacted]
Inflation	[redacted]

Q. How were the construction, land, and other costs estimated?

A. Mr. Gill explains the analysis and cost estimates in his testimony.

Q. How was the AFUDC calculated?

A. The Company estimates [redacted] in AFUDC for the DEU-owned LNG Facility. A detailed calculation is shown in DEU Confidential Exhibit 1.08 attached to my testimony. The AFUDC estimate is minimal in the first few years and increases until the majority of investment is placed into service.

Q. How was inflation calculated?

A. The capital expenditures for the DEU-owned LNG Facility would occur over a three-year period, beginning in 2019 and ending in 2022. The capital expenditures by year were inflated using projected CPI factors from IHS Global Insight.

Q. What other costs are included in the revenue requirement for the DEU-owned LNG Facility?

A. In addition to the capital costs mentioned above, the Company has included operating and maintenance (O&M) costs, property taxes and depreciation. The details of these expenses can be found in the "LNG On System 25yr" tab of DEU Highly Confidential Exhibit 1.07. The calculation assumes a [redacted] facility, which Mr. Gill discusses in more detail in his testimony. The levelized twenty- five year revenue requirement amounts to [redacted] per year.

B. Contract Costs

Q. Please describe the annual contract costs of each option shown in column C.

A. All of the options other than the DEU-owned LNG Facility included some type of annual contract cost associated with the service. These costs were provided by the bidders.

Q. Please explain how the annual contract costs were calculated for Prometheus Energy?

A. The [redacted]

Q. Were these inflation factors included in your calculation of the annual costs?

A. [redacted]. I instead used Global Insight inflation factors for the [redacted] Global Insight provides a low, high and base case estimate for these factors for the [redacted] I calculated the annual cost for each year and calculated the net present value. These calculations are shown in the “[redacted]” tabs. For purposes of the evaluation I used the base case inflation factors.

Q. What other cost components of the Prometheus Energy proposal did you consider?

A. [redacted].

Q. Please explain how the annual costs were calculated for the three Magnum options?

A. Magnum provided annual contract costs for a [redacted] for all three options. These costs are shown on pages 16 through 18 of the Magnum proposal. Magnum Option 1 would [redacted]. Magnum Option 2 would provide [redacted]. Magnum Option 3 would include a partial [redacted] I explain my cost calculation for each of these options in more detail below.

Q. How did you incorporate Magnum Option 1 into your analysis?

A. [redacted]. For the

financial analysis the Company used [redacted] as the price for Magnum Option 1, as it resulted in a lower annual cost to customers.

C. Imputed Debt

Q. Please describe why you have included "imputed debt" in column D.

A. The inclusion of imputed debt is driven by accounting rules related to off balance sheet financing. On February 25, 2016, the Financial Accounting Standards Board issued the Accounting Standards Update No. 2016-02, Leases (Topic 842), which became effective for public businesses in fiscal years beginning after December 15, 2018.

Q. Please provide some background on Topic 842.

A. This new guidance results in fewer opportunities for businesses to structure leasing transactions to achieve a particular accounting outcome, where, rather than putting an asset on its balance sheet with an associated liability, the business would instead pay a third party a lease payment to use the same asset. This was done so that the credit metrics of a business would look more favorable. For long term leases, Topic 842 now requires public companies to recognize a right-of-use asset and a lease liability for all leases on its balance sheet to provide greater clarity to financial statement users. When rating agencies evaluate the credit worthiness of entities, lease liabilities on the balance sheet are treated as debt.

Q. [redacted]

A. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Q. [redacted]

A. [redacted]

Q. [redacted]

A. [redacted]

D. Credit Support

Q. Please explain the credit support calculations in column E.

A. As part of the RFP process the Company asked respondents to provide their credit information. Prometheus and Magnum provided this information and it is attached in DEU Highly Confidential Exhibit 1.09 and DEU Highly Confidential Exhibit 1.04 Exhibit N.

[redacted] which is attached to my testimony as DEU Highly Confidential Exhibit 1.10.

