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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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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PREFILED REBUTTAL TESTIMONY OF NEAL TOWNSEND

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

DATED this 6th day of September 2018.

HATCH, JAMES & DODGE



/s/

Gary A. Dodge
Phillip J. Russell
Attorneys for UAE

Certificate of Service
Docket No. 18-057-03

I hereby certify that a true and correct copy of the foregoing Prefiled Rebuttal Testimony of Neal Townsend was served by email this 6th day of September 2018 on the following:

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/s/ Phillip J. Russell

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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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Rebuttal Testimony of Neal Townsend

On Behalf of

Utah Association of Energy Users

September 6, 2018

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and business address.**

3 A. My name is Neal Townsend. My business address is 215 South State Street, Suite
4 200, Salt Lake City, Utah, 84111.

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

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

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

10 A. My testimony is being sponsored by the Utah Association of Energy Users
11 (“UAE”).

12 **Q. Please describe your educational background.**

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

15 **Q. Please describe your professional experience and background.**

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

20 **Q. Have you previously filed testimony before this Commission?**

21 A. Yes. Since 1997, I have testified in 18 dockets before the Utah Public Service
22 Commission on electricity and natural gas matters.

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

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

31 **Q. What is the purpose of your rebuttal testimony?**

32 A. My rebuttal testimony responds to the direct testimony of Office of Consumers
33 Services (“OCS”) witness Jerome Mierzwa and Division of Public Utilities (“DPU” or
34 the “Division”) witness Allen R. Neale regarding the allocation of costs for Dominion
35 Energy Utah’s (“DEU” or the “Company”) proposed Liquefied Natural Gas (“LNG”) storage facility.

37 **Q. Please summarize your primary conclusions and recommendations.**

38 A. I am not recommending that the Commission approve DEU’s application for the
39 proposed LNG facility. However, to the extent that the Commission does approve
40 DEU’s request, I recommend that the Commission reject elements of OCS witness
41 Mierzwa’s and Division witness Neale’s proposals that would allocate costs of the LNG
42 facility to transportation customers. As an initial matter, I do not believe that this
43 docket—initiated by DEU’s application for approval of a voluntary resource decision
44 pursuant to Utah Code § 54-17-402 and Utah Admin. Code R746-440-1—is the
45 appropriate forum for a discussion of or any rulings on the allocation of costs of the

46 proposed LNG facility. Moreover, transportation customers are responsible for their own
47 gas supply and should not be allocated costs for a facility that is designed to mitigate
48 supply shortfalls for the Company's firm sales customers.

49

50 **II. RESPONSE TO OCS WITNESS JEROME MIERZWA**

51 **Q. Please describe Mr. Mierzwa's proposal to recover costs for the proposed LNG**
52 **facility from transportation customers.**

53 A. Mr. Mierzwa expresses concern regarding DEU's proposed cost recovery for the
54 proposed LNG facility. Mr. Mierzwa states that, according to DEU's response to OCS
55 Data Request 2.23, if DEU experiences a supply disruption on a design day that would
56 lead to customer outages, then it is highly likely that firm transportation customers will
57 also experience outages due to lack of pressure on DEU's system. Thus, if an LNG Plant
58 prevents an outage, both DEU's firm sales customers and transportation customers would
59 continue to receive service and not be curtailed. Therefore, Mr. Mierzwa believes that
60 transportation customers could benefit from an LNG facility if it is approved and should
61 contribute to the recovery of costs for the facility.¹

62 **Q. What is your assessment of Mr. Mierzwa's proposal?**

63 A. I recommend that Mr. Mierzwa's proposal to allocate a portion of the costs of the
64 proposed LNG facility to transportation customers be rejected. DEU's Response to OCS
65 Data Request 2.23, which Mr. Mierzwa relies upon, states that according to DEU's 2017-
66 2018 Design Peak Day model, if there was a supply shortfall of 150,000 Dth/day, and the
67 Company lost service to 650,000 customers, then all firm customers in the affected areas,

¹ Direct Testimony of Jerome D. Mierzwa, pp. 19-20.

68 including transportation customers, will experience outages. However, Mr. Mierzwa's
69 proposal fails to recognize that, first and foremost, the LNG proposal is driven by DEU's
70 responsibility to provide supply reliability for its firm sales customers. Transportation
71 customers are responsible for arranging delivery of their own supply of natural gas onto
72 DEU's system. Even if it were the case that transportation customers could suffer
73 ancillary harm if DEU failed to provide a reliable supply for its firm sales customers,
74 such a fact would not mean that transportation customers would be causing the need for
75 the proposed LNG facility, or other supply resources for that matter, to serve DEU's firm
76 sales customers.

