BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE PASSTHROUGH APPLICATION OF DOMINION ENERGY UTAH FOR AN ADJUSTMENT IN RATES AND CHARGES FOR NATURAL GAS SERVICE IN UTAH	Docket No. 17-057-20

REBUTTAL TESTIMONY OF WILLIAM F. SCHWARZENBACH III

FOR DOMINION ENERGY UTAH

May 9, 2018

DEU Exhibit 3.0R

Q. Please state your name and business address.

A. My name is William Frederick Schwarzenbach III. My business address is 333 South State Street, Salt Lake City, Utah.

Q. Are you the same William Frederick Schwarzenbach III that filed direct testimony in this docket?

A. Yes.

Q. Attached to your testimony are DEU Exhibits 3.10 through 3.12. Were these prepared by you or under your direction?

A. Yes.

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

A. The purpose of my rebuttal testimony is to rebut the direct testimony of Mr. Wheelwright, Mr. Orton, and Mr. Lubow. I also show that Dominion Energy Utah (DEU or the Company) contracts for Firm Peaking Services with Kern River Gas Transmission (KRGT) and Dominion Energy Questar Pipeline (DEQP) are necessary, and that the Company's decision to contract for such services was prudent.

Q. Mr. Wheelwright states that he has "general concerns with the application" and specifically cites a concern regarding DEU Exhibit 3.4. In lines 53-55 of his testimony he states: "While this exhibit is intended to support the need for peak hour service, the footnote on this exhibit states 'volumes depicted are approximate and are for illustrative purposes only'." Did the Company provide an updated version of this exhibit to the Division during the discovery process?

A. Yes. Originally, the footnote was included because some of the data in DEU Exhibit 3.4 included estimates. The Company provided updated information to the Division in response to a data request. The update did not include estimates. The Data Request response with the updated information is attached as DEU Exhibit 3.10.

Mr. DiPalma included this updated response in his testimony as Chart DPU-FTD-1 and confirms the Company's position. He notes on Lines 530-533 of his testimony that, "as the load on DEU's system has increased, the actual hourly deliveries have started to exceed the RDC even though the daily deliveries do not. Any deliveries that exceed the RDC are subject to pipeline operational capacity availability and are not available on a firm basis."

Q. Mr. Wheelwright also states in lines 73-76 that, "In prior years, Dominion Energy Questar Pipeline (DEQP) has allowed the Company to draw the additional gas during peak hours without a formal contract agreement but will no longer provide this service on a firm basis." Do you agree with this?

A. No. Mr. Wheelwright does not distinguish between firm and interruptible service when he makes this statement. The additional gas available during peak hours in the past was provided on an "operationally available" basis and not on a firm basis. The analysis work done as part of the Joint Operating Agreement process between DEU and DEQP shows that the capacity availability is no longer adequate to meet the peak hour demands of the DEUWI system without the additional services included as part of the Firm Peaking Service.

Q. In lines 276-288 of his testimony, Mr. Lubow argues that DEU is not required to flow on a ratable basis from DEQP's system. Do you agree?

A. Yes. However, this argument misses the point. Any flows above the RDC will not be provided on a firm basis. Because the Company must provide its customers with reliable firm service, it cannot plan to have insufficient gas during the peak hour.

Q. On lines 90-92 of his testimony, Mr. Wheelwright states: "[T]he Company should have purchased additional firm transportation capacity instead of peak hour contracts." Would this have been the most cost-effective solution?

A. No. Purchasing additional firm transportation capacity would be a far more expensive solution. The combined annual cost of the Firm Peaking Services (DEQP and KRGT) for 2017-2018 was $2,220,908. These services provided over 350,000 Dth/day of transportation service over the peak hours. As shown in DEU Exhibit 3.8, the estimated cost for equivalent

Firm Transportation service would have been between approximately $20 million and $30 million per year. The Firm Peaking Service contracts provide the firm upstream capacity when it is needed, at the lowest cost.

Q. On lines 95-132 of his testimony, Mr. Wheelwright states that he has concerns regarding the way the Company is modeling the Lake Side Generation Facility and implies that the facility will burn more than its contract amount during peak hours of a peak day. Are these concerns well founded?