Q. What did the Company determine based on its review of the financial information of the respondents?

A. The Company's credit risk management department reviewed the financial information. This is standard protocol for potential large contracts. Dominion Energy engages in this review as part of its procurement process because it ensures that counterparties provide adequate financial assurances to meet their obligations. [redacted]

Q. Does the financial information provided by the respondents give you any concerns?

A. [redacted]

Q. Does the fact that a company has a below investment grade credit rating mean that Dominion Energy Utah will not enter into a contract with them?

A. The poor credit of a service provider presents a serious risk that cannot be overlooked and could be a deal breaker in the case of a contract of this magnitude and duration. The risk can be reflected as the counterparty's inability to secure financing to construct the facility, the inability of the counterparty to withstand unforeseen adverse events during construction and operation, imprudent maintenance due to funding constraints, and/or the inability to conduct business with third-party service providers necessary for the safe, reliable operation of a supply reliability option. While the Company may in certain circumstances enter into agreements with counterparties that do not have strong financial profiles, it would only do so selectively and usually not for long durations and in circumstances where the exposure was not significant or the underlying services critical to the Company or its customers.

Q. If the Company was willing to take the additional risk of poor credit are there alternatives that could help to mitigate that risk?

A. Yes. In these situations, the service provider could be required to post cash collateral, offer a letter of credit, or provide other financial security. A letter of credit would typically be issued by an A-rated institution and would provide a financial backstop to the service provider and additional security for the Company. This would be similar to a co-signer on a consumer loan.

Q. Did the Company ask [redacted] would be willing to provide a letter of credit?

A. Yes. The Company [redacted] would be able to obtain a letter of credit or some other financial security. Specifically, the Company asked if they would be able to provide, upon signing a definitive agreement, a letter of credit to support two years of expected contract payments and upon commercial in-service and 12 months of operations, reduced to a letter of credit to support one year of expected contract payments. The Company also asked them to provide an estimate of what that would cost.

Q. How did Dominion Energy Utah determine the amount of support that would be required in the letter of credit?

A. For individuals as well as companies, the Company assumes that past performance is an indicator of future performance. The construction phase of the project would be the riskiest because the service provider would be covering capital costs without generating revenue.

The requirement of two times the annual contract payment gives the provider an economic incentive to finish the project and it would reimburse the Company for the increased costs it would have to pay for a replacement solution if the provider solution failed. After the project is in service for one year, the credit requirements are relaxed slightly because the riskiest period of the contract is complete. The one year contract payment letter of credit still provides an incentive for the provider to perform and not violate the contract going forward.

Q. [redacted]

A. Yes. [redacted]

Q. Did [redacted] provide an estimate of what the credit support would cost?

A. [redacted] indicated that it would be about 2% per annum.

Q. Do you believe the 2% per annum number is a reasonable estimate of what the credit support would cost?

A. Yes. I conferred with the Company's finance group and who independently calculated a similar number.

Q. Did you use the 2% amount to calculate the credit support numbers in column E?

A. Yes. I took 2% multiplied by twice the annual contract amount during the construction period and first year of service. After the first year of service was complete I assumed 2% of the annual contract amount for the duration of the contract. I calculated the present value of these annual costs and that is what is shown in column E of DEU Highly Confidential Exhibit 1.07.

E. Bill Impact

Q. How did you calculate the bill impact for the customer?

A. The bill impact for each option is summarized in columns G and H of Highly Confidential DEU Exhibit 1.07. I took the total amount for each option in column F of DEU Highly Confidential Exhibit 1.07 and divided it by the projected 2022 sales in Dth. Then I multiplied that per/Dth amount by 80 Dth to calculate the impact on a typical GS customer.

Q. You stated that you used sales Dths to calculate the bill impact. Why weren't volumes for transportation customers also included?

A. This facility is being built and used for the sole benefit of sales customers. As a result, none of these costs will be allocated to transportation customers. As transportation customers are responsible for their own supply reliability they will not have access to this facility during a supply disruption.

Q. There is a potential that, during a supply disruption, there may be some transportation customers who benefit from this facility by drawing additional supplies from sales customers and drawing additional supplies from the Dominion Energy Utah system. Isn't this a reason why they should be allocated a portion of the costs?

