

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE REQUEST OF  
DOMINION ENERGY UTAH FOR  
APPROVAL OF A VOLUNTARY  
RESOURCE DECISION TO CONSTRUCT  
AN LNG FACILITY

Docket No. 18-057-03

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**DIRECT TESTIMONY OF KELLY B MENDENHALL**

**FOR DOMINION ENERGY UTAH**

April 30, 2018

**DEU Exhibit 1.0**

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KELLY B MENDENHALL

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**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. By whom are you employed and what is your position?**

A. I am employed by Dominion Energy Utah (DEU or Company) as the Director of Regulatory and Pricing. I am responsible for state regulatory matters in Utah and Wyoming. My qualifications are included in DEU Exhibit 1.01.

**Q. Attached to your written testimony are DEU Exhibits 1.01 through 1.09. Were these prepared by you or under your direction?**

A. Yes.

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

A. I am the Company's policy witness and I will provide an overview of the Company's request for approval of a major resource decision and discuss why this request is in the public interest. I will also introduce the witnesses who have provided testimony that accompanies the Application. I will summarize the legal requirements set forth in the Voluntary Resource Decision statute and accompanying regulations and identify where the Company has provided the Utah Public Service Commission (Commission) with evidence supporting each requirement. Finally, I will discuss the financial impacts each potential supply reliability option would have on customers. I will also provide information demonstrating adequate financial capability to implement the Company's preferred resource decision.

**Q. Why did the Company file the Application in this matter?**

A. The Company has experienced supply shortfalls in recent years due to events outside its control. If these events had occurred on a colder day or been of longer duration, they

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26 would have threatened DEU's ability to provide safe and reliable service to all of its  
27 customers and put customers at risk of supply curtailments. This would impact their  
28 health and safety, cause property damage, and/or cause businesses to lose productivity. In  
29 recent years, other natural gas utilities experienced supply shortfalls leading to  
30 curtailments and, in some cases, utilities have experienced significant outages. To ensure  
31 supply reliability in the future, the Company has been analyzing possible options. The  
32 Company believes that the best solution is the construction of an on-system Liquefied  
33 Natural Gas (LNG) storage facility centrally located in the heart of the Company's  
34 demand center. The Company's Application requests Commission approval under the  
35 Voluntary Request for Resource Decision Review statute, (Utah Code Ann. §54-17-402)  
36 and applicable Commission rules and regulations to approve its decision to construct an  
37 on-system LNG storage facility.

38 **Q. Please introduce the witnesses for the Company in this Docket.**

39 A. Christina Faust, Director of Gas Supply and Commercial Support, discusses the supply  
40 shortfalls experienced by DEU and the potential shortfalls that could occur in the future  
41 on the DEU system. Ms. Faust summarizes the need for additional resources to ensure  
42 gas supply reliability. Ms. Faust also discusses supply disruptions our system has  
43 experienced and what other utilities have experienced in recent years. In addition, in her  
44 testimony and accompanying exhibits, Ms. Faust discusses and describes the Company's  
45 analysis of available options and summarizes the benefits and risks associated with each  
46 option. Ms. Faust explains why the on-system LNG storage facility is the best solution to  
47 address the supply reliability risk identified by the Company. Further, she provides  
48 evidence that approval of the Company's Application in this docket is just, reasonable  
49 and in the public interest. DEU Exhibits 2.0 through 2.14 contain Ms. Faust's testimony  
50 and accompanying exhibits.

51 Michael L. Platt, Manager of Engineering, has conducted analysis and modeling to  
52 determine the probability of occurrence of a cold weather supply outage and its  
53 consequences. Mr. Platt's testimony provides his analysis. He also compares the on-

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54 system options to off-system options. Mr. Platt's testimony is included in DEU Exhibits  
55 3.0 through 3.07.

56 Bruce Paskett, Senior Associate at Structural Integrity, Inc., has extensive experience with  
57 on-system LNG facilities, as well as consulting the industry on issues such as pipeline  
58 safety. In his testimony, Mr. Paskett discusses the supply-reliability risk and his  
59 assessment of the reasonableness of the Company's analysis. Mr. Paskett's testimony is  
60 included as DEU Exhibits 4.0 through 4.01.

61 Michael L. Gill, DEU Manager of Engineering, will describe the on-system LNG storage  
62 facility and describe its proposed design and construction timeline. Mr. Gill will also  
63 provide evidence relating to the anticipated cost of the proposed facilities. Mr. Gill's  
64 testimony is provided in DEU Exhibits 5.0 through 5.08.

