

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION)	
OF QUESTAR GAS COMPANY TO MAKE)	
TARIFF MODIFICATIONS TO CHARGE)	DOCKET NO. 17-057-09
TRANSPORTATION CUSTOMERS FOR)	
PEAK HOUR SERVICE)	

REBUTTAL TESTIMONY

OF

JEROME D. MIERZWA

FOR THE OFFICE OF CONSUMER SERVICES

AUGUST 25, 2017

EXETER
ASSOCIATES, INC.

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DIRECT TESTIMONY OF JEROME D. MIERZWA

1

I. INTRODUCTION

2 Q.

WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

4 A.

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

7

8 Q.

PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

9

10 A.

I graduated from Canisius College in Buffalo, New York in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master’s Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation (“NFGD”) as a Management Trainee in the Research and Statistical Services Department (“RSS”). I was promoted to Supervisor RSS in January 1987. While employed with NFGD, I conducted various financial and statistical analyses related to the Company’s market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation’s (“NFG Supply”) Rate Department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting, and activities related to federal regulation. I was also responsible for preparing NFG Supply’s Purchased Gas Adjustment (“PGA”) filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFGD’s annual purchased gas cost review proceedings.

23

24

25 In April 1990, I accepted a position as a Utility Analyst with Exeter. In
26 December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996,
27 I became a Principal of Exeter. Since joining Exeter, I have specialized in evaluating
28 the gas purchasing practices and policies of natural gas utilities, utility class cost of
29 service and rate design analysis, sales and rate forecasting, performance-based
30 incentive regulation, revenue requirement analysis, the unbundling of utility services,
31 and evaluation of customer choice natural gas transportation programs.

32 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

33 A. Exeter was retained by the Office of Consumer Services (“OCS”) to review the
34 proposal of Dominion Energy Utah, formerly Questar Gas Company
35 (“Dominion/QGC” or the “Company”), to charge transportation customers for peak
36 hour services. The purpose of my rebuttal testimony is to respond to the direct
37 testimony of Neal Townsend on behalf of the Utah Association of Energy Users; and
38 the direct testimonies of Howard E. Lubow and Douglas D. Wheelwright on behalf of
39 the Utah Division of Public Utilities (“DPU”).

40 Q. HAVE YOU PREVIOUSLY TESTIFIED ON UTILITY RATES IN
41 REGULATORY PROCEEDINGS?

42 A. Yes. I have provided testimony on more than 200 occasions in proceedings before the
43 Federal Energy Regulatory Commission (“FERC”) and state utility regulatory
44 commissions in Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Massachusetts,
45 Montana, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, Texas, and Virginia,
46 as well as before this Commission in Docket No. 14-057-31, in which Dominion/QGC
47 proposed to implement a transportation customer imbalance charge.

48 Q. BEFORE CONTINUING, WHAT IS YOUR EXPERIENCE WITH
49 RESPECT TO EVALUATING THE GAS PROCUREMENT PRACTICES

50 OF LOCAL GAS DISTRIBUTION COMPANIES (“LDCS”) LIKE
51 DOMINION/QGC?

52 A. Over the last 27 years, I have reviewed and assessed the gas procurement practices of
53 approximately 40 different LDCs. For many of these LDCs, I have performed gas
54 procurement reviews on an annual basis. In total, I estimate that I have performed
55 approximately 200 such reviews.

56

57 **II. UTAH ASSOCIATION OF ENERGY USERS**

58

Witness: Neal Townsend

59 Q. MR. TOWNSEND DOES NOT BELIEVE THAT DOMINION/QGC HAS
60 SUFFICIENTLY JUSTIFIED THE NEED FOR A PEAK HOUR SERVICE.

61 WHAT IS YOUR RESPONSE?

62 A. Mr. Townsend notes that Dominion/QGC has been operating without a peak hour
63 service for decades, and that such services are relatively uncommon in the natural gas
64 industry. He does not believe that Dominion/QGC has sufficiently justified the need
65 for a peak hour service. I agree with Mr. Townsend that such services are uncommon
66 and that Dominion/QGC has not sufficiently justified the need for a peak hour service.
67 I would note that Messrs. Lubow and Wheelwright testifying on behalf of the DPU
68 share similar views.

