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

SURREBUTTAL TESTIMONY

OF

JEROME D. MIERZWA

FOR THE OFFICE OF CONSUMER SERVICES

September 20, 2018
DIRECT TESTIMONY OF JEROME D. MIERZWA

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
A. My name is Jerome D. Mierzwa. I am a Principal and Vice President with Exeter Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?
A. Yes, my direct testimony was submitted on August 16, 2018.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Dominion Energy Utah (“DEU”) witnesses Kelly B. Mendenhall, Tina M. Faust, Michael L. Platt, and Bruce L. Paskett.

Q. IN YOUR DIRECT TESTIMONY YOU RECOMMENDED THAT TRANSPORTATION CUSTOMERS SHOULD BE REQUIRED TO PAY FOR A SHARE OF THE PROPOSED LNG FACILITY. MR. MENDENHALL DISAGREES WITH YOUR RECOMMENDATION. WHY DOES MR. MENDENHALL DISAGREE WITH YOUR RECOMMENDATION AND WHAT IS YOUR RESPONSE?
A. Mr. Mendenhall claims that transportation customers would be assessed penalties if they used gas supplies intended for sales customers such as supplies from the LNG facility (Mendenhall Rebuttal, Lines 203-208). These penalties would compensate sales customers for the use of the LNG facility by transportation customers. Recently in Docket No. 18-057-T04, DEU has proposed tariff modifications to clarify its
curtailment procedures and penalties for transportation customers that use gas in excess of quantities delivered to DEU on their behalf and use supplies intended for sales customers. These proposed tariff modifications would alleviate my initial concern that transportation customers would benefit from the proposed LNG facility but would not pay for this benefit. If the tariff modifications in Docket No. 18-057-T04 are not approved, my concerns remain valid.

Q. MS. FAUST ADDRESSES STATEMENTS IN YOUR DIRECT TESTIMONY THAT CURRENTLY “100 PERCENT OF THE GAS SUPPLIES RELIED UPON BY DEU SALES CUSTOMERS ARE SOURCED FROM LOCATIONS THAT ARE SIGNIFICANT DISTANCES FROM THE DEU SYSTEM AND DELIVERED BY UTILIZING FACILITIES OWNED AND OPERATED BY THIRD PARTIES,” AND THAT “THIS RELIANCE ON THIRD PARTIES HAS NOT HAD A NEGATIVE IMPACT ON SERVICE RELIABILITY.” WHAT IS MS. FAUST’S RESPONSE TO THESE STATEMENTS?

A. In summary, Ms. Faust testifies that my comments highlight the Company’s lack of supply diversity. She claims the fact that 100 percent of the gas supplies come from off-system sources is precisely her point, and it is evidence that an on-system source is critical for supply diversity. Given past events, Ms. Faust claims that it has become increasingly clear that total reliance on off-system supply source places the Company and its customers at a greater risk of supply disruptions (Faust Rebuttal, Lines 185-190).

Q. WHAT IS YOUR RESPONSE TO MS. FAUST?

A. As explained in detail in my direct testimony, significant diversity already exists in DEU’s current off-system supply sources. In addition, as also explained in my direct
testimony, the proposed LNG facility would provide for approximately 10 percent of
the design day requirements of firm sales customers to be met from on-system sources
as opposed to 100 percent from off-system sources. The proposed LNG facility would
provide approximately 1,250,000 Dth of gas supply diversity on an annual basis. Based
on the sales data included in the Attachment to OCS 1.03 in Docket No. 17-057-20,
this reflects approximately 1 percent of total annual firm sales and 2 percent of total
winter firm sales. Therefore, the overall additional diversity provided by the proposed
LNG facility is not significant. Finally, it is my experience that it is not uncommon for
an LDC to rely 100 percent on off-system sources to meet its gas supply requirements.
The ability of LDCs to rely 100 percent on off-system sources has been enhanced as a
result of FERC’s mandated unbundling, as set forth in Order No. 636, which provides
LDCs and gas transport customers the ability to access diverse gas supplies connected
to upstream pipelines at various gas supply basins and benefit from well-head
competition in the price of gas supplies.

Q. MS. FAUST CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
INDICATED THAT MOST GAS UTILITIES USE LNG FOR CAPACITY
AS WELL AS SUPPLY RELIABILITY, AND THAT THE DEU
INITIATED AMERICAN GAS ASSOCIATION (“AGA”) SURVEY
CONFIRMED THAT THE MAJORITY OF RESPONSIVE LDCS UTILIZE
LNG FOR SUPPLY RELIABILITY (FAUST REBUTTAL, LINES 274-282).
MR. PASKETT MAKES SIMILAR CLAIMS (PASKET REBUTTAL,
LINES 65-80). WHAT IS YOUR RESPONSE?

A. First, I would note that Ms. Faust asked herself whether she agreed that most LDCs use
LNG for capacity as well as gas supply reliability, but she does not indicate whether
she agreed or disagreed. More importantly, however, as I explained in my direct
testimony, maintaining system supply reliability refers to maintaining adequate capacity and gas supply resource portfolios. Nearly 80 percent of the LDCs responding to the AGA survey cited upstream transportation capacity contracts as a service used to maintain system reliability and, therefore, the responding LDCs concur that maintaining system supply reliability refers to maintaining adequate capacity and gas supply resources.

In this proceeding, DEU is proposing an LNG facility to serve as a back-up gas supply resource, not a combined capacity and gas supply resource. Ms. Faust cites Southwest Gas as a recent example of a utility that is expressly building an LNG facility as a back-up gas supply resource. However, no evidence has been presented that constructing an LNG facility to serve as a back-up gas supply resource is a common LDC practice and, in fact, the Southwest Gas example is the only example provided in this proceeding of an LDC constructing an LNG facility solely for this purpose. This implies that every other LDC in the country is able to maintain supply reliability without building an LNG facility to serve as a back-up gas supply resource.