65 **II. SUPPLY RELIABILITY EVIDENTIARY REQUIREMENTS**

66 **Q. Please describe the requirements for a voluntary resource decision application.**

67 A. The Company seeks the Commission's approval for the construction of an on-system  
68 LNG storage facility pursuant to the Voluntary Resource Decision Statute, Utah Code  
69 Ann. §54-17-402 and applicable Commission rules and regulations. In reviewing an  
70 application for a voluntary resource decision, the Commission must consider whether  
71 approval is in the public interest, taking into consideration: (i) whether it will most likely  
72 result in the acquisition, production, and delivery of utility service at the lowest  
73 reasonable cost to the retail customers; (ii) long-term and short-term impacts; (iii) risk;  
74 (iv) reliability; (v) financial impacts upon the utility; and (vi) other factors determined by  
75 the Commission to be relevant. See Utah Code Ann. § 54-17-402(3).

76 **Q. What are the filing requirements for approval of a Voluntary Resource Decision?**

77 A. Utah Admin. Code § R746-440-1 provides the filing requirements for a Voluntary  
78 Resource Decision. These requirements include: (a) a description of the resource

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79 decision; (b) information to demonstrate that the utility has complied with applicable  
80 requirements; (c) the purpose and reasons for the resource decision; (d) projected costs  
81 and engineering studies, data, information and models used in the utility's analysis; (e)  
82 descriptions and comparisons of other resources or alternatives evaluated in lieu of the  
83 proposed resource decision; (f) sufficient data and information to support the proposed  
84 resource decision; (g) an analysis of the estimated effect on utility's revenue requirement;  
85 (h) financial information demonstrating adequate financial capability to implement the  
86 resource decision; (i) major contracts proposed for execution or use in connection with  
87 the resource decision; (j) information showing that the utility has or will obtain any  
88 required authorizations from the appropriate governmental bodies; and (k) other  
89 information as the Commission may require.

90 **Q. Has the Company provided evidence relating to each of these requirements?**

91 A. Yes. I have attached as DEU Exhibit 1.02 a summary of the requirements of applicable  
92 statutes and regulations and identified where in the Application and accompanying  
93 testimony the Company has provided evidence that satisfies each requirement.

94 As DEU Exhibit 1.02 shows, the Company has addressed each of these requirements in  
95 its direct testimony and accompanying exhibits. The Application in this matter, along  
96 with my direct testimony and the direct testimony of Ms. Faust, Mr. Platt, Mr. Paskett and  
97 Mr. Gill, provide the evidence the Commission requires to determine whether the  
98 proposed on-system LNG storage facility is in the public interest. The evidence provided  
99 shows that the Company's request for approval of its resource decision is just and  
100 reasonable and in the public interest and therefore should be approved.

101 **III. REVENUE REQUIREMENT IMPACT**

102 **Q. Commission Rule R746-440-1(g) requires that the Company perform an analysis of**  
103 **the estimated effect that the resource decision will have on the utility's revenue**  
104 **requirement. Has the Company performed this analysis?**

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105 A. Yes. The revenue requirement calculation is based on a [REDACTED] capital  
106 investment. The costs are summarized in the table below:

Cost Categories	Amount
Materials and Construction	[REDACTED]
Land	[REDACTED]
Internal Labor	[REDACTED]
Allowance for Funds used during construction (AFUDC)	[REDACTED]
Inflation	[REDACTED]

107

108 **Q. How were the construction, land, and other costs estimated?**

109 A. The construction, land, and other costs were analyzed and modeled by two separate third-  
110 party engineering consultants retained by the Company. Mr. Gill explains the analysis  
111 and cost estimates in his testimony, DEU Exhibits 5.04 through 5.06.

112 **Q. How was the AFUDC calculated?**

113 A. The Company estimates [REDACTED] in AFUDC for the total project. A detailed  
114 calculation is shown in DEU Confidential 1.03 attached to my testimony. The AFUDC  
115 estimate is minimal in the first few years and increases until the majority of investment is  
116 placed into service.

117 **Q. How was inflation calculated?**

118 A. The capital expenditures for this project will occur over a five year period, beginning in  
119 2018 and ending in 2022. The capital expenditures by year were inflated using projected  
120 CPI factors from IHS global insight. This calculation is attached as DEU Confidential

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121 Exhibit 1.04.