69 Q. NEVERTHELESS, IF THE COMMISSION DOES FIND THE NEW PEAK
70 HOUR SERVICE TO BE NECESSARY AND APPROPRIATE, MR.

71 TOWNSEND CLAIMS THAT NONE OF THE COSTS ASSOCIATED
72 WITH THIS SERVICE SHOULD BE ALLOCATED TO

73 TRANSPORTATION CUSTOMERS. WHAT IS THE BASIS FOR HIS
74 POSITION?

75 A. Mr. Townsend claims that transportation customers are not the cause of
76 Dominion/QGC's claimed need for peaking service on a design peak day. He claims
77 that the design peak day demand of firm transportation customers throughout the day
78 is based on their maximum contractual demand, and that suppliers to firm
79 transportation customers are responsible for acquiring the necessary upstream pipeline
80 capacity and supplies to meet firm transportation customer design peak day demands.
81 Therefore, he concludes that any shortfall in upstream capacity due to hourly spikes in
82 demands above the design peak day average hourly demand can only be attributable to
83 the variability in hourly demand of firm sales customers.

84 Q. DO YOU AGREE WITH MR. TOWNSEND'S CONCLUSION THAT ANY
85 SHORTFALL IN DESIGN PEAK DAY UPSTREAM CAPACITY CAN
86 ONLY BE ATTRIBUTABLE TO THE VARIABILITY IN HOURLY
87 DEMAND OF FIRM SALES CUSTOMERS?

88 A. No. Mr. Townsend's conclusion completely ignores the fact that the hourly demands
89 of firm transportation customers would fluctuate over a day, including design peak
90 days, rather than remain constant throughout the day. It is Dominion/QGC that must
91 accommodate these hourly fluctuations in demand. If it is necessary for
92 Dominion/QGC to incur costs to accommodate these fluctuations, firm transportation
93 customers should be responsible for their share of those costs.

94 Q. DO YOU HAVE AN EXAMPLE AS TO HOW EXTREME THE HOURLY
95 FLUCTUATIONS IN THE DEMANDS OF TRANSPORTATION
96 CUSTOMERS CAN BE?

97 A. Yes. Based on the information provided in Exhibit 1.5 of Mr. Mendenhall's direct
98 testimony, on January 6, 2017 the peak hourly demand of transportation customers was

99 28,865 Dth, and the average hourly demand of transportation customers was 19,662
100 Dth, a difference of 47 percent.

101 Q. MR. TOWNSEND CLAIMS THAT EVEN IF THE HOURLY DEMANDS
102 OF FIRM TRANSPORTATION CUSTOMERS DID FLUCTUATE
103 THROUGHOUT THE DAY, THAT WOULD NOT CHANGE HIS
104 CONCLUSION. WHAT IS THE BASIS FOR MR. TOWNSEND'S
105 POSITION?

106 A. Mr. Townsend claims that, to the extent that hourly demands of firm transportation
107 customers do fluctuate across a design peak day, this would be a matter to be resolved
108 between the suppliers serving firm transportation customers and the upstream pipelines
109 providing firm transportation service. He claims that to the extent suppliers to firm
110 transportation customers find it necessary or desirable to purchase a peak hour service
111 day, they can do so.

112 Mr. Townsend further claims that:

113 The "problem" Dominion/QGC is trying to solve is
114 the variability in the hourly demand of its firm sales
115 customers and the supposed lack of an upstream
116 product to deliver those hourly spikes in demand.
117 Dominion/QGC is not responsible for acquiring
118 upstream transportation for firm transportation
119 customers; therefore Dominion/QGC should not be
120 (and is not) trying to resolve any issues concerning
121 hourly variability in firm transportation customer
122 usage, and therefore should not be charging
123 transportation customers for this new peaking
124 capacity service that is being acquired specifically
125 to address hourly spikes in (design) peak day usage.

126 Q. WHAT IS YOUR RESPONSE TO MR. TOWNSEND'S CLAIMS?

127 A. First, I disagree with Mr. Townsend's assertion that Dominion/QGC is not trying to
128 resolve any issues concerning the hourly variability in firm transportation customer

129 usage. Dominion/QGC is acquiring a peak hour service to accommodate the hourly
130 variability in firm transportation and sales customer usage. Second, under
131 Dominion/QGC's current tariff, there is no requirement for firm transportation
132 customers or their suppliers to address hourly fluctuations in usage and, therefore, there
133 is currently no incentive or reason for firm transportation customers or their suppliers
134 to purchase a peak hour service. If it is eventually determined that it is necessary for
135 Dominion/QGC to acquire peak hour services and transportation customers want to
136 address their own hourly fluctuations in usage, Dominion/QGC should adopt tariff
137 provisions requiring firm transportation customers to modify their nominations during
138 the day to address the hourly fluctuations in their usage. That is, Dominion/QGC
139 should adopt tariff provisions that require transportation customers to adjust their
140 hourly deliveries to match their hourly usage. This nomination process is discussed in
141 greater detail later in my testimony. If peak hour services are required by
142 Dominion/QGC, and firm transportation customers are required to modify their
143 nominations to address their hourly fluctuations in usage, then the amount of peak hour
144 capacity required by the Company may be reduced. Under circumstances in which
145 transportation customers demonstrate that they will comply with these tariff provisions,
146 then it may be reasonable not to charge firm transportation customers for peak hour
147 service costs, or at least reduce the charges.