A. No. In the event of a supply issue, the Company could utilize a Hold Burn to Scheduled Quantity restriction during which if a transportation customer uses more gas than it delivered to the system it would be assessed a penalty. This penalty would then be given back to the sales customers through the Infrastructure Rate Adjustment Mechanism (also known as the tracker).

Q. Based on your cost evaluation, which option is the lowest reasonable cost alternative?

A. When considering the total costs of all of the options, the DEU-owned LNG Facility is the lowest-reasonable-cost option. Based on my calculations, it is about one million dollars per year less than the next lowest option. As Mr. Schwarzenbach explains, it is also the best option when qualitative factors are considered.

V. FINANCIAL CAPABILITY

Q. Commission Rule R746-440-1(h) requires that the Company provide financial information demonstrating adequate financial capability to implement the Resource decision. Does the Company have this financial capability?

A. Yes. While the DEU-owned LNG Facility will be a large investment for DEU, it is comparatively small when compared to the $2.9 billion in assets that the Company currently has on its balance sheet. For the last few years, the Company has spent over $200 million per year in capital investment. Even with these large levels of capital investment, the rating agencies still give Dominion Energy Utah an investment grade credit rating.

Q. What are the agencies' current credit ratings for DEU?

A. On May 3, 2017, Fitch affirmed an A- rating for Questar Gas doing business as DEU. This credit opinion is attached as DEU Exhibit 1.13. On December 6, 2017, Standard and Poor's (S&P) issued a credit rating for DEU. This credit opinion is attached as DEU Exhibit 1.14. In the issuance, S&P gave Dominion Energy a Corporate Credit Rating of BBB+/Stable/A-2 with stand-alone credit profile of "A" for DEU. On December 22, 2017, Moody's issued a credit opinion on DEU and gave the Company a rating of A2 stable. This opinion is attached as DEU Exhibit 1.15. The ratings offered by the ratings agencies reflect market confidence that the Company will be financially capable of implementing the decision proposed in this docket.

Q. The DEU-owned LNG Facility has a significant lead time with a material amount of costs. In addition to the long-term capital markets, does the Company have access to other means of cash for working capital needs?

A. Yes. In addition to access to long-term capital markets, DEU has access to a $250 million revolving credit line and $750 million of capacity available through short-term intercompany borrowings from Dominion Energy, Inc. This is typically used for short-term working capital needs, but it could be used to help bridge the gap between construction schedules and long-term debt issuances.

Q. Assuming the Company has the ability to access the capital markets, are there potential risks that could inhibit the Company's ability to manage this project from a financial perspective?

A. The two largest risks would be regulatory uncertainty and the timing of cost recovery. Either of these risks could cause financial impairment to the Company. I will discuss each risk and the remedies in place to reduce these risks.

Q. Please discuss the risk factor of regulatory uncertainty.

A. Due to the size and scope of this proposed DEU-owned LNG Facility, there could be a negative impact to the Company's credit metrics and rating if the Commission determined that the capital expenditures were imprudent after the facility was constructed. Approval of this Application under the Voluntary Resource Decision statute would help reduce this risk considerably. In fact, this is one of the reasons the Company is seeking pre-approval of the construction of the DEU-owned LNG Facility. This pre-approval process will allow the project to be fully vetted before large expenditures are made. Commission pre-approval will not only reduce the regulatory uncertainty considerably, but mechanisms like the pre-approval process give the credit rating agencies additional confidence.

Q. Please discuss the risk of cost recovery.

A. Because the DEU-owned LNG Facility would require a significant capital outlay, the amount of regulatory lag between the cost expenditures and their recovery could have a negative impact on cash flow and credit metrics. Currently, as Mr. Gill explains, the facility, if approved, would be in service in 2022. Because the anticipated timeline of this project is a few years into the future, it will give the Company adequate time to plan for debt issuances and equity infusions to maintain the correct debt/equity levels. The anticipated construction timeline will also coincide with the Company's planned general rate case in 2022 which will allow for cost recovery to be addressed by the Commission in a timely manner. The Company is currently on a three-year filing cycle and it will likely file a general rate case in mid-2022 with rates effective the first quarter of 2023. The timing of general rate case filings will result in timely cost recovery of the proposed resource decision.

Q. Are there other remedies available to the Company to reduce regulatory lag if the project and general rate case schedules don't align?

A. Yes. Another option would be to file for cost recovery under Utah Code Ann. §54-7-13.4 "alternative cost recovery for major plant addition." This would allow the Company to file for cost recovery outside of a general rate case.

Q. Could entering into a contract with one of the three RFP respondents create a potential risk for the Company?

A. Yes. The majority of these proposals would require [redacted]

Q. What is your evaluation of the options from a creditworthiness standpoint?

A. As I mentioned earlier, [redacted] While credit support in the form of a letter of credit or other guarantee could help mitigate the risk, it would not eliminate it entirely. The least risky and most favorable option from a credit risk standpoint would be for the Company to construct, the DEU-owned LNG Facility.

V. ANCILLARY BENEFITS

Q. In its October 22, 2018 order in Docket No. 18-057-03, the Commission concluded, "that the ability of the LNG Facility to serve remote, currently unserved locations could qualify as a relevant factor under our required analysis, but we find that the record in this proceeding is insufficient to consider that factor." Order issued October 22, 2018, Docket No. 18-057-03, p. 19. Has the Company performed additional analysis on this question?

A. Yes. Mr. Gill provides the engineering analysis on the cost savings that could be achieved to extend natural gas to unserved communities if a satellite LNG facility were used instead of traditional pipeline line extension. I discuss how an LNG facility could be beneficial in serving rural Utah when considering the spending limits set by Utah Code. Ann. 54-17-403(c).

Q. Please provide the background on Utah Code Ann. 54-17-403(c).

A. Utah Code Ann. 54-17-403(c) was initially proposed as HB422 in the 2018 Utah legislative session. It was passed into law on March 23, 2018. This bill authorizes the Commission to approve the inclusion of gas infrastructure development costs within a gas corporation's base rates under certain circumstances.

Q. Were there limits on how much could be spent under this program?

A. Yes. The statute states that the costs could be included if the inclusion of those costs will not increase distribution non-gas revenue requirement by more than 2% in any three year period and the total cost of the program cannot exceed 5% of the non-gas revenue requirement.

Q. How much capital could be invested with these limits?

A. I summarize the limits based on the approved revenue requirement from the Company's last general rate case in the table below.

	Distribution Non-Gas revenue	Capital Investment
DNG 2013 rate case	$302 million	N/A
2% of DNG	$6 million	$50 million
5% of DNG	$15.1 million	$126 million

Q. Would these limits provide any prohibitions on which communities the Company could serve under this statute?

A. Potentially. The Company has discussed potential expansion 10 communities. These communities include Dugway, Eureka, Garden City, Genola, Goshen, Green River, Kanab, Rockville, Springdale, Virgin and Wendover. Of these communities, these limits could make it difficult to serve Kanab.

Q. What is the current estimate for a main line extension to Kanab?

A. Currently, the Company estimates that it would cost about $133.1 million to extend service to Kanab. As Mr. Gill will show, using a satellite LNG facility instead of a main line extension could cut that cost by over one-half. Kanab is the largest community on the candidate list with about 4,600 residents. This could equate to about 1,300 homes and 130 businesses receiving natural gas if the Company expands to that area.

Q. Which of the options could provide LNG to a satellite LNG facility in rural Utah?

A. As Mr. Gill discusses, the DEU-owned LNG Facility could serve remote rural communities. [redacted]

VI. RECOMMENDATIONS

Q. Can you summarize your recommendations?

A. Yes. Based on my analysis of the cost and the evidence provided with the Application, approval of the decision to construct the DEU-owned LNG Facility is in the public interest because it will result in the acquisition, production, and delivery of utility services at the lowest reasonable cost to DEU's customers and is the most effective solution to the supply reliability risk considering impacts, risk, reliability, financial impacts on DEU, and other relevant factors. The Company therefore requests that the Commission approve the Company's Application in this matter and find that the DEU-owned LNG Facility is just, reasonable and in the public interest.

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 30th day of April, 2019.

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

Notary Public