122 **Q. What other costs are included in the revenue requirement?**

123 A. In addition to the capital costs mentioned above, the Company has included O&M costs,  
124 property taxes and depreciation. The details of these expenses can be found in the  
125 “Option 8 LNG on-system” tab of DEU Highly Confidential Exhibit 1.05. The calculation  
126 assumes a [REDACTED] facility, which Mr. Gill discusses in more detail in his  
127 testimony. The levelized thirty-year revenue requirement amounts to \$24 million per  
128 year.

129 **Q. How will the Company allocate this revenue requirement to customer classes?**

130 A. This facility would only be used to serve the needs of sales customers. Therefore, I have  
131 allocated the revenue requirement to the GS, FS, IS and NGV classes, based on the cost-  
132 of-service allocations approved in Docket No. 13-057-05.

133 **Q. What impact would this facility have on a typical customer?**

134 A. This results in an annual bill impact to a typical GS customer of \$18.75 or 2.64% per  
135 year.

136 **Q. Historically, DEU has had some of the lowest rates in the nation. What impact  
137 would this facility have on customer rates?**

138 A. DEU Exhibit 1.06 shows the non-gas rates for DEU, compared to the other natural gas  
139 LDCs in the West. As the exhibit shows, DEU has among the lowest non-gas rate in the  
140 Western states, and if this facility is approved and the investment in the LNG facility is  
141 included, it will continue to have among the lowest rates.

142 **Q. What discount rate did you use to calculate the levelized revenue requirement?**

143 A. I used a 7.64% discount rate. This rate is the overall rate for return on capital that was  
144 approved by the Commission in Docket 13-057-05.



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145 **Q. Have you calculated the revenue requirement for other potential options?**

146 A. As Ms. Faust explains in her testimony, in addition to the proposed on-system LNG  
147 storage facility, the Company reviewed other options. For ease of reference, we have  
148 combined them as follows: 1-Utilize Existing Resource options; 2-Demand Response  
149 options; 3-Magnum options; 4-Ryckman Creek option; 5-Clay Basin option; 6-Jackson  
150 Prairie option and 7-Aquifer storage options. I have summarized the estimated costs of  
151 each of these options in DEU Highly Confidential Exhibit 1.05. Each of these other  
152 options rely on the capability of third parties to supply DEU with supplies to meet our  
153 supply reliability requirements. Each option was analyzed assuming it would be  
154 expensed to customers and would be recovered through the Company's semi-annual pass  
155 through proceedings. In addition, other options would require the Company to build or  
156 acquire additional facilities that would be included in rate base and recovered in a general  
157 rate case or other proceeding. Some of the options require a combination of capital  
158 investment from the Company and procurement of third-party contracts. I summarized  
159 all options on an "apples-to-apples" basis so that the customer impacts can be easily  
160 reviewed and compared in a meaningful way.

161 **Q. Please explain DEU Highly Confidential Exhibit 1.05.**

162 A. In order to provide a fair comparison among all alternatives, I calculated the annual cost  
163 of each option, as well as the average customer's annual bill dollar and percentage  
164 increase. For options requiring capital investment by the Company, these amounts are  
165 shown in Column A. The associated levelized revenue requirement for these capital  
166 expenditures is shown in column B. In Column C the annual contracted costs are shown.  
167 Column D sums the distribution non-gas and supplier-gas costs to calculate a total  
168 annual cost for each option. Columns E and F provide the corresponding dollar and  
169 percentage increase for a typical general service customer using 80 Dths per year.

170 **Q. Why did you use a levelized revenue requirement to calculate the annual costs?**

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171 A. I used a levelized revenue requirement for all of the facilities because it allows for a better  
172 comparison with the options that have long term contracts.

173 **Q. How were the supplier non-gas costs calculated for each option?**

174 A. For the services offered by Ryckman Creek, I used the rate that DEU currently pays for  
175 service. For Kern River pipeline rates, I assumed that the negotiated rate would be equal  
176 to the 25-year period 2 shipper rate. For Dominion Energy Questar Pipeline (DEQP), I  
177 used rates proposed by DEQP. The Magnum proposals were [REDACTED]

178 [REDACTED]

179 [REDACTED]

180 [REDACTED]

181 **Q. Do the Ryckman Creek, Kern River, and Dominion Energy Pipeline costs include**  
182 **any estimates of potential rate increases over the next thirty years?**

183 A. No. It is very difficult to predict the timing of pipeline rate cases and the potential rate  
184 impacts that those rate cases would have as it relates to Kern River or Dominion Energy  
185 Pipeline. Additionally, some upstream service providers have negotiated rates that cannot  
186 be accurately predicted. For this reason, the long-term costs for these options are likely to  
187 be understated.

