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

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Testimony and Exhibits
Allen R. Neale

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

SURREBUTTAL TESTIMONY

OF

ALLEN R. NEALE

September 20, 2018
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I. INTRODUCTION

Q. Mr. Neale, please identify yourself for the record.
A. My name is Allen R. Neale. I am a Consultant working in conjunction with Daymark Energy Advisors (“Daymark”). My business address is Allen R. Neale c/o Daymark Energy Advisors, 370 Main Street, Suite 325, Worcester, MA 01608.

Q. Have you previously filed testimony in this proceeding?
A. Yes, I submitted direct testimony in this proceeding on August 16, 2018 on behalf of the Utah Division of Public Utilities (“Division”) with regard to the application filed on April 30, 2018 by Dominion Energy Utah (DEU) with the Public Service Commission of Utah (the “Commission” or “PSC”) for approval of a voluntary resource decision to construct a liquefied natural gas (LNG) facility to be directly connected to its distribution system (the “Application” or the “Filing”).

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony is to rebut comments and issues raised by other parties in this proceeding related to my direct testimony in the rebuttal testimonies of Company witnesses Faust, Gill, Mendenhall and Paskett, as well as in the rebuttal testimony of the Office of Consumer Services (OCS) witness Vastag. In my response below I also reference the Direct Testimony of Magnum Energy Midstream Holdings LLC (MEM) witness Holder.

The issues I am addressing are:

1) The Company did not complete a thorough analysis because it did not issue a Request for Proposals (RFP) for the identified need;
2) The Company did not fully vet the Magnum Energy Storage (“Magnum”) option;
3) The pipeline capacity used to fill the proposed LNG Facility is a Company owned and operated feeder line, not an interstate pipeline;
4) The Company’s plans for economic dispatch to determine the sources of supply
used to fill the Proposed LNG Facility should not include fixed or stranded costs;

5) The fuel loss factor of 5% used to run compressors during the liquefaction stage is inappropriate.

6) Satellite LNG potential should not be included for consideration when reviewing this Proposed LNG Facility.

II. ISSUES FOR REBUTTAL

1) The Company did not issue a Request for Proposals (RFP) for the identified need.

Q. Company Witness Faust (Faust Rebuttal testimony lines 288-292) argues that the Company issued an RFP for a peak-hour service in 2016 and concludes that issuing another RFP would not identify options other than those considered already. Do you agree with this conclusion?

A. No, I do not. As stated in my testimony, the proposed LNG Facility has been sized for a specific maximum daily quantity (150,000 Dth/d), number of days of service (8 days) and storage tank capacity. And I recommended that the Company issue an all-source RFP for these specific characteristics (Neale Direct, Recommendation 5, lines 305-306) to demonstrate a robust RFP process has been followed that allows for an apples-to-apples comparison of bidder responses to the stated need (Neale Direct, lines 1193-1195).

Q. Witness Faust states that “the Company realized that the parties who responded to that RFP (the 2016 RFP) would be the same parties who could potentially provide supply reliability services. Rather than issue another RFP to the same parties, DEU just continued discussions with those parties for supply reliability solutions.” Do you agree with this conclusion?

A. No, I do not. First, it is not known for certain that the same parties who bid into one RFP would be bidders in a subsequent RFP. Had the Company issued a new all-source RFP, as much as two years would have elapsed between the earlier RFP and the date of this Filing. In that interim, new bidders could have been identified and some bidders could
have left or been acquired. Further, continuing discussions with prior bidders does not mean that they understand when they must make a best and final offer under competitive pressure to meet clearly identified performance requirements, including both cost and non-cost components, or the scoring system used by the Company. An all-source RFP process would assure that these important conditions are met in a documented manner.

Q. Do you still maintain that the Company’s Filing is incomplete?
A. Yes, I do. And I have recommended to the Commission that the Company be required to issue an all-source RFP pursuant to which they would make a new filing, which could be reviewed in Phase II of this proceeding or in a separately docketed new proceeding.

2) The Company did not fully vet the Magnum Energy Storage (“Magnum”) service option.

Q. Company Witness Faust (Faust Rebuttal testimony lines 306-310) argues that the Company has fully reviewed and evaluated the Magnum options. Ms. Faust further concludes that my “suggestion that there may be some other variation of the Magnum proposal that would provide a viable and competitive alternative to the proposed LNG facility is speculative and unfounded.” Do you agree with this characterization of your observation about the Company’s review of the Magnum option?
A. No, I do not. As stated in my testimony, I based my observation on the Company’s own exhibit 2.11 that summarized both cost and non-cost criteria. As I said on lines 772-774, the Company evaluated or partially evaluated several different types of alternative solutions that could fully or partially meet the 150,000 Dth/d shortfall. But this is not the same thing as giving bidders the opportunity to provide the same number of days of service at the same level of no-notice firm service.