148 Q. MR. TOWNSEND CLAIMS THAT THE 17 PERCENT DIFFERENTIAL
149 BETWEEN TRANSPORTATION CUSTOMERS' PEAK HOUR AND
150 AVERAGE HOUR USAGE DOES NOT DEMONSTRATE THAT
151 TRANSPORTATION CUSTOMERS ARE PARTIALLY CONTRIBUTING
152 TO THE NEED FOR A PEAK HOUR SERVICE. WHAT IS THE BASIS
153 FOR THIS CLAIM?

154 A. First, Mr. Townsend claims that the hourly data the Company relies upon includes
155 *interruptible* transportation service, when the issue at hand is the availability of *firm*
156 transportation service upstream. Thus, he claims the Company’s data is irrelevant.
157 Second, he claims that the new firm peaking service is targeted for those times when
158 hourly demand exceeds (design) peak day average hourly demand, not simply typical
159 winter usage, which is what the Company used in its analysis. He further contends on
160 a design peak day when hourly demand exceeds average hourly demand, interruptible
161 customers could expect to be on notice of interruption, and the suppliers to firm
162 transportation customers must ensure that they have adequate capacity upstream to
163 deliver gas to the Dominion/QGC system. He concludes that the intra-day variability of
164 transportation service usage on a typical winter day—interruptible and firm—is
165 irrelevant to Dominion/QGC's claimed need for firm peaking service for those occasions
166 when hourly demand exceeds design peak day average hourly demand.

167 Q. WHAT IS YOUR RESPONSE TO THESE CLAIMS?

168 A. The interruptible transportation service referred to by Mr. Townsend is the usage by
169 Dominion/QGC’s firm transportation customers in excess of their daily firm contract
170 limit (See response to OCS data request 4.07 included as Exhibits OCS 1.2Ra-b). This
171 usage in excess of a customer’s daily firm contract limit is included in Exhibit 1.5 of
172 Mr. Mendenhall’s testimony which identifies the 17 percent differential between the
173 peak hour and average hour usage of transportation customers. Occasions on which
174 firm transportation customer usage is limited to their daily firm contract limit are not
175 common nor are the design peak days for which Dominion/QGC claims it is necessary
176 to purchase peak hour service. Because of these data limitations, the fluctuations in the
177 hourly demands of firm transportation customers on design peak days cannot readily
178 be assessed or evaluated. Given this lack of data, I believe it reasonable to assume that

179 the hourly fluctuations in transportation customer demands presented by the Company
180 in Exhibit 1.5 are representative of those that would exist if customers were limited to
181 their daily firm contract limit under design peak day conditions, Mr. Townsend has
182 presented no evidence that the hourly fluctuations identified in Exhibit 1.5 are not
183 representative.

184 Q. MR. TOWNSEND CLAIMS THAT FIRM TRANSPORTATION
185 CUSTOMERS USE OF THE DOMINION/QGC SYSTEM WHEN PEAK
186 HOUR USAGE EXCEEDS DESIGN PEAK DAY AVERAGE HOURLY
187 USAGE DOES NOT MEAN THAT FIRM TRANSPORTATION
188 CUSTOMERS SHOULD CONTRIBUTE TO THE COSTS ASSOCIATED
189 WITH ACQUIRING A PEAK HOUR SERVICE. WHAT IS YOUR
190 RESPONSE?

191 A. Dominion/QGC is not proposing to assess firm transportation customers a portion of
192 peak hour service costs simply because firm transportation customers are on the system
193 when peak hour usage exceeds design peak day average hourly usage. Dominion/QGC
194 is proposing to assess firm transportation customers a portion of peak hour service costs
195 because firm transportation customers are contributing to the alleged need for a peak
196 hour service. Therefore, while I agree that use of the system during peak hour does not
197 by itself justify an assignment of costs, his point is not applicable in this case because
198 transportation customers are contributing to hourly fluctuations in usage.