Q. ARE YOU SUGGESTING THAT AN LDC WITH AN ON-SYSTEM LNG FACILITY WOULD NOT USE THAT FACILITY IF IT EXPERIENCED A SUPPLY SHORT-FALL?

A. No, not at all. As just explained, on-system LNG facilities serve as both capacity and gas supply resources. If an LDC experienced a supply short-fall on a particular day, it would evaluate all of its options for addressing the short-fall, including its on-system LNG facility. It may well be that of all the available options, on-system LNG was the least-expensive option for addressing the short-fall and, therefore, the option selected to be utilized. However, in nearly every instance that I am aware, addressing a supply short-fall is not the primary purpose an LDC would construct an LNG facility.
Q. IN YOUR DIRECT TESTIMONY YOU STATED THAT SEVERAL OF THE ALTERNATIVES TO AN LNG FACILITY EXAMINED BY DEU REQUIRED THE ACQUISITION AND USE OF INCREMENTAL UPSTREAM TRANSPORTATION CAPACITY AND THAT DEU DID NOT FULLY EVALUATE THE USE OF EXISTING CAPACITY IN ITS ANALYSIS OF ALTERNATIVES. PLEASE EXPLAIN YOUR CONCERN IN ADDITIONAL DETAIL.

A. In my direct testimony I explained that if a disruption at a supply source were to occur on a design day, the firm transportation capacity initially being used to deliver the disrupted supplies would be available to deliver alternative supplies and the acquisition of additional firm transportation capacity or the construction of new facilities may not be necessary.

Q. WHAT WAS MS. FAUST’S RESPONSE TO YOUR CLAIM THAT DEU DID NOT FULLY EVALUATE THE USE OF EXISTING FIRM INTERSTATE PIPELINE TRANSPORTATION CAPACITY AND THAT THERE ARE OPTIONS TO ADDRESS SUPPLY DISRUPTIONS THAT USE DEU’S EXISTING FIRM CAPACITY?

A. Ms. Faust claims that upstream pipeline capacity is only firm if the Company utilizes its primary receipt and delivery points (primary path of flow), and service from an alternative receipt point to an alternative delivery point may not be provided on a firm basis (Faust Rebuttal, Lines 359-369). If this were the case, I still have two concerns. First, I do not believe DEU has fully evaluated the potential to contract for back-up supplies at its primary receipt points rather than pursing the construction of a new LNG facility. Second, I would note that on a number of pipelines, receipts and deliveries at alternative points can be considered firm, particularly when the flow of gas only utilizes
portions of the same primary path of flow. Such deliveries are considered secondary in-path flows and can be provided on a firm basis. I also believe that DEU has not sufficiently evaluated the use of secondary in-path flows in its analysis of alternatives to the LNG facility.

Q. MS. FAUST ALSO CLAIMS THAT IF A SUPPLY DISRUPTION OCCURS AFTER GAS HAS BEEN NOMINATED (THE DAY BEFORE FLOW) NEW SUPPLIES WILL BE SUBJECT TO THE CONSTRAINTS OF THE PIPELINE NOMINATION CYCLES AND, THEREFORE, NOT AVAILABLE WHEN NEEDED (FAUST REBUTTAL, LINES 370-379).

WHAT IS YOUR RESPONSE?

A. As indicated in my direct testimony, in the response to OCS Data Request 2.03, DEU indicated that in the past, there have been times when the upstream delivering pipeline has allowed nomination changes to flow earlier than what was provided under current pipeline nomination cycles.

Q. MR. PLATT CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU STATE THAT THE PROBABILITY OF OCCURRENCE OF THE COMPANY’S DESIGN PEAK DAY IS ONE-IN-55 YEARS. MR. PLATT DISAGREES WITH THIS CLAIM AND CONTENTS THAT THE PROBABILITY OF OCCURRENCE OF THE COMPANY’S DESIGN DAY IS ACTUALLY ONE-IN-20 YEARS (PLATT REBUTTAL, LINES 61-68).

WHAT IS YOUR RESPONSE?

A. The section of my direct testimony cited by Mr. Platt discusses the costs associated with the proposed LNG facility. I present cost estimates assuming a one-in-55-year probability of occurrence based on most recent actual observed experience, and an
estimate based on a one-in-30-year probability of occurrence. Based on a probability
distribution analysis, Mr. Platt claims that the probability of occurrence of DEU’s
design day is one-in-20 years. If Mr. Platt were correct and the probability of
occurrence were one-in-20-years, if a supply disruption were to actually occur on a
design day, and the proposed LNG facility was able to alleviate the impact of the
disruption, the total cost to sales customers associated with maintaining service on this
one day would be $450 million, or an average of $375 per customer.

I would further note that there is no standard approach to determining the
probability of design day of occurrence used by LDCs. While some LDCs use the
probability distribution analysis approach suggested by Mr. Platt, other LDCs
determine the probability based on the actual number of observations over a specific
period of time.

Q. MR. PLATT CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
INDICATE THAT NNT SERVICE COULD BE USED ON AN
INTERRUPTIBLE BASIS TO ENSURE RELIABILITY (PLATT
REBUTTAL, LINES 86-94). IS THIS ACCURATE?
A. No, and in fact in response to OCS Data Request No. 1.08, I indicate that an LDC
should not rely on an interruptible service to meet design day demands. The section of
my direct testimony referenced by Mr. Platt discusses both the firm and interruptible
aspects of NNT service. My direct testimony does not recommend that DEU rely on
the interruