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

REBUTTAL TESTIMONY OF KELLY B MENDENHALL

FOR DOMINION ENERGY UTAH

August 25, 2017

DEU Exhibit 1.0R

TABLE OF CONTENTS

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. Did you file direct testimony in this proceeding?

A. Yes. My testimony was filed as QGC Exhibit 1.0C with its accompanying exhibits.

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

A. The purpose of my rebuttal testimony is to address rate and regulatory concerns, to provide additional evidence, and to introduce witnesses that can provide evidence to address these issues.

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

A. David C. Landward, Regulatory Analyst III, will be providing testimony in support of the Company's design day calculation. Mr. Michael L. Platt, Manager of Engineering Systems, will be providing system modeling results that support the need for the Peak-Hour Service. Mr. William F. Schwarzenbach III, Manager of Gas Supply, will explain current industry trends and various options for addressing peak-hour needs.

Q. During this proceeding, parties have used the term Design Peak Day, Design Day and Peak Day. For clarification, can you please explain the difference or similarities between the three terms?

A. Yes. The Company uses these terms interchangeably. Design peak day, design day and peak day all reference a calculation done by the Company to determine what gas usage will be during extreme weather conditions. The Company calculates a design peak day each year in its Integrated Resource Plan (IRP). The Company relies on this analysis for system planning and supply purposes and has provided the design peak day in each IRP. The Company has

not experienced these conditions since the IRP has been instituted. Thus when the Company receives questions asking about "peak day numbers", the Company cannot provide these numbers. For any given year it can provide its calculated design day or design peak day numbers or its highest daily demand numbers for a given heating season.

Q. Can you summarize the issues that have been raised by other parties in this docket?

A. In the original Application, the Company sought to assign transportation customers a portion of the cost for firm peak hour services. However, the Division of Public Utilities (Division) and Utah Association of Energy Users (UAE) have both argued that the Company has not provided enough evidence to support the need for this service. In fact, the Division has requested that the Commission determine whether the contract with Kern River is in the public interest. (Prefiled-Direct Testimony of Douglas Wheelwright (Wheelwright), lines 94-95).

Q. Has the Company adequately justified the need for the Peak-Hour Service?

A. Yes. The Company has addressed its design peak day needs and its plan to address design peak day needs in every IRP. For the last two years, the Company has provided evidence about the peak-hour issue, and explained the steps it was taking to solve the issue in IRP workshops and technical conferences. Given that the purpose of the IRP dockets is to address system planning, the Company expected that the Division and others would address any perceived shortfalls in the IRP dockets. But the Division and the UAE are raising these issues for the first time in this docket. I have attached, for the Commission's convenience, the presentations in which the Company discussed peak hour needs in DEU Exhibits 1.1R through 1.6R.

Q. Can you explain in more detail the IRP process and your understanding of how it should be used?

A. Yes. In the Commission's *Report and Order on Standards and Guidelines for Questar Gas Company* dated March 31, 2009 in Docket No.08-057-02 (Order), the Commission

states, "The Utah Legislature, through its enactment of Utah Code §54-1-10, §54-3-1, and §54-3-28, views resource planning as an important element in utility regulation. The planning process and the IRP help ensure that the Company's actions are consistent with the public interest and also provide the regulatory community and interested parties with consistent analytical methods and up-to-date information on the Company's operations and resource selections."

Q. Did the Company discuss the firm Peak Hour charge in the course of the IRP process?

A. Yes. On December 17, 2015, in an IRP technical conference, the Company first discussed the issue of Peak Hour and potential solutions to the problem. I have attached as DEU Exhibit 1.1R, pages 2 through 7, slides reflecting this discussion. Mr. Platt also presented some slides at that technical conference reflecting his concerns about system pressures on the Wasatch front and the Company explained different alternatives to solve this problem. Mr. Platt will review this information again and provide updated information in his testimony. In a February 24, 2016 IRP workshop, the Company continued to discuss its need to meet peak-hour demand. The February 24, 2016 workshop presentation reflecting this discussion is attached as DEU Exhibit 1.2R pages 6 through 9. In an April 6, 2016 workshop, the Company explained it had received three responses to its Request for Proposal (RFP) to address peak-hour issues. The April 6, 2016 workshop discussion is reflected in DEU Exhibit 1.3R page 34. In a May 4, 2016 IRP workshop the Company explained that it intended to move forward with one of these options for the 2016-2017 heating season. The May 4, 2016 workshop discussion is shown in DEU Exhibit 1.4R pages 9 through 14.