A. No. While the actual daily usage may not match the usage limit on Lake Side's contract, the Company is still obligated to meet the contractual requirements. The Company should not rely on a belief that Lake Side will burn less than that contract requirement during a peak hour. The Company must be prepared to serve the Lake Side power plant, up to the amount stated in the contract, even during a peak hour.

Q. Mr. Wheelwright states on lines 196-198 of his testimony: "[T]he Company currently has no-notice transportation service in place for 203,542 Dth. It is not clear to the Division why both contracts are necessary or if the amount of no-notice transportation is still appropriate with peak hour service". Can you clarify the difference between No Notice Transportation (NNT) and Firm Peaking Services?

A. Yes. It may be helpful to discuss this question in terms of daily gas flow vs. hourly gas flow. NNT allows the Company to deliver above or below the amount of gas it has nominated (and confirmed by the pipeline) on a *daily* basis by up to 203,542 Dth. This basically eliminates a nomination imbalance at the end of each day.

The Firm Peaking Service, on the other hand, addresses gas flow on an hourly basis. As I discussed in my Direct Testimony, the Company is required by upstream pipelines to take the gas it has nominated each day on a "ratable basis," or at an even flow throughout the day. In reality, our customers do not use gas evenly throughout the day, as I demonstrate in DEU Exhibit 3.5. As you can see in that exhibit, there is a morning peak when customers wake up, furnaces turn on, and customers take showers. There is a second peak in the evening,

when customers return from work, turn up their furnaces, cook and engage in activities at home. Sometimes those hourly peaks exceed the scheduled quantity. Historically, the upstream pipelines have had sufficient capacity to absorb these hourly fluctuations in flow to accommodate these usage patterns. That is no longer the case.

The Firm Peaking Service is a service by which the upstream pipelines take whatever steps they need to take to ensure that capacity is available to absorb those hourly fluctuations, and continue to provide DEU with firm reliable deliveries, even when those deliveries are not made on a ratable basis.

Q. On lines 262-292 of his testimony, Mr. Orton states that "NNT is a firm service", the DEQP tariff "leaves room for misunderstandings", and DEQP handles the gas nominations for the Company and is not limited by the Shipper's RDC". Do you agree with these statements?

A. I agree that NNT is a firm service as long as nominations are high enough for the adjustment to be made in the downward direction. The DEQP tariff is clear that NNT does not reserve any capacity on the pipe above the firm upstream contract RDC.

I do not agree that the DEQP tariff "leaves room for misunderstandings". This tariff has been in place for many years and was approved by the Federal Energy Regulatory Commission (FERC). The NNT conditions of service clearly state: "Upon the request of shipper, if capacity is available and if system integrity is not jeopardized, Questar will receive from or deliver to a shipper a quantity of gas in excess of the RDC specified in the shipper's service agreement, subject to the terms of §§ 9 and 11 of the General Terms and Conditions of Part 1. The service (i) shall be available only to the extent it does not impair Questar's ability to provide service under any other rate schedule (including service up to shipper's RDC under this rate schedule), (ii) is interruptible, and (iii) is subject to the authorized overrun charge."

The fact that these conditions state that NNT "shall be available only to the extent it does not impair Questar's ability to provide service under any other rate schedule" and that it "is interruptible" leave no room for misunderstandings.

Also, while the NNT service does allow DEQP to make nomination adjustments above the Company's RDC, the conditions of the service do not allow this on a firm basis, as described above. This means the nomination adjustments are only made if additional capacity is available. Therefore, even on days when NNT adjustments are made to bring nominations above the RDC, that was done on an interruptible basis. DEQP through the JOA process has made it clear to the Company that excess capacity will likely not be available on a Design Peak Day.

Q. Also in regards to NNT, on Lines 294-295 of his testimony, Mr. Orton states that DEQP has "provided more gas for DEU . . . [than] its NNT maximum". Is this true?

A. No. Any volume over the NNT amount is treated as an imbalance, not NNT service.

Q. In lines 135-143 of his testimony, Mr. Orton suggests that DEQP does not need to do "anything" in order to provide Firm Peaking Service and that its "Control Room Operations . . . will not operate any differently with or without this agreement." Do you agree?

