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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to Make Tariff Modifications to Charge Transportation Customers for Peak Hour Services	Docket No. 17-057-09

PREFILED DIRECT TESTIMONY AND EXHIBIT OF NEAL TOWNSEND

The Utah Association of Energy Users (UAE) hereby submits the Prefiled Direct Testimony and Exhibit of Neal Townsend in this docket.

DATED this 26th day of July 2017.

HATCH, JAMES & DODGE

Phillip J Russell

Gary A. Dodge
Phillip J. Russell
Attorneys for UAE

Certificate of Service
Docket No. 17-057-09

I hereby certify that a true and correct copy of the foregoing Prefiled Direct Testimony and Exhibit of Neal Townsend was served by email this 26th day of July 2017 on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Questar Gas Company to Make Tariff Modifications to Charge Transportation Customers for Peak Hour Services	)))))	Docket No. 17-057-09

Direct Testimony of Neal Townsend

On Behalf of

Utah Association of Energy Users,

July 26, 2017

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Neal Townsend. My business address is 215 South State Street, Suite 200, Salt Lake City, Utah, 84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by the Utah Association of Energy Users ("UAE").

Q. Please describe your educational background.

A. I received an MBA from the University of New Mexico in 1996. I also earned a B.S. degree in Mechanical Engineering from the University of Texas at Austin in 1984.

Q. Please describe your professional experience and background.

A I have provided regulatory and technical support on a variety of energy projects at Energy Strategies since I joined the firm in 2001. Prior to my employment at Energy Strategies, I was employed by the Utah Division of Public Utilities as a Rate Analyst from 1998 to 2001. I have also worked in the aerospace, oil and natural gas industries.

Q Have you previously filed testimony before this Commission?

A. Yes. Since 1997, I have testified in 14 dockets before the Utah Public Service Commission on electricity and natural gas matters.

Q. Have you testified before utility regulatory commissions in other states?

A. Yes. I have testified in utility regulatory proceedings before the Arkansas Public Service Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service Commission, the Michigan Public Service Commission, the New Mexico Public Regulation Commission, the Public Utilities Commission of Ohio, the Public Utility Commission of Oregon, the Public Utility Commission of Texas, the Virginia Corporation Commission, and the Public Service Commission of West Virginia.

Q. What is the purpose of your testimony?

A. My testimony addresses the proposal by Dominion Energy Utah, formerly Questar Gas Company ("Dominion/QGC" or "Company") to charge firm transportation customers for an allocated share of the costs of new firm hourly peaking services.

Q. Please summarize your primary conclusions and recommendations.

A. I recommend that Dominion/QGC's proposal to impose a Peak Hour Demand Charge on firm transportation customers be rejected. In my view, Dominion/QGC has not sufficiently justified a need for this new hourly peaking service. To my knowledge, the proposed peak hour service is relatively uncommon in the industry. Moreover, given Dominion/QGC's apparent plan to purchase additional such services from its affiliate, Dominion Energy Questar Pipeline, the proposal should be scrutinized very carefully and approved only if demonstrated to be clearly needed and in the public interest. I do not believe any such showing has been made.

If an hourly peaking service were determined to be necessary and in the public interest by the Commission, firm transportation customers are clearly not the cause of Dominion/QGC's alleged need for this firm peaking service and should not be required to help pay for it. The firm peaking service that Dominion/QGC is purchasing is an *upstream* transportation product that Dominion/QGC claims it needs to meet the Company's hourly peak requirements in excess of its peak-day average hourly demand. Any requirement for this product would be driven solely by the need to acquire the upstream transportation necessary to meet the peak hourly demands of Dominion/QGC's firm sales customers, not its transportation customers.

II. DESCRIPTION OF DOMINION/QGC PROPOSAL

Q. What modification is Dominion/QGC proposing to make to its tariff?

A. As described in the direct testimony of Kelly B. Mendenhall, Dominion/QGC is proposing to introduce a new Peak Hour Demand Charge that would be imposed on firm transportation customers to recover the costs for upstream services to meet peak hour demands. In a separate pass-through docket, 17-057-07, Dominion/QGC is proposing that firm sales customers also pay for this service.

According to Mr. Mendenhall, the estimated 2016/2017 peak hour usage of 2.05 BCF was 17% higher than the average hourly usage for the peak day of 1.74 BCF. The Company is exploring options to manage the fluctuations in demand, including securing firm peak service from upstream pipelines.

As explained by Mr. Mendenhall, the Company has entered into an agreement with Kern River Transmission Company ("Kern River") to provide the hourly equivalent of 100,000 Dth per day of Firm Peaking Service in the 2017/2018 winter heating season and additional volumes in future winter heating seasons. The contract allows for delivery of up to 4,167 Dth per hour during a six-hour period for a total delivery not to exceed

25,000 Dth per day. The total cost of this contract is $864,500, which has been included in Dominion/QGC's May 1, 2017 pass-through filing. My understanding is that the Company intends later to acquire additional, and significantly greater, amounts of similar firm peaking service from its affiliate, Dominion Energy Questar Pipeline Company, which, if approved, would be added to these costs.

Dominion/QGC is proposing to charge firm transportation customers for an allocated portion of these Peak Hour services, and credit the amount collected to sales customers, who would be paying for the Peak Hour services in their rates.

Q. In your judgment, has Dominion/QGC demonstrated a legitimate need for a new peak hourly service?

A. No, I do not believe that Dominion/QGC has sufficiently justified a need for this new service. Dominion/QGC has been operating without such a service for decades. While I understand that peak-hour services are available from some interstate pipelines, this product is nevertheless relatively uncommon in the natural gas industry, and an adequate justification for the alleged need for Dominion/QGC to purchase this new service and pass the cost onto customers has not been demonstrated. Moreover, because the majority of the new requested services will likely be acquired from an affiliate, the proposal should not be accepted unless Dominion/QGC can make a compelling case for the need. I do not believe any such showing has been made.

Q. Please elaborate on your concern over affiliate transactions.

A. While the firm peaking service costs that Dominion/QGC is seeking to recover at this time are associated with an arms-length transaction with Kern River, my understanding is that Dominion/QGC intends to subsequently seek to secure similar services and recover similar costs, but in much greater amounts, by entering into new contracts with its affiliate, Dominion Energy Questar Pipeline Company. Since this firm peaking service has not been needed heretofore, the Commission should be very wary of new revenue-enhancing schemes proposed by Dominion/QGC for the benefit of its Dominion corporate parent. The Commission should view such proposals with a fair degree of skepticism.

Q. If the Commission determines that a new peak hourly service is necessary and appropriate, can you elaborate on why you believe the costs of the new service should not be allocated to transportation customers as requested by Dominion/QGC in this docket?

A. Yes. Let me explain first that Mr. Mendenhall proposes to allocate the $864,500 total cost of the Kern River firm peaking service based on peak day usage (excluding Lakeside). This results in an allocation of $120,166 to firm transportation customers, based on their 13.9% share of peak day usage. Dominion/QGC proposes to assess a Peak Hour Demand Charge of $0.56 per Dth to firm transportation customers, paid annually. For peak day cost allocation purposes, firm transportation customers' peak day usage is based on the customers' contracted firm demand, currently 213,201 Dth.

Firm transportation customers are not the cause of Dominion/QGC's alleged need for firm peaking service. The firm peaking service that Dominion/QGC is purchasing is an *upstream* transportation product that Dominion/QGC claims it needs to meet the Company's hourly peak requirements in excess of its peak-day average hourly demand. Any requirement for this product is driven solely by the need to acquire the upstream transportation necessary to meet the peak hourly demands of Dominion/QGC's firm sales customers, not its transportation customers.

Q. Please explain.

A. Dominion/QGC indicates that the Company has sufficient upstream firm transportation to deliver its peak-day average hourly demand to its firm sales customers.[1] However, Dominion/QGC maintains that it does not have sufficient upstream firm transportation service to assure delivery of hourly fluctuations above the peak-day average hourly amount. This alleged lack of peak hour upstream transportation is illustrated in the graph on page 10 of Dominion/QGC's presentation made during its June 28, 2017 technical conference in this docket. This graph is reproduced in UAE Exhibit 1.1.