Q. Did the Company make similar presentations during the 2017 IRP workshops?

A. Yes. In a February 28, 2017 IRP workshop, as shown on pages 4-15 in DEU Exhibit 1.5R, the Company discussed its intent to procure peak hour services for the 2017/2018 winter heating season. In a March 23, 2017 IRP workshop, as shown on pages 23-24 of DEU Exhibit 1.6R, the Company notified regulators of its intent to sign a three year firm peaking contract with Kern River Natural Gas Transmission Company (Kern River) and that it was

going to sign a precedent agreement with Dominion Energy Questar Pipeline (DEQP) for additional peak hour services..

Q. Why is it important that the Company discussed these issues in IRP workshops and technical conferences?

A. In the Order, the Commission stated, "In our view, these provisions, especially Sections III.A.3. and III.B.3. of the 2009 IRP Standards, which provide for additional informational meetings, obligate the Company to provide timely information on issues associated with the Planning Process and IRP development in an informal setting such that parties have the opportunity to provide their opinions and comments *at an appropriate stage in the Planning Process*. We also view these provisions as obligating the regulatory community and interested parties to inform the Company when they believe additional meetings may be required." Order at p. 6. (emphasis added).

Q. What other evidence has the Company provided to show that Peak-Hour Services are appropriate?

A. As the Commission has ordered, "IRP information, conclusions, and operating strategies may be used by regulators and other parties as evidence in their evaluation of cost recovery of both gas and non-gas costs for the relevant period. The Commission's evaluation of prudence in ratemaking proceedings will be based on the reasonableness of the Company's decision-making process in view of the Planning Process and associated IRP, and the information available at the time the decision is made." Order at p. 27. The Company provided such evidence, in its 2016-17 and 2017-18 IRPs (Docket Nos. 16-057-08, and 17-057-12, respectively) and reiterates it here.

Q. Are there any other issues that your testimony will address?

A. Yes. I will provide testimony to support the need for the Firm Peak-Hour Services. I will also address the various rate design issues raised by Mr. Lubow, Mr. Wheelwright and Mr. Townsend. I'll address these issues in the two sections below.

II. THE KERN RIVER FIRM PEAK HOUR CONTRACT IS IN THE PUBLIC INTEREST

Q. Where do the parties stand on the issue of public interest?

A. I have summarized their positions in the table below:

Table 1

Witness	Position	Reference
Mendenhall	The Company needs Firm Peak-Hour Service.	QGC Exhibit 1.0C lines 16-77
Lubow	Peak-Hour Service agreements are not necessary at this time.	DPU Exhibit 2.0 DIR lines 251-254
Wheelwright	Division is not convinced that the Kern River and DEQP contracts represent the most cost-effective way to address the Company's concern, if that concern is ripe for consideration at all.	DPU Exhibit 1.0 DIR lines 216-218
Townsend	I do not believe that Dominion/QGC has sufficiently justified a need for this new service.	UAE Exhibit 1.0 lines 80-81

I will address the arguments of each witness in more detail.

Q. What are Mr. Lubow's concerns?

A. Mr. Lubow raises three primary concerns. First, he claims that other utilities do not conduct system planning on an hourly basis and that the industry has done no studies on the subject. (Pre-filed Direct Testimony of Howard E. Lubow (Lubow), Lines 141-148). Second, he argues that there are other options such as upstream pipeline flexibility, demand response and upstream transportation contracts that provide a better solution than a firm Peak-Hour Service. (Lubow, Lines 118-127, 256-260). Third, he compares actual historical firm sales numbers with design day numbers and suggests that because firm sales have been well below design day requirements for the last 20 years, Firm-Peaking Service is unnecessary. (Lubow, lines 251-254).

Q. Do others in the industry plan for peak-hour needs?

A. Yes. Though the concept is relatively new to both the industry and Dominion Energy, the industry is beginning to focus on hourly planning. As Mr. Schwarzenbach will explain in more detail, other gas utilities utilize hourly planning and upstream pipelines provide hourly or "enhanced" upstream pipeline services to meet the hourly needs of customers. It is an emerging issue of increasing concern.

Q. Is there evidence to support the notion that gas utilities will manage their systems on an hourly basis in the future?