188 **Q. Is the LNG storage facility the best option when considering cost, safety and**  
189 **reliability?**

190 A. Yes. The statute requires the Commission to consider several factors including cost, risk  
191 and reliability. While the cost of the proposed LNG facility is more than the cost of  
192 certain alternatives analyzed, when all other factors are weighed and analyzed, the on-  
193 system LNG storage facility is the best option. While the LNG facility is more costly  
194 than certain of the alternatives considered, it is by far the best option in terms of  
195 reliability, system flexibility, and risk-minimization. As other witnesses will explain  
196 further, if the Company selected one of those lower-cost options, it would be accepting an

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197 alternative that did not adequately solve the supply reliability issues or address the other  
198 factors and concerns facing the Company and its customers. Those options are also short-  
199 term options at best and don't solve the problem in the long term.

200 As Ms. Faust will testify, over the last five years, the Company has experienced several  
201 supply shortfalls during non-peak periods that have had an impact on the Company's  
202 operations. If similar disruptions were to occur on a Design-Peak Day or for an extended  
203 period of normal cold days, the Company's ability and obligation to provide safe and  
204 reliable service would be compromised. Other natural gas utilities have experienced  
205 supply shortfalls that resulted in the significant loss of gas service to customers resulting  
206 in serious impacts to customers. Production facilities, compression equipment, meters  
207 and gauges, and other mechanical equipment will see higher failure rates as temperatures  
208 drop to cold temperatures. Furthermore, on cold weather days, when temperatures drop  
209 to below freezing along the Wasatch front in Utah, temperatures in Wyoming (where  
210 many of the gas wells and processing facilities are located that bring gas to our system)  
211 will be even lower. We know that these events occur on a fairly regular basis, and that  
212 they are more likely to happen during cold weather. Selection of a lower cost option that  
213 does not mitigate these risks would not be prudent and could result in significant costs  
214 resulting from supply shortfalls without a commensurate benefit for customers.

215 **Q. How would the on-system LNG storage facility increase supply reliability during**  
216 **these cold weather events you described?**

217 A. The on-system LNG storage facility effectively mitigates the supply-disruption risk by  
218 placing a reliable back-up supply source directly in the demand center of the Company's  
219 distribution system. This type of resource is used by many natural gas utilities in North  
220 America. The on-system LNG storage facility would be available on a moment's notice  
221 if (or when) the upstream supply is disrupted. This on demand availability makes it the  
222 most reasonable and prudent option. As Ms. Faust will explain, no other alternative can  
223 provide the same flexibility and reliability as an on-system LNG storage facility.

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**IV. FINANCIAL CAPABILITY**

225 **Q. Commission Rule R746-440-1(h) requires that the Company provide financial**  
226 **information demonstrating adequate financial capability to implement the Resource**  
227 **decision. Does the Company have this financial capability?**

228 A. Yes. While the LNG facility will be a large investment for DEU, it is comparatively  
229 small when compared to the \$2.9 billion in assets that the Company currently has on its  
230 balance sheet. For the last few years, the Company has spent over \$200 million per year  
231 in capital investment. Even with these large levels of capital investment, the rating  
232 agencies still give Dominion Energy Utah an investment grade credit rating.

233 **Q. What are the agencies' current credit ratings for DEU?**

234 A. On May 3, 2017, Fitch affirmed an A- rating for Questar Gas doing business as DEU.  
235 This credit opinion is attached as DEU Exhibit 1.07. On December 6, 2017, Standard and  
236 Poor's (S&P) issued a credit rating for Questar Gas Company. This credit opinion is  
237 attached as DEU Exhibit 1.08. In the issuance, S&P gave Dominion Energy a Corporate  
238 Credit Rating of BBB+/Stable/A-2 with stand-alone credit profile of "a" for Questar Gas.  
239 On December 22, 2017, Moody's issued a credit opinion on Questar Gas and gave the  
240 Company a rating of A2 stable. This opinion is attached as DEU Exhibit 1.09. The  
241 ratings offered by the ratings agencies reflect market confidence that the Company will be  
242 financially capable of implementing the decision proposed in this docket.