As shown in the graph, in Dominion/QGC's analysis, the hourly demand for firm transportation customers is presented as evenly distributed across the peak day. Further, the peak day demand for these customers is equal to the sum of their maximum daily contract demands for firm transportation. This depiction of constant hourly usage for these customers is entirely appropriate for the purposes of this docket, because the issue at hand is the availability of firm *upstream* transportation service – and the gas suppliers to the firm transportation customers already have their own contractual arrangements in place with the upstream pipelines. As explained by Mr. Mendenhall during the June 28, 2017 technical conference in this docket regarding this graph:

> So what happens on a peak day is we have enough upstream firm transportation to cover ourselves, for the most part. I don't know if all the transportation customers have firm upstream transportation, but let's assume for this example that they

[1] See the explanation from Mr. Mendenhall during the June 28, 2017 technical conference excerpted below.

have, they have acquired it, so they will be covered so long as their gas shows up on the upstream pipeline. They will get enough gas delivered to the city gate. And the special contract I know has enough firm upstream transportation. So we're covered on a firm basis up to our peak day.[2]

With respect to the graph in UAE Exhibit 1.1, since the peak-day demand from firm transportation customers is based on their firm contractual maximums throughout the day – and which, upstream, their suppliers are responsible for acquiring – any shortfall in upstream capacity due to hourly spikes in demand above the peak-day average hourly demand can only be attributable to the variability in hourly demand for firm sales service.

Q. Suppose hourly demands from firm transportation customers *did* fluctuate across the peak day rather than remain constant. Would that change your conclusion that none of the firm peaking service costs are attributable to firm transportation customers?

A. No, that would not change my conclusion. To the extent that hourly demands from firm transportation customers fluctuated across the peak day, that would be a matter to be resolved between the suppliers to the firm transportation customers and the upstream pipelines from which they are purchasing firm transportation. Indeed, on July 14, 2017, Dominion Energy Questar Pipeline Company filed at the Federal Energy Regulatory Commission ("FERC") for approval to sell firm peaking service. To the extent that the suppliers to firm transportation customers find it necessary or desirable to purchase this product, they can do so, assuming the product is approved by FERC. They

[2] June 28, 2017 technical conference starting at minute 22:38.

don't need Dominion/QGC to buy it "on their behalf" and force the firm transportation customers to pay for it.

The "problem" Dominion/QGC is trying to solve is the variability in the hourly demand of its *firm sales customers* and the supposed lack of an upstream product to deliver those hourly spikes in demand. Dominion/QGC is not responsible for acquiring upstream transportation for firm transportation customers; therefore Dominion/QGC should not be (and is not) trying to resolve any issues concerning hourly variability in firm transportation customer usage, and therefore should not be charging transportation customers for this new peaking capacity service that is being acquired specifically to address hourly spikes in peak-day usage.

Q. How do you respond to Mr. Mendenhall's contention on page 4 of his direct testimony that the differential between the transportation customers' peak hour and average daily usage is about 17%? Doesn't this demonstrate that transportation customers are partially causing the need for firm peaking service?

A. No, not at all. Mr. Mendenhall's contention regarding the intra-day variability of transportation customer demand is a classic case of comparing apples and oranges. First, the hourly data he relies upon includes *interruptible* transportation service, when the issue at hand is the availability of *firm* transportation service upstream. Thus, his data point is irrelevant at the outset. Second, the new firm peaking service is targeted for those times when hourly demand *exceeds peak-day* average hourly demand, not simply typical winter usage, which is what Mr. Mendenhall used for his analysis in Dominion/QGC Exhibit 1.5, and which is the basis of his contention. On those occasions when hourly demand *exceeds peak-day* average hourly demand, interruptible customers could expect to be on notice of interruption, and the suppliers to firm transportation customers must ensure that they have adequate capacity upstream to deliver gas to the Dominion/QGC system. The intra-day variability of transportation service usage on a typical winter day – interruptible and firm – is irrelevant to Dominion/QGC's claimed need for firm peaking service for those occasions when hourly demand exceeds peak-day average hourly demand.

Q. If firm transportation customers are using the system during the peak hour, shouldn't they contribute to the incremental cost of meeting upstream transportation costs when peak hour usage exceeds peak-day average usage?

A. No, because the incremental cost is being driven solely by the need for Dominion/QGC to fill a gap in **its** upstream transportation service for **its firm sales** customers. As I explained above, firm transportation customers already have their own arrangements for upstream transportation service through their commodity suppliers. The simple fact that firm transportation customers happen to also be taking service during the peak hour (at their contracted demands) does not mean they are contributing to the apparent gap in Dominion/QGC's firm upstream transportation coverage for its sales customers.