77 Moreover, if Mr. Mierzwa's reasoning were carried to its logical conclusion, then
78 some of the costs incurred by transportation customers in obtaining their own natural gas
79 supply should be allocated to sales customers because the volume supplied by
80 transportation customers ensures that the system has sufficient pressure to serve sales
81 customers. If the addition of a 150,000 Dth storage facility may some day be used to
82 provide sufficient pressure on DEU's system to avoid an outage, thereby benefitting
83 transportation customers in the process, then the 463,000 Dth supplied by transportation
84 customers on a design peak day² also provides sufficient pressure to avoid an outage,
85 thereby benefitting sales customers. Mr. Mierzwa's reasoning should be rejected.
86 Customer classes should be charged for the costs incurred on their behalf, not when a cost
87 is incurred on behalf of another customer class that provides some ancillary benefit.

² Direct Testimony of Jerome D. Mierzwa, lines 461-63 (“[T]he design day demand of firm transportation customers is forecasted to be 463,000 Dth for the winter of 2022-2023 when the LNG facility is anticipated to be placed in service.”).

88 Further, the Company already has provisions in its tariff that allow DEU to levy
89 imbalance charges and substantial penalties for transportation customers who do not
90 restrict usage in order to maintain a balanced distribution system, when required for
91 system integrity.³ In addition, the Company has proposed, through the currently open
92 Docket No. 18-057-T04, a new “Hold Burn to Scheduled Quantity” restriction, which
93 would allow the Company, in times of severe supply disruptions, to put a restriction on
94 transportation customers that prohibits a transportation customer from using more gas
95 than it has scheduled to be received on the DEU system, and penalizing it for any gas
96 used above its scheduled quantity.⁴ While I am not here taking a position on the
97 appropriate requirements or penalties proposed in that docket, I believe that docket is the
98 more appropriate forum for addressing transportation customer responsibilities during
99 periods of supply disruption.

100 Given that transportation customers are responsible for the costs to make their
101 own supply arrangements, and are subject to current and proposed substantial penalties if
102 they fail to provide adequate supply, these customers should not be any allocated costs
103 for an LNG facility that is designed to provide supply to DEU’s firm sales customers.

³ DEU Utah Natural Gas Tariff, section 5.09, Daily Imbalances, p. 5-16.

⁴ Docket No. 18-057-T02, Direct Testimony of Abigail Thomas, lines 66-71.

104 **II. RESPONSE TO DPU WITNESS ALLEN NEALE**

105 **Q. Please describe the concerns raised by Mr. Neale regarding the recovery of costs for**
106 **the proposed LNG facility and service to transportation customers.**

107 A. In his direct testimony, Mr. Neale raises a concern over the potential for cross-
108 subsidization of the transportation customer class by firm residential customers. Mr.
109 Neale claims that the Company does not identify whether the potential supply shortfall
110 that the Company is planning to address with its proposed LNG facility is due to the
111 potential for transportation customers' failure to secure an adequate supply or the
112 Company's potential failure to supply gas for its firm sales customers. According to Mr.
113 Neale, if the proposed LNG facility is intended to benefit transportation customers in the
114 potential event that their supply does not show up, then DEU should either charge
115 transportation customers for a firm backup or balancing service to provide cost recovery
116 in a timely manner, or install facilities that can shut off transportation customers who
117 continue to take gas even though their supply has failed following a Company-issued
118 curtailment order.⁵

119 **Q. How do you respond to Mr. Neale's argument?**

120 A. As I described above, transportation customers are responsible to provide their
121 own supply of natural gas. It is my understanding that DEU is planning the proposed
122 LNG facility to provide supply reliability for its firm sales customers, and that DEU does
123 not assert that the LNG facility is necessary to provide any supply for transportation
124 customers. Therefore, Mr. Neale's concerns about the cross-subsidization of

⁵ Direct Testimony of Allen R. Neale, lines 1324-1339.

125 transportation customers appear to be misplaced, since the LNG facility is not being
126 planned on behalf of transportation customers.

127 With regard to Mr. Neale’s alternative “shut off” proposal, as I discussed above,
128 DEU already has provisions in its tariff that allow DEU to provide for imbalance charges
129 and substantial penalties for transportation customers who do not restrict usage in order
130 to maintain a balanced distribution system, when required for system integrity.⁶ And, as I
131 also noted in response to Mr. Mierzwa, Docket No. 18-057-T04 has been opened to
132 consider modifications to the DEU tariff regarding transportation service, and is the more
133 appropriate forum for addressing transportation customer responsibilities during periods
134 of supply disruption.

135 **Q. Does this conclude your rebuttal testimony?**

136 **A.** Yes, it does.

⁶ DEU Utah Natural Gas Tariff, section 5.09, Daily Imbalances, p. 5-16.