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1 **I. INTRODUCTION**

2
3 **Q. Mr. Neale, please identify yourself for the record.**

4 A. My name is Allen R. Neale. I am a Consultant working in conjunction with Daymark
5 Energy Advisors (“Daymark”). My business address is Allen R. Neale c/o Daymark
6 Energy Advisors, 370 Main Street, Suite 325, Worcester, MA 01608.

7
8 **Q. Are you the same Allen Neale who submitted direct testimony on behalf of the**
9 **Division in this Docket No. 19-057-13?**

10 A. Yes. I submitted direct testimony in this proceeding on August 15, 2019 on behalf of the
11 Utah Division of Public Utilities (“Division”) with regard to the application filed on April
12 30, 2019 by Dominion Energy Utah (DEU) with the Public Service Commission of Utah
13 (the “Commission” or “PSC”) for approval of a voluntary resource decision to construct a
14 liquefied natural gas (LNG) facility to be directly connected to its distribution system (the
15 “Application” or the “Filing”).

16
17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to respond to issues raised through discovery propounded
19 by the Utah Association of Energy Users (UAE) and the Office of Consumer Services
20 (OCS). I also rebut comments made in the rebuttal testimony of OCS witness Alex Ware
21 and UAE witness Justin Bieber, both of whom referred to my direct testimony filed in
22 this proceeding.

23
24 The issues I address are:

- 25 **1)** Whether adders applied by DEU for credit support and imputed debt are
26 reasonable when considering alternative bids received in response to DEU’s RFP,
27 as propounded in OCS discovery¹;

¹ DPU Exhibit 2.1SR: DPU Response to OCS Data Request No. 1.1 (a-c), page 1 of 1.

- 28 **2)** UAE’s request for an explanation of the suggestion that when DEU uses supply to
29 maintain system balance, as in a hypothetical scenario presented in DPU Exhibit
30 2.05, it could value that supply based on a “slice of system” view of resources in
31 its capacity portfolio, including LNG²;
- 32 **3)** OCS’s erroneous claims that my direct testimony supports two conclusions:
33 a. That I “accept without question or analysis DEU’s RFP bid location
34 requirement”; and
35 b. That I claimed DEU’s RFP process allowed for technology-independent bids,
36 ignoring that the results suggest otherwise.
- 37 **4)** UAE’s claims that my testimony disagrees with the following statements made by
38 its witness in rebuttal testimony:
39 a. The timeliness of DEU’s collection of penalties is not relevant to cost
40 causation or allocation³;
41 b. Transportation customers that exceed scheduled supply during a supply
42 shortfall will incur very substantial penalties that are sufficient to offset costs
43 for firm sales customers⁴; and
44 c. Supplier non-gas (“SNG”) costs, including the costs of the proposed LNG
45 facility, should be allocated through a general rate case and not in this instant
46 proceeding.⁵
- 47

48 **II. DISCUSSION**

- 49 **1) DEU’s adjustments to bid responses for credit support and imputed debt are**
50 **reasonable.**
- 51

² DPU Exhibit 2.1SR: DPU Response to UAE Data Request No. 1.5 (a-b), p. 1 of 1.

³ UAE Exhibit 1.0R, p. 7 of 10 at 154-155.

⁴ UAE Exhibit 1.0R, p. 6 of 10 at 133-135.

⁵ UAE Exhibit 1.0R, p. 4 of 10 at 82-84.

52 **Q. Did DEU make adjustments to any bids received in response to its RFP?**

53 A. Yes, as stated in my direct testimony, I noted that DEU made adjustments to alternative
54 bids for missing cost assumptions related to proposed alternative delivery locations⁶ and
55 that certain adjustments made were favorable to the bidder.⁷

56
57 **Q. Did your testimony discuss adjustments made by DEU related to credit support and
58 imputed debt?**

59 A. No, my testimony did not discuss credit support or imputed debt adjustments to any bids
60 received. In fact, I stated in my direct testimony that while both cost and non-cost criteria
61 should be considered, I viewed credit-worthiness of each bidder to be outside the scope
62 of my review.⁸