A. Yes. Over the past decade, electric generators have become more reliant on natural gas for their generation needs. Since 2012, the natural gas industry has focused great resources on the subject of electric and gas coordination on pipelines and utilities. This is what caused the North American Energy Standards Board (NAESB) to add nomination cycles to the gas day and, as Mr. Schwarzenbach will further discuss, this was the focus of FERC Order 809. This issue has also been addressed many times at National Association of Regulatory Utility Commissioners (NARUC) conferences.

Q. Why doesn't Dominion Energy wait for others in the industry to solve the problem and then follow suit?

A. Dominion Energy has a history of addressing issues promptly before crises arise. We have also been at the forefront of many industry-wide issues. For example, in 2006, when the Company proposed revenue decoupling, opponents argued that this was something new and for that reason it should be rejected. Now the majority of local distribution companies have decoupled rate designs. Similarly, in 2014, the Company proposed a transportation imbalance charge to customers to incent customers to nominate more accurately and reduce overall daily imbalances on the system. In that case, the UAE argued that "the imposition of daily balancing requirements for transportation customers appears to be quite rare." (Direct Testimony of Kevin C. Higgins, Lines 130 - 132). The Commission approved this charge and customer imbalances have decreased by 23%.

Q. Is the "uncommon in the industry" argument persuasive in this instance?

A. No. Mr. Landward, Mr. Platt and Mr. Schwarzenbach show that the peak hour service is necessary and that it is the most cost-effective solution. The peak hour service provided by upstream pipelines provides reliability at a reasonable cost. The Company gets the service it needs without having to pay for firm transportation for the rest of the day when it doesn't need the service. It is an innovative solution that allows the Company to more reliably serve its customers as cost effectively as possible.

Q. Mr. Lubow identified some other options that are available, such as demand side management programs or buying additional upstream capacity. Did the Company consider these options?

A. Yes. I discussed the issue of demand response in my direct testimony lines 41-47. To the extent the Company can find cost effective demand-side-management programs they should definitely be instituted. However, to date, the Company has not found any such programs. Mr. Schwarzenbach discusses the other viable options in his testimony.

Q. Mr. Lubow points out that the actual firm sales demand over the last 20 years has been at least 15% below the design day requirement and has averaged over 20% below design peak demand levels. Is this a valid reason to forego Peak-Hour Services?

A. No. Dominion Energy must plan both for expected weather, and for extreme weather events. If the Company planned only for typical historical weather patterns, its customers would lose service during those occasional extreme weather events. Mr. Landward will defend the Company's design-day calculation, and why it is appropriate to use in gas planning.

Q. Mr. Wheelwright expresses concern that the Lake Side contract needs to be included in the analysis and that omitting this contract could lead to incorrect results. Does the Company share this concern?

A. No. As Mr. Platt will explain, Lake Side is subject to flow control, meaning that Dominion Energy's Gas Control department can physically set the amount of gas flowing to Lake Side. For this reason, on a peak day Lake Side will not contribute to the hourly flow rate exceeding the reserved daily contract limit. As Mr. Platt will explain, Lake Side usage is not included in his peak hour/peak day differential.

Q. Is flow control a way to eliminate a transportation customer's impact on peak hour?

A. Yes. In fact, I offer alternative Tariff language in DEU Exhibit 1.7R that recognizes customers who are flow controlled. Under the language shown in DEU Exhibit 1.7R, a customer with a daily contract limit greater than 3,500 Dth may opt to be flow controlled and to be exempt from paying the per-hour demand charge. If the Commission deems it appropriate, the Company would agree to incorporate this alternative language into its Tariff.

Q. Why is 3,500 Dth an appropriate limit for this alternative?

A. Dominion Energy's Gas Control department has indicated that from an operations standpoint, having the largest customers on flow control would provide system benefits. However, there are only a certain number of customers that the gas control group could

realistically manage on a peak day. There are 12 customers who have a daily contract limit of 3,500 Dth per day. Flow controlling these customers would provide the most system benefit because of the large volumes they use.

Q. Mr. Townsend expresses concern that Dominion Energy's purchase of Firm-Peaking Service from DEQP is a "revenue-enhancing scheme" that benefits Dominion Energy's corporate parent. How do you respond?

A. I disagree with this characterization. As I mentioned in my Direct Testimony, the Company issued a request for proposal seeking solutions for the peak-hour needs and selected both available options. Additionally, these services are necessary for the Company to continue to provide reliable service to Dominion Energy sales and transportation customers. As DEU Exhibit 1.8R shows, over the last twenty years, the actual high firm sales have increased by 53% (column B) and the actual design day has increased by 37% (column C). The subscribed firm upstream transportation service has increased by 27% (column D). The current firm upstream transportation capacity cannot meet our customers' needs on a peak day.