Q. What is your recommendation to the Commission regarding Dominion/QGC's proposal?

A. I recommend that Dominion/QGC's proposal to implement a Peak Hour Demand Charge for its customers be rejected absent a more compelling showing of need. In the context of this docket, I recommend that none of the costs for the proposed new service be allocated to firm transportation customers, as they are not part of the cause of Dominion/QGC's alleged need for firm peaking service.

Q. Does this conclude your direct testimony?

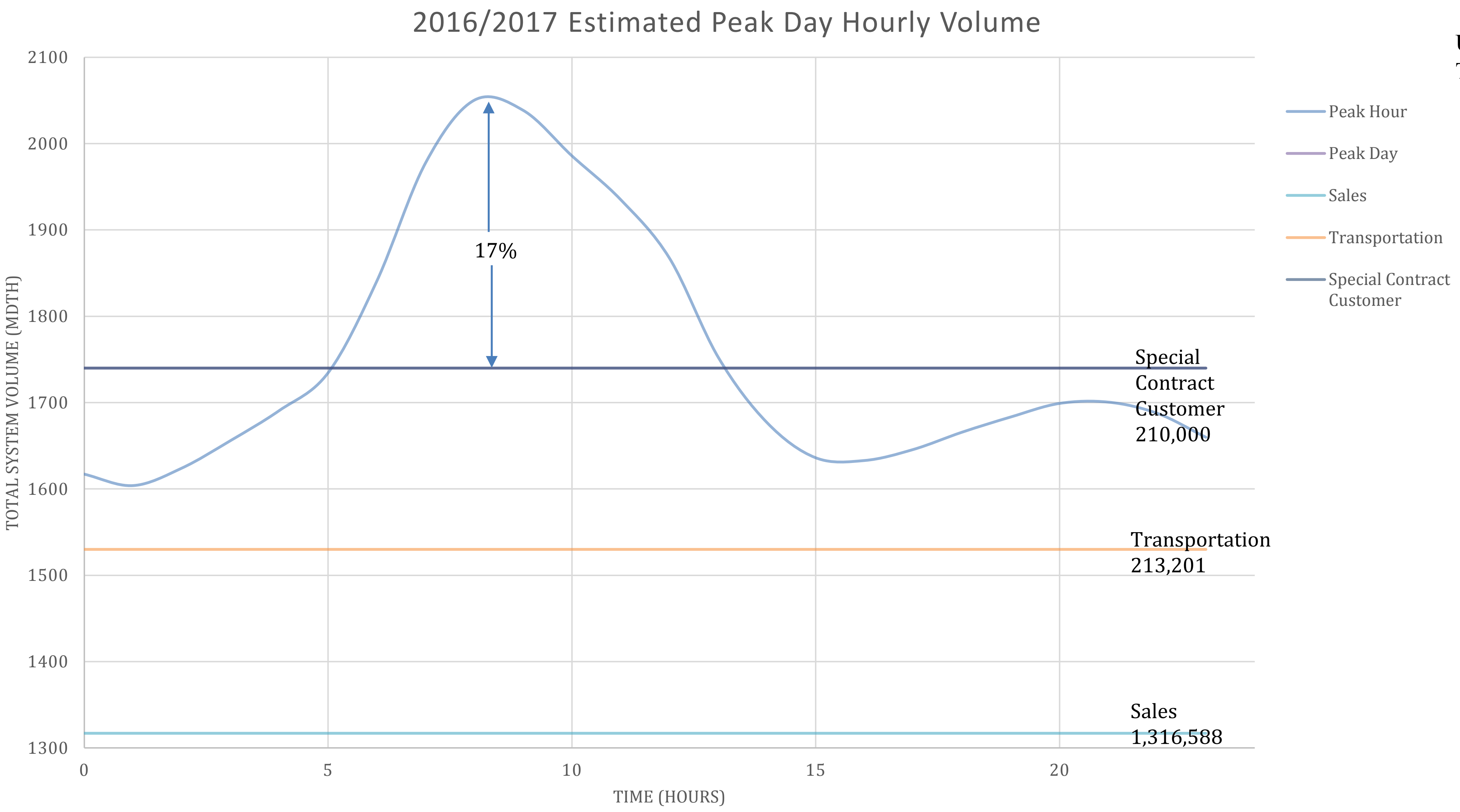
A. Yes, it does.

Docket No. 17-057-09

UAE Direct Exhibit 1.1

Excerpt from Dominion/QGC Technical Conference Presentation
Dated June 28, 2017

UAE/1.1
Townsend/1



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