63
64 **Q. How did you respond to OCS' Data Request No. 1-1 asking you to confirm whether
65 you believe that the Company's alternative bid cost assumptions for credit support
66 and imputed debt are part of the scope of your review?**

67 A. I inferred from OCS's discovery request that it is concerned that because I excluded a
68 discussion of DEU's credit support adjustments from my review it is not possible for me
69 to have concluded that DEU's self-build facility is the lowest cost option. In my response
70 to the OCS, I explained that my understanding of general business principles allowed me
71 to:

72 a) conclude that adjusting for credit support and imputed debt are a reasonable way
73 to make sure that the risk of the project (proposed in each bid) remains with the
74 sponsoring party and not subsumed by the Company, and

75 b) find that the Company's adjustments are appropriate and therefore may be
76 excluded from the scope of my review.⁹

77

⁶ Redacted Testimony of Allen Neale, DPU Exhibit 2.0 DIR, page 5, lines 133-135.

⁷ Redacted Testimony of Allen Neale, DPU Exhibit 2.0 DIR, page 5, lines 114-117.

⁸ Redacted Testimony of Allen Neale, DPU Exhibit 2.0 DIR, page 20, lines 473-474.

⁹ DPU Exhibit 2.2SR, DPU Response to OCS Data Request No. 1-1 (a-c).

78 2) Supply relied upon during a force majeure scenario can be valued based on a
 79 “slice of system” view of the Company’s resource portfolio.
 80

81 Q. Did you provide a hypothetical example of a force majeure situation when both firm
 82 sales and third-party supplies fail to be confirmed and the Company would not have
 83 sufficient supply even with the proposed LNG plant in place?

84 A. Yes, this hypothetical example is presented in Exhibit 2-5 in my direct testimony and is
 85 also attached as DPU Exhibit 2.1SR and shown below:
 86

87 Exhibit 2.1SR Illustrative Supply/Demand Balance Example Under Force Majeure Scenarios
 88

Exhibit 2.05: Supply Demand Balance under Force Majeure Scenarios and w/ LNG Facility (Volumes Only, MMBtu)								
		Supply Resource Type:	Peak Day Supply Entitlement	Planning Supply-Demand Balance Surplus / (Deficit)	Force Majeure Scenarios (volumes are confirmed deliveries)		Post-FM Scenario Supply-Demand Balance Surplus / (Deficit)	
					#1: Firm Sales Supply: 150,000 Dth/d Cut	#2: Transportation Third-Party Supply 50% Cut	#1: Firm Sales Supply	#2: Transportation Third-Party Supply
		Pipeline	800,000		650,000	650,000	(150,000)	(150,000)
		Underground Storage	200,000		200,000	200,000	-	-
		LNG (proposed)			150,000	150,000	150,000	150,000
Peak Day Customer Needs								
Firm Sales	1,000,000	Firm Transport						
Firm Transportation	100,000	3rd Party Supply	100,000	-	100,000	50,000	-	(50,000)
System Total	1,100,000	Total	1,100,000	-	1,100,000	1,050,000	-	(50,000)
Force Majeure 1 Event: Lose 200,000 firm sales supply from upstream P/L source; no cuts from Trans. Cust Suppliers: LNG covers the needs.								
Force Majeure 2 Event: Lose 200,000 from P/L source and 50,000 loss from Trans. Cust.Supplier: LNG can not cover and system fails.								

89
 90
 91 Q. What assumptions did you make when providing this hypothetical example?

92 A. I made the following assumptions:

- 93 a) The proposed LNG facility is available to produce 150,000 Dth of LNG for
 94 delivery into the distribution system on the design peak day.
 95 b) The Company experiences on this same design peak day a total shortfall of
 96 200,000 Dth comprising:
 97 i. 150,000 Dth of supply nominated for firm sales customers, and
 98 ii. 50,000 Dth of third-party supply due from firm transportation customers.

99 c) The Company's preferred operating plan is to maintain pressure throughout its
100 system on a design peak day

101
102 Under this force majeure scenario, identified as FM2 in accompanying DPU Exhibit
103 2.3SR, the Company would not be able to maintain pressure as expected because it based
104 its operating plan on nominations received from firm transportation customers, expecting
105 to receive a total of 100,000 Dth of supply but actually only receiving half that amount.
106 (For comparison, I show hypothetical scenario FM1, under which the full 100,000 Dth of
107 supply due from firm transportation customers is received.)