Q. What reason do you have for being concerned that the Company has not fully evaluated Magnum options or Magnum’s ability to provide the same level of service
A. While I did not speak with Magnum representatives directly, I learned of Magnum’s open season and thought that they may have more than a passing interest in being given the opportunity to learn more about what level of services they could offer. In fact, Magnum did submit direct testimony on the same day as me, so I did not have the opportunity to reference it in my testimony. However, witness Holder confirms (lines 250-255) that “the Magnum Scaled-Down Option supports withdrawal for several additional days more than the proposed LNG plant would support … and can be designed to customize any reasonable withdrawal requirements and at a lower cost than LNG facilities.” Magnum’s testimony supports my observation that other options could be obtained from a robust RFP process and negates the Company’s characterization of “speculation” on my part.

Q. Do you agree with Witness Faust’s conclusion (Faust Rebuttal testimony lines 356-358) that the Company failing to participate in the Magnum Open Season held earlier this year is meaningless?

A. No. While I understand the Company’s concern about an open season that requests non-binding expressions of interest, such an event is often followed by one that is binding. Participating in this non-binding event would at a minimum demonstrate that the Company continues to seek alternatives to the Proposed LNG Facility without commitment or may need additional service incremental to LNG in the future. While my conclusion may seem speculative to some, I would respond by saying that the way to establish whether it is speculative or not is to issue an all-source RFP, as I have recommended above and in my direct testimony. In fact, that is the one reason why anyone issues an RFP, to test one’s assumptions about the marketplace.

3) The pipeline capacity to be used to fill the proposed LNG Facility is a Company feeder line, not an interstate pipeline.

Q. Company Witness Gill (Gill Rebuttal testimony lines 18-25) disagrees with your statement that the proposed LNG Facility will receive gas supply via an
interconnection with an interstate pipeline. How do you respond?

A. I acknowledge that the Company indicated that it will construct, own and operate a large
diameter “feeder” line to deliver gas supply from one of the Company’s major
distribution lines to the Proposed LNG Facility. But my understanding is that this feeder
line will receive gas supply delivered via capacity contracts the Company holds with
interstate pipelines. I note that while Company Witness Gill disagreed with my
statement, Company Witness Faust nevertheless agreed with me (Faust Rebuttal, lines
398-399).

4) The Company’s plans for economic dispatch to fill the Proposed LNG
Facility are not consistent with least cost economic dispatch requirements.

Q. Company Witnesses Mendenhall (Mendenhall Rebuttal testimony lines 113-119)
and Faust (Faust Rebuttal testimony lines 400-408) both disagree with your
conclusion that the Company should ignore fixed costs of supply when determining
which resources should be used to fill the Proposed LNG Facility. How do you
respond?

A. My understanding is that least-cost economic dispatch should exclude fixed costs related
to demand or reservation charges for gas supply and pipeline transportation capacity
contracts and any stranded costs, because these costs will be recovered – subject to
Commission review and approval – from customers even if they consume no gas supply.
Therefore, only the commodity – or variable component – of gas supply costs should be
considered when determining the order of dispatch for delivery to customers whether
directly to the distribution system or for ultimate withdrawal from either underground
storage or an LNG facility.

Q. Do you have reason to believe that the Company includes fixed costs of supply when
determining which resources will be used to fill the Proposed LNG Facility?

A. Yes, I do. As mentioned in my direct testimony, the Company’s response to DPU 1.03
confirmed that by relying on Wexpro gas supply inventory costs will be $225 million
dollars more than if it were based on current spot prices. And Witness Faust (Faust
Rebuttal, lines 400-408) confirms that the Company has adjusted its Sendout model to
take into consideration “shut-in costs associated with Company-owned supplies”.

5) The fuel loss factor of 5% assumption for compressors used during the
liquefaction stage is overstated.

Q. Company Witnesses Gill (Rebuttal testimony lines 27-53) argues that the
assumption of 5% for fuel use by compressions during the liquefaction stage of the
Proposed LNG Facility is incorrect and not appropriate as a base operating
condition for the Proposed LNG Facility. Do you agree?

A. No, I do not agree. First, when I referred to a 5% fuel loss assumption in my direct
testimony, I made it clear that I was using this assumption to address a hypothetical
situation by using it in an “example.” (Neale Direct, lines 576-580.) Second, I further
clarified my assumption by stating that I was awaiting confirmation from the Company
through discovery what the fuel use percentage was for the Proposed LNG Facility,
because it was not clear from the Filing. I filed my direct testimony on August 16,
2018. But we were not able to confirm this until the following day, August 17, 2018,
when we received the Company’s response to DPU 8.03 that electric compression would
be used during the liquefaction stage rather than fuel and that this cost was already
included in the financial analysis. We received a further clarification to this response in
DPU 8.03U on September 13th, almost a month after direct testimony was filed, that fuel
gas used during the entire process would be 2.5%.

Q. Do you agree with the Company’s estimate of 2.5% for fuel gas used during the
entire process as appropriate for the Proposed LNG Facility?

A. At this time, I am not able to say that it is the correct percentage. Rather I simply note
that because it is lower than my example it supports my expectation that fuel use is de
minimis for this process. However, I expect that the amount that the Company will be
allowed to recover associated with the fuel use percentage for this Proposed LNG Facility
will be reviewed along with other O&M costs in a future proceeding.

Q. Do you have any other comments with regard to the Company’s characterization on your fuel use example?
A. Yes, I note that my conclusion was the fuel use to run compressors during the liquefaction stage would be de minimis; a conclusion with which Witness Gill concurred (Gill Rebuttal testimony, lines 52-53.).

6) Satellite LNG potential should not be included for consideration.

Q. Company Witness Gill (Gill Rebuttal testimony lines 54-63) objects to your recommendation that the Commission ignore the potential ancillary benefit of using the Proposed LNG Facility at some point in the future to support satellite LNG facilities yet to be constructed. Do you agree?
A. No, I do not agree. The basis for my recommendation remains unchanged because the potential benefit is not known and measurable at this time. In fact, Witness Gill agreed with me when he stated that “(w)hile it is true that all of the specifics regarding service to remote communities are not known at this time, this does not diminish the fact that the proposed LNG facility will be capable of providing service to remote communities in the future.”

Q. How do you conclude that the Company agreed with you?
A. I find agreement in two comments made by Witness Gill. First, he acknowledged that not all of the specifics are known at this time, which is consistent with my conclusion that not all costs for these satellite LNG facilities are known and measurable and therefore should not be considered in this proceeding. Second, he references the “specifics” not just the costs, which to me means that the Company cannot say for certain at this time whether serving these remote communities will represent a net addition to demand in the future.
III. OTHER CONCERNS

Q. Do you have any other concerns with the rebuttal testimony filed in this proceeding?
A. Yes, I do. I am concerned that the OCS Witness Vastag has misunderstood my recommendation to the Commission to require the Company to make a revised filing based on a technology-neutral RFP that allows for an apples-to-apples comparison all bidders’ ability to meet the resource need based on the same level of service required.

Q. Why do you feel that the OCS has misunderstood your recommendation?
A. I note that Witness Vastag (Vastag Rebuttal, lines 63-67) states that my recommendation is unclear because my recommendation states that DEU has not demonstrated that the Proposed LNG Facility is likely to have the lowest reasonable cost, while elsewhere he quotes me as stating that “[t]he Proposed LNG Facility will adequately address the stated need to provide a reliable and low-cost service to firm customers.” However, this quote is taken out of context. To correct the record in this instance, please note that the last sentence Witness Vastag quotes above is in fact my second conclusion appearing on page 9 of my direct testimony, which reads in full as

“2. The Proposed LNG Facility will adequately address the stated need to provide a reliable and low-cost service to firm customers, but this is not sufficient to adequately demonstrate it is most likely to be the lowest reasonable cost option;”

Q. How does showing the full text of the statement referenced by Witness Vastag’s clarify the point you made with your recommendation?
A. By inadvertently leaving off the end of my conclusion, Witness Vastag was unable to observe that I recognized that while the Proposed LNG Facility could provide a low-cost solution to meet this particular need, the information provided is not sufficient to demonstrate that it would be the lowest cost option. To do so, the Company would need to issue an all-source RFP and after evaluating the results and making a selection, make a new filing in either a second phase of this proceeding or in a new docket, as discussed above.
IV. SUMMARY

Q. Please summarize your position based on your responses to rebuttal testimonies discussed above?
A. I have addressed all of the concerns raised with my direct testimony in the rebuttal testimonies reviewed above. And no information provided by the Company in rebuttal has changed my conclusions or recommendations to the Commission that the Filing is not complete and, hence, is not in the public interest as filed. Therefore, I continue to recommend that the Commission require the Company to issue a technology-neutral RFP for responses to meet the resource need that provide the same days of service and level of service and make a new filing either in this case or in a new docket.

Q. Does this conclude your testimony?
A. Yes.