A. No. The Division's own expert, Mr. DiPalma, addressed this issue and refutes Mr. Orton's statement. On lines 591-602 of his testimony, he states: "Dominion Energy Questar Pipeline states that it utilizes capacity on the Overthrust Pipeline to provide its firm peaking service as well as the dedicated use of injection/withdrawal capacity at the Aquifer Storage. The cost for this capacity is included in the cost of Dominion Energy Questar's Firm Peaking Service contract. The pipeline company further states that without DEU's need for Firm Peaking Service, the Overthrust capacity would not have been acquired and the Aquifer Storage flows would only be available when operationally available (not on a firm basis)."

Mr. DiPalma also points out that, "Kern River Pipeline states that it utilizes capacity in its pipeline by allowing DEU to store gas through line-pack and withdraw that supply from line-

pack during peak hours on a firm basis. Both the Dominion Energy Questar Pipeline and Kern River Pipeline interconnections with DEU are flow controlled, so the Firm Peaking Service can provide for a set flow increase during peak hours."

Mr. Orton himself seems to understand that DEQP must take steps in order to provide the service and details some of the components of the Firm Peaking Service on lines 148 through 154 of his testimony. Plainly, DEQP must enter into agreements, reserve capacity on the Overthrust Pipeline, and reroute the gas flow to provide the Firm Peaking Service. It is also important to note that the Firm Peaking Service, and the rate to be charged for the service, was approved by the FERC. It is inaccurate to suggest that DEQP can charge FERC-approved rates for doing "nothing" as Mr. Orton suggests.

Q. On lines 161-163 of his testimony, Mr. Orton states that he believes that the utilization of capacity on Dominion Energy Overthrust Pipeline (Overthrust) will "make more capacity available on DEQP's system." He then implies DEQP is planning to sell this capacity for additional revenue. Is this true?

A. No. The use of Overthrust capacity will create more capacity on the DEQP system. That capacity is what DEU is contracting for as part of the Firm Peaking Service, therefore it will not be available for other shippers to reserve.

Mr. Orton cites a presentation made on DEQP's website on September 27, 2017. This presentation is attached as DEU Exhibit 3.11. This presentation described a tariff filing DEQP was making to change the procedures in how it sells firm pipeline transportation services. Its previous process required DEQP to hold an e-bay style bid every month that closed on the 8th to last business day. This wasn't customer friendly, as customers could bid on capacity and then be required to wait several weeks until a bid closed. This tariff filing updated DEQP's processes so it could sell firm pipeline capacity on a first come, first-served basis, and also retained the ability to hold auctions if it felt that doing so was appropriate. This basically matched the standard with interstate pipelines in the region in how firm pipeline transport is sold. There was a FERC filing changing the tariff language and it went

through with no Shipper protests and went into effect December 1, 2017. This presentation did not address additional available capacity because of DEU's utilization of Overthrust capacity as claimed.

Q. On lines 184-194 of his testimony, Mr. Orton suggests that transportation rates should be reduced because gas will be flowing on Overthrust instead of DEQP, and Overthrust has lower rates. Do you agree?

A. No. Again, The DEUWI system is not directly connected to Overthrust. In order to get from Overthrust to the DEUWI system, the gas must travel on DEQP. Even if capacity is being routed on Overthrust for a portion of the path, it still must all go through the DEQP system to be delivered to the DEUWI system. Ordinarily, if the gas traveled on two different interstate pipelines, DEU would have to pay a transportation rate for each pipeline. This is commonly referred to as "stacking rates." The rate for Firm Peaking Service includes all of the costs, including the rate for capacity on Overthrust.

Q. On lines 197-201 of his testimony, Mr. Orton points out that DEU "already has the rights to and pays for" the 45 Mdth/d of aquifer withdrawal that is included as part of the Firm Peaking Services. Is this true?

A. While the Company does have rights to the withdrawal from the Aquifers, Mr. Orton is missing the important fact that this right does not provide the *transportation capacity* required to move the full withdrawal volumes from the Aquifers to the DEUWI system. The use of the Firm Peaking Service provides additional transportation for those volumes, and uses these withdrawals to increase flow to its system during the peak hours.

Q. On lines 204-207 of his testimony, Mr. Orton argues that the Company already has the ability to "pack-and-draft DEQP's system". Is this true?

A. Not on a firm basis. Without the Firm Peaking Service, DEU can only pack and draft DEQP system on an *interruptible* basis. The Firm Peaking Service contract makes this available on a *firm* basis.

Q. On lines 107-131 of his testimony, Mr. Orton discusses the Company's use of backhaul transportation service to meet peak-hour demand requirements. He questions the "supply concerns" the Company has in regard to this option. Can you provide more information on this option?

A. Yes. As discussed in DEU Exhibit 3.8, the Company has a few concerns regarding this option. The primary concern is supply availability. To utilize this option, the Company must be able to buy a significant amount of gas supply at Goshen. While volumes are often available at this point, Goshen is a key point on the path of capacity to serve Southern California and Nevada. When those areas experience high demand, the availability at Goshen becomes limited and prices rise dramatically. To mitigate the risk associated with the availability of supplies at Goshen, the Company signed peaking supply deals for the Goshen point. The high cost of gas and the demand charges for these peaking deals, however, makes this option significantly more expensive than other options.

This option is also much riskier. As I mentioned before, supply at this point is limited when demand in California and Nevada increases. Additionally, any gas flowing under this option would be flowing on an interruptible basis on DEQP.

Q. Mr. Lubow, on lines 120-12 of his testimony, implies that, since the provisions in Kern River's tariff were issued in 2010, the Company should not be concerned with meeting these provisions. Do you agree?

A. No. Like all shippers, DEU must observe and be bound by the provisions set forth in Kern River's FERC-approved Tariff. Additionally, Kern River has been issuing warnings regarding meeting these provisions more frequently.

Q. On lines 223-230 of his testimony, Mr. Lubow implies that, since the Company has not had a Design Peak Day in the last 50 years, it does not need Firm Peaking Services. Is this sound reasoning?

A. No. The Company has a responsibility to provide gas on a Design Peak Day when it occurs. Planning only for historical usage would not be prudent as the data show higher demand days

are possible. In addition to meeting the daily Design Peak Day demand, the Company must also determine the amount the demand will increase during the peak hours of a Design Peak Day. In order to be prudent, the Company must also plan to meet these demand increases.

Q. On lines 476-481 of his testimony, Mr. Lubow also states that, in his experience, "LDCs generally rely upon upstream pipelines to continue to provide service, whether they are contractually obligated to do so or not". Is this approach prudent?

A. No. Simply relying on upstream pipelines to provide sufficient firm service during a peak hour is not reasonable, particularly when those pipelines are warning the Company *not to engage in that very practice.*

Q. On Lines, 377-393 of his testimony, Mr. Lubow discusses recent options provided by Magnum Energy and implies that they should have been considered to meet peak-hour demand requirements. Do you agree?

A. No. First, certain of the Magnum Energy proposals were not received until long after the contracts for Firm Peaking Services were signed. Second, the costs presented in Magnum Energy's most recent proposals are significantly higher than the cost of the Firm Peaking Services.

Q. On lines 406-419 of his testimony, Mr. Lubow calculates that, limiting the usage of the 13 largest customers (excluding Lake Side) would result in a reduction of 193,470 Dth during a peak hour. Do you agree?

A. No. Mr. Lubow includes interruptible demand in his calculations. These customers will be interrupted on a Design Peak Day and are not included in the model. There is also no guarantee that these customers will be delivering gas on the day to meet their full contractual limits.

Q. On lines 256-264 of his testimony Mr. Lubow states that DEU will build an LNG facility to meet its peak-day needs going forward. Does the Company plan to build an LNG facility to meet peak-hour demand requirements?

A. No. The Company evaluated an LNG facility as an option to meet peak-hour demand but determined that Firm Peaking Service contracts were a more cost effective solution. Use of Firm Peaking Services in the last winter heating season has proven it to be a reliable resource and they are currently available. An LNG facility would not be in service for several years.

Q. Is the use of Firm Peaking Services the lowest cost option that meets the peak-hour demand requirements?

A. Yes. As shown in Proprietary DEU Exhibit 3.12, the use of Firm Peaking Services is expected to be the lowest-cost option. While demand charges for the use of backhaul transportation and additional purchases at Goshen are lower, the volumetric charges associated with supply purchases and transportation usage on days additional supply is needed would make the total cost of this option significantly higher.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)

) ss.

County of Salt Lake)

I, William F. Schwarzenbach III, 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.

William F. Schwarzenbach III

SUBSCRIBED AND SWORN TO this 9th day of May, 2018.

Notary Public

LEORA N. PRICE
Notary Public State of Utah
My Commission Expires on:
August 19, 2018
Comm. Number: 677685