108
109 The purpose of this exhibit is to illustrate that a shortfall of supply due from firm
110 transportation customers on the design peak day has an impact on the system being able
111 to operate reliably as expected, and the imposition of penalties after the fact does not
112 fully represent the value of supply needed to address this shortfall.

113

114 **Q. How does your suggestion of looking at a slice of system capacity help to address**
115 **this potential shortfall?**

116 A. I am familiar with the practice among gas utilities in the northeast to allocate some share
117 of their supply portfolio to firm transportation customers to call upon in the event that
118 they have insufficient third-party supply.

119

120 Arguably on any day when this occurs, including the design day, the LNG vaporized into
121 the distribution system will be used by a combination of both firm sales and
122 transportation customers. In order to fairly evaluate the cost of this blended supply, and
123 subject to the results of a cost of service allocation study and nomination by firm
124 transportation customers prior to the start of the winter season, these utilities post a "slice
125 of system" matrix and the amount of capacity available for each resource.

126

127 The example of a slice of system matrix posted by National Grid Company for its Boston

128 Gas Company operating affiliate, included as attachment DPU Exhibit 2.4SR, provides
129 the value based on the rate shown in the column labeled “Rate \$/Dth/Month Demand”
130 and includes pipeline capacity, storage and LNG Peaking supply. And as the label
131 confirms, there is a demand charge for a maximum quantity to be assigned and
132 nominated in advance.

133
134 This example matrix also helps to illustrate how my recommendation in direct testimony
135 suggesting that DEU should do a cost of service allocation study as soon as possible and
136 as closely as possible prior to its next rate case would inform the issue of penalties
137 applied to firm transportation customers raised in this proceeding.¹⁰

138

139 **3) The OCS incorrectly represents my conclusions regarding DEU’s RFP process.**

140

141 **Q. Did you, as OCS claims, accept without question or analysis DEU’s RFP bid**
142 **location requirement?**

143 A. No, I did not accept without question or analysis DEU’s RFP bid location requirement.
144 In fact, as stated in my direct testimony, I noted that DEU allowed bidders flexibility to
145 propose alternate delivery points and volumes, which resulted in multiple cost-effective
146 bids being received.¹¹ During technical conferences I asked DEU to explain the
147 adjustments made to costs associated with alternate delivery points and learned that this
148 was done in a way that was favorable to the bidder. DEU made adjustments for pipeline
149 infrastructure related to the Maximum Allowable Operating Pressure (MAOP) of two
150 major segments of DEU’s system. These cost adjustments were made at the low end of its
151 average cost per foot installation costs. This fact signaled that the competing projects
152 were not disadvantaged relative to the LNG project and allowed for a fair comparison to
153 DEU’s proposed self-build LNG plant, which I analyzed in detail in my direct

¹⁰ Docket 19-057-13 Redacted Direct Testimony of Allen Neale, p. 25, lines 611-616.

¹¹ Docket 19-057-13 Redacted Direct Testimony of Allen Neale, pp. 16-19, lines 403-451.

154 testimony.¹²

155

156 **Q. Did you agree with OCS’s claim that the results of the RFP process do not allow for**
157 **technology-independent bids?**

158 A. No, I do not agree. In fact, upon my initial review of DEU’s draft RFP, I pushed back on
159 the requirement that responses should include resources that can respond within 10
160 minutes, as this would a) tend to limit responses to on-system resources, and b) not be
161 consistent with my own experience of how an LNG system operates when dispatched.¹³

162

163 Further, I noted in my direct testimony, that as a result of expanding this window for
164 response time in the RFP, DEU received multiple responses, including from two new
165 bidders and also including underground storage options, which supports the observation
166 that the RFP succeeded in attracting bids from non-LNG resource providers.¹⁴

167

168 **Q. Do you have any other concerns with OCS’s claims regarding your testimony?**

169 A. Yes, I am concerned with the conclusion reached by OCS witness Ware, which states:

170

171 Additionally, this issue raises the question of whether DEU could implement
172 commercial arrangements with transportation customers to allow the Company to
173 use confirmed transportation gas supplies in the event of a severe DEU supply
174 shortfall that threatens an outage across its distribution system. Once again, it is
175 not clear that DEU has evaluated every potential tool at its disposal to minimize
176 the impact of supply cuts on its system. Even DEU’s own evidence presented in
177 this proceeding suggests that other local distribution companies (LDCs)
178 sometimes use “gas supply recall arrangements with large end users” as possible
179 insurance against gas supply failures. Any objective, robust, and meaningful

¹² Docket 19-057-13 Redacted Direct Testimony of Allen Neale, p. 25, lines 611-616.

¹³ Docket 19-057-13 Redacted Direct Testimony of Allen Neale, p. 12-13, lines 307-324.

¹⁴ Docket 19-057-13 Redacted Direct Testimony of Allen Neale, p. 13, lines 331-341.

180 analysis of alternatives that might be available as a solution to a DEU gas supply
181 shortfall should have at least studied this possibility.¹⁵
182

183 **Q. What concern does this statement by the OCS raise?**

184 A. This statement raises the concern in my mind that OCS may not fully appreciate the
185 operating needs of DEU's distribution system that is bi-furcated into two segments
186 operating at different MAOPs. As I understand it, based on my review of this filing,
187 DEU is in the midst of developing a trunkline system that ultimately will allow it to
188 operate at a high delivery pressure threshold of 720 psig.¹⁶ This plan does require the bid
189 adjustments discussed above in order to allow those bids to be considered as feasible
190 solutions over the long-term.
191

192 Additionally, as I discussed above, on the design peak day, the ability to call upon gas
193 supply from large end-users is not likely to be obtained on a firm basis. In fact, these end-
194 users are just as likely to be relying on DEU to be the supplier of last resort for them as
195 well.
196

197 **4) UAE incorrectly states that substantial penalties incurred under the current tariff**
198 **are sufficient to offset cost for firm sales customers.**
199

200 **Q. What concerns do you find with the UAE's rebuttal testimony?**

201 A. I find that UAE witness Bieber is mistaken when he claims that "(T)ransportation
202 customers that exceed scheduled supply during a supply shortfall will incur very
203 substantial penalties that are sufficient to offset costs for firm sales customers."¹⁷
204

205 I also find that, notwithstanding Mr. Bieber's claim that he disagrees with my testimony,

¹⁵ OCS-1R Ware 19-057-13, pp. 8-9, lines 175-186.

¹⁶ Docket 19-057-13 Redacted Direct Testimony of Allen Neale, pp. 10-11, lines 267-270.

¹⁷ UAE Exhibit 1.0R, p. 6 of 10 at 133-135.

206 we do actually agree on two points, which are:

- 207 a. The timeliness of DEU's collection of penalties is not relevant to cost
208 causation or allocation¹⁸ -- as currently defined in the tariff and as applied
209 after the fact of a supply shortfall;
210 and
211 b. Supplier non-gas ("SNG") costs, including the costs of the proposed LNG
212 facility, should be allocated through a general rate case and not in this instant
213 proceeding.¹⁹
214
215

216 **Q. What penalties are Transportation customers subjected to when they experience a**
217 **supply shortfall?**

- 218 A. The penalty regime in place at this time, as summarized by witness Bieber and repeated
219 from my direct testimony below, is summarized by DEU as follows:
220 a) The Company confirmed all Transportation customers are required to have telemetry
221 installed on their meters allowing DEU the ability to monitor daily imbalances,
222 b) The daily imbalance charge is a mere \$0.08/Dth for volumes outside of a 5% range.
223 c) Outside the 5% tolerance range DEU applies a \$5/Dth premium to the Daily cost of
224 gas on the first 10% of the Daily imbalance, and \$25 thereafter.
225 d) DEU expressed its preference to continue to manage Transportation customer
226 imbalances through penalties, which has resulted in increasing numbers of customers
227 being penalized and total penalties exceeding \$1.3 million in 2017.²⁰
228

229 **Q. Why do you disagree with UAE's claim that Transportation customers will incur**
230 **substantial penalties sufficient to offset costs of a supply shortfall?**

- 231 A. If the penalties were "substantial" they would elicit different behavior than DEU describes

¹⁸ UAE Exhibit 1.0R, p. 7 of 10 at 154-155.

¹⁹ UAE Exhibit 1.0R, p. 4 of 10 at 82-84.

²⁰ Supply Reliability Technical Conference presentation on June 19, 2019, slides 22-26.

232 in its preferred management strategy above. Accordingly, these penalties likely are viewed
233 as:

- 234 1) relatively small compared to the cost of going without supply and experiencing a
235 production shut-down or business loss, as evidenced by the fact that penalties
236 imposed on an “increasing number of customers” and currently exceeding \$1
237 million;
- 238 2) less expensive than the Transportation customer trying to hold its own third-party
239 supplier to account; and
- 240 3) cost effective because they allow the Transportation customer to pay up long after
241 the fact after being invoiced at the end of the billing cycle, even if they pay in a
242 timely manner.
- 243

244 **Q. Please explain the claims made by UAE witness Bieber on which you do concur.**

245 A. Notwithstanding Mr. Bieber’s claims to the contrary, I do agree with his observation that
246 the timeliness of DEU’s collection of penalties is not relevant to cost causation or
247 allocation,²¹ But only because this is the way penalties are currently defined in the tariff
248 and as applied after the fact of a supply shortfall. A penalty applied in a timely manner
249 would be based on the actual cost to provide supplier of last resort services.

250

251 Instead, I would add to Mr. Bieber’s observation that penalties should be related to cost
252 causation, but in the case of DEU they are not. That is why I can and do concur with Mr.
253 Bieber that “(S)upplier non-gas (“SNG”) costs, including the costs of the proposed LNG
254 facility, should be allocated through a general rate case and not in this instant
255 proceeding.”²² As mentioned in my direct testimony and summarized below, I have
256 recommended that DEU conduct an allocated cost of service study prior to the next rate
257 case --- and then, as Mr. Bieber suggests, apply this allocation in the next rate case.

258

²¹ UAE Exhibit 1.0R, p. 7 of 10 at 154-155.

²² UAE Exhibit 1.0R, p. 4 of 10 at 82-84.

259 **III. SUMMARY OF RECOMMENDATIONS**

260

261 **Q. Please summarize your recommendations for the Commission**

262 A. Based on my findings and conclusions discussed in my direct testimony, and after
263 considering the concerns raised by other parties in rebuttal as addressed above, I
264 respectfully continue to recommend that the Commission do the following:

- 265 1. Find that the RFP was conducted in a fair and reasonable manner and provides
266 sufficient information to complete the record for alternatives to be considered;
- 267 2. Find that the RFP and this Filing meet the burden of proof that the proposed LNG
268 facility is in the public interest:
- 269 3. Hold DEU to the obligation to maintain construction, operating and maintenance
270 costs consistent with its current estimates such that the proposed LNG facility
271 remains the least cost alternative, consistent with Utah Code §54-17-402(3)(b),
272 and reviewed in the next rate case or in a single-issue cost review proceeding:
- 273 4. Require the Company to reserve consideration of the benefits of Satellite facilities
274 to be supplied by the proposed LNG Facility for a future proceeding when it can
275 provide more accurate cost estimates than documented in this Filing:²³
- 276 5. Require the Company to evaluate recovering an appropriate share of the cost of
277 the Proposed LNG Facility from Transportation only customers based on a future
278 allocated cost of service study to be conducted as part of the next rate case; and
- 279 6. Require the Company to designate the Proposed LNG Facility as a materially
280 strategic resource under the provisions of the Merger Agreement approved in
281 Docket No. 16-057-01 to assure that it will not transfer ownership and/or control
282 of the proposed LNG Facility to any affiliate of DEU without prior review and
283 approval by the Commission.

284

²³ DEU has addressed this recommendation in Redacted DEU Exhibit 1.0R, Rebuttal Testimony of Kelly Mendenhall, p. 7, lines 145-149.

285 **Q. Does this conclude your surrebuttal testimony?**

286 A. Yes, it does.