243 **Q. Has DEU recently acquired debt?**

244 A. Yes. Within the last year, DEU has issued over \$250,000,000 in debt, with due dates  
245 ranging between 2030 and 2047. This debt was issued in the private placement market to  
246 nine different investors.

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247 **Q. This project has a rather significant lead time with a material amount of costs. In**  
248 **addition to the long-term capital markets, does the Company have access to other**  
249 **means of cash for working capital needs?**

250 A. Yes. In addition to access to long-term capital markets, DEU has access to a \$250  
251 million revolving credit line and \$750 million of capacity available through short-term  
252 intercompany borrowings from Dominion Energy Inc. This is typically used for short-  
253 term working capital needs, but it could be used to help bridge the gap between  
254 construction schedules and long-term debt issuances.

255 **Q. Does the Company generate any cash through retained earnings?**

256 A. Yes. Before the merger with Dominion Resources, a large portion of retained earnings  
257 were passed to the corporate parent through dividends. For example, dividend payments  
258 in 2016, 2015, 2014 and 2013 were \$30 million, \$47 million, \$27 million and \$35.5  
259 million, respectively. In 2017, these retained earnings were kept at DEU to enable the  
260 Company to keep its merger commitment to keep its equity level between 48% and 55%.

261 **Q. Assuming the Company has the ability to access the capital markets, are there**  
262 **potential risks that could inhibit the Company's ability to manage this project from**  
263 **a financial perspective?**

264 A. The two largest risks would be regulatory uncertainty and the timing of cost recovery.  
265 Either of these risks could cause financial impairment to the Company. I will discuss  
266 each risk and the remedies in place to reduce these risks.

267 **Q. Please discuss the risk factor of regulatory uncertainty.**

268 A. Due to the size and scope of this proposed LNG facility, there could be a negative impact  
269 to the Company's credit metrics and rating if the Commission determined that the capital  
270 expenditures were imprudent after the facility was constructed. Approval of this  
271 Application under the Voluntary Resource Decision statute would help reduce this risk

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272 considerably. In fact, this is one of the reasons the Company is seeking pre-approval of  
273 the construction of the facility. This preapproval process will allow the project to be fully  
274 vetted before large expenditures are made. Commission preapproval will not only reduce  
275 the regulatory uncertainty considerably, but mechanisms like the preapproval process give  
276 the credit rating agencies additional confidence.

277 **Q. Please discuss the risk of cost recovery.**

278 A. Because this project requires a significant capital outlay, the amount of regulatory lag  
279 between the cost expenditures and their recovery could have a negative impact on cash  
280 flow and credit metrics. Currently, as Mr. Gill explains, the facility, if approved, would  
281 be in service in 2022. Because the anticipated timeline of this project is a few years into  
282 the future, it will give the Company adequate time to plan for debt issuances and equity  
283 infusions to maintain the correct debt/equity levels. The anticipated construction timeline  
284 will also coincide with the Company's planned general rate case in 2022 which will allow  
285 for cost recovery to be addressed by the Commission in a timely manner. The Company  
286 is currently on a three-year filing cycle and it will likely file a rate case in mid-2022 with  
287 rates effective the first quarter of 2023. The timing of general rate case filings will result  
288 in timely cost recovery of the proposed resource decision.

289 **Q. Are there other remedies available to the Company to reduce regulatory lag if the**  
290 **project and general rate case schedules don't align?**

291 A. Yes. Another option would be to file for cost recovery under Utah Code Ann. §54-7-13.4  
292 "alternative cost recovery for major plant addition."

293 **V. RECOMMENDATIONS**

294 **Q. Can you summarize your recommendations?**

295 A. Yes. Based on the supply reliability issues experienced on our system in Utah, and the  
296 Company's demand forecasts and when compared to the experiences of other natural gas

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297 utilities in North America, the Company continues to be at risk for supply shortfalls on  
298 cold weather days. Supply shortfalls have and will result in customers losing natural gas  
299 service. DEU's proposal to build an on-system LNG storage facility with liquefaction, as  
300 described in the Application and accompanying testimony, is the best means of ensuring  
301 DEU's firm customers will continue to receive safe and reliable service, even in the event  
302 of a supply shortfall. Therefore, based upon the testimony and evidence provided with  
303 the Application, the Company requests that the Commission approve the Company's  
304 Application in this matter and find that the proposed LNG facility is just, reasonable and  
305 in the public interest.

306 **Q. Does this conclude your testimony?**

307 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 April, 2018.

\_\_\_\_\_  
Notary Public