199

200

III. DIVISION OF PUBLIC UTILITIES

201

Witness: Howard E. Lubow

202 Q.

MR. LUBOW CLAIMS THAT IN HIS EXPERIENCE, HE IS NOT AWARE
203 OF A GAS PLANNING PROCESS TO DESIGN UPSTREAM
204 TRANSPORTATION REQUIREMENTS BASED ON PEAK HOUR

205 CONDITIONS. IN YOUR EXPERIENCE, ARE YOU AWARE OF SUCH
206 A GAS PLANNING PROCESS?

207 A. No.

208 Q. MR. LUBOW CLAIMS THAT, IN HIS EXPERIENCE, HE HAS NOT
209 SEEN ANY LITERATURE OR INDUSTRY PRACTICE CONSISTENT
210 WITH DOMINION/QGC'S PROPOSAL TO MEET ITS SYSTEM
211 REQUIREMENTS ON THE BASIS OF PEAK HOUR REQUIREMENTS.
212 IN YOUR EXPERIENCE HAVE YOU SEEN ANY SUCH LITERATURE
213 OR INDUSTRY PRACTICE?

214 A. No.

215 **IV. DIVISION OF PUBLIC UTILITIES**

216 **Witness: Douglas D. Wheelwright**

217 Q. PLEASE EXPLAIN THE NATURAL GAS NOMINATION CYCLE.

218 A. In the natural gas industry, for measurement purposes, the day starts at 8:00 am
219 Mountain time and ends at 8:00 am on the following day ("Gas Day"). For each Gas
220 Day, transportation customers or their suppliers (collectively, "shippers") must place
221 nominations with the interstate pipelines for transportation service. These nominations
222 include the requested receipt and delivery points, the quantity to be transported, the
223 upstream party providing the gas, and the downstream party receiving the gas. The
224 transporting pipelines then schedule and confirm these nominations. Currently, there
225 are five times during the Gas Day at which shippers can place nominations with
226 interstate pipelines to initiate or change the quantity of gas being delivered on an
227 interstate pipeline. These nominations and effective start of gas flow are as follows,
228 and are commonly referred to as "nomination cycles":

<u>Nomination Cycle</u>	<u>Nomination Deadline⁽¹⁾</u>	<u>Start of Flow on Gas Day</u>
Timely	12:00 PM prior to Gas Day	8:00 AM
Evening	5:00 PM prior to Gas Day	8:00 AM
Intra-day 1	9:00 AM Gas Day	1:00 PM
Intra-day 2	1:30 PM Gas Day	5:00 PM
Intra-day 3	6:00 PM Gas Day	9:00 PM

- 229 Q. MR. WHEELWRIGHT CONTENDS THAT NO ANALYSIS HAS BEEN
230 PREPARED BY THE COMPANY TO DETERMINE IF LARGE-USE
231 CUSTOMERS OR ELECTRIC GENERATION FACILITIES ARE USING
232 THE INTER-DAY NOMINATION CYCLES TO REDUCE THE IMPACT
233 OF PEAK HOUR DEMANDS ON THE DOMINION/QGC DISTRIBUTION
234 SYSTEM. HAVE YOU EVALUATED THE EXTENT TO WHICH
235 TRANSPORTATION CUSTOMERS USE THE AVAILABLE
236 NOMINATION CYCLES TO REDUCE THE IMPACT OF PEAK HOUR
237 DEMANDS ON THE DOMINION/QGC DISTRIBUTION SYSTEM?
- 238 A. Yes. Looking at Exhibit 1.5, in order to match nominations and hourly demands most
239 closely, nominations should be at their highest at the beginning of the Gas Day, which
240 coincides with the start of flow for the Timely and Evening Nomination Cycles. If
241 transportation customers were to adjust Intra-day nominations to accommodate hourly
242 fluctuations then nominations would be reduced by at least 17 percent for the Intra-day
243 1 cycle, with gas flows starting at 1:00 PM. However, based on the response to OCS
244 data request 4.02 (See Exhibits OCS-1.1Ra-b), on January 6, 2017, the day of highest
245 send out (yearly peak day) during the most recent winter season, transportation
246 customer nominations were as follows:

<u>Nomination Cycle</u>	<u>Nomination (Dth)</u>	<u>Percent Change</u>
Timely	276,626	N/A
Evening	277,518	0.32%
Intra-day 1	276,952	(0.20%)
Intra-day 2	273,984	(1.07%)
Intra-day 3	281,921	2.90%

247 Therefore, this indicates that transportation customers are not using the nomination
248 cycles to reduce the impact of peak hour demands on the Dominion/QGC distribution
249 system. Data for the day of highest send out during the two prior winter seasons
250 (January 1, 2016 and December 30, 2014), indicate a similar lack of use of nomination
251 cycles to reduce the impact of peak hour demands.

252 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

253 A. Yes, it does.