III. ALLOCATION OF PEAK HOUR COSTS TO TRANSPORTATION CUSTOMERS

Q. Mr. Wheelwright suggests that should the Commission decide to charge transportation customers for the firm peak hour services, interruptible customers and volumes should be used to make the allocation. He states that using a three-year average of total winter monthly volumes would result in a 20.6% allocation to transportation customers. Do you agree that this could be an alternate approach?

A. I do agree that history has shown that, on a peak day, some interruptible customers would continue to burn gas. However, these customers will also be penalized, and these penalties will be returned to all other customers. Therefore, I do not agree that interruptible customers should be charged for these services.

Q. Are there many transportation customers who take service on a strictly interruptible basis?

A. Of the more than 600 transportation customers on Dominion Energy's system, only 22 are 100% interruptible. These 22 customers are primarily low-winter-load customers such as asphalt plants. Under the Company's proposal, all but 22 of the transportation customers will pay for these services through their demand charge.

Q. Are there any other considerations relevant to Mr. Wheelwright's approach?

A. Yes. The Company is proposing to charge customers using their *demand charge*, which interruptible customers do not pay. Under Mr. Wheelwright's proposal, transportation customers would need to be charged through a volumetric rate.

Q. Mr. Townsend suggests the hourly demand for firm transportation is distributed evenly across the peak day. Is this accurate?

A. No. Mr. Townsend was not present at the referenced technical conference and seems to have misunderstood the discussion. I have included the chart referenced in the technical conference as Exhibit 1.9R and have labeled each line for clarity. The green line represents the firm upstream capacity of all sales customers. This is the amount that the upstream pipelines guarantee to deliver to the city gates on a firm basis. The orange line represents the upstream capacity of all transportation customers. The Company cannot be certain that all of this capacity is firm but for purposes of this analysis it is assumed to be firm. The purple line represents the firm upstream capacity for the special contract customer. This customer has firm upstream capacity. These lines are all flat on the chart is because the upstream pipelines are only required to deliver volumes on a ratable (even) basis throughout the day. In other words, the upstream pipelines guarantee all of the volumes covered by the shaded red area. The blue curved line represents the actual gas demand on the system by sales and transportation customers. All of the volumes in the shaded blue area, that exceed the firm upstream capacity, are necessary for the Company to maintain adequate pressures on its

system during the peak hours. Without firm peaking services, upstream pipelines can only provide these volumes on an operationally available basis.

Q. Mr. Townsend claims that your dataset is irrelevant because it includes interruptible transportation customers. Do you agree?

A. No. When interruptible volumes are excluded, the firm transportation customers continue to have an uneven load profile that peaks during the morning hours. The data without interruptible customers is shown in DEU 1.10R.

Q. Do you have any other evidence to suggest that transportation customers contribute to the peak hour?

A. Yes. The number of transportation customers on our system continues to grow each year. A review of these customers shows that the percentage of customers using natural gas primarily for space and water heat is growing as a percentage of the total transportation customer base. These customers represent 29% of firm demand and include schools, religious institutions, hotels, grocery stores, and hospitals. Manufacturing customers represent about 42% of firm demand. These customers are using natural gas in their processes, and some of these manufacturing processes are variable in nature. There is also some portion of this load being used for space and water heat. Additionally, evidence provided by Mr. Wheelwright shows that electric generation customers, representing 28% of firm demand (excluding Lake Side), have a variable load profile during the day. This evidence suggests that transportation customers do, in fact, contribute to the peak hour.

IV. TARIFF SHEETS

Q. Do you recommend any changes to the Company's proposed Tariff sheets?

A. Yes. In the technical conference in this docket the Commission asked some clarifying questions about the way the Tariff sheets were presented. Based on those questions and in an effort to make the Tariff pages more consistent, I have made a few changes to the impacted

Tariff sheets and attached those sheets as DEU Exhibit 1.11R. These are mostly cosmetic and in no way change the rates being proposed.

V. RECOMMENDATIONS

Q. Can you summarize your recommendations?

A. Yes. Dominion Energy respectfully requests that the Commission approve the Company's methodology for allocating a portion of these services to transportation customers and approve the proposed Tariff sheets.

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 _____ day of August, 2017.

_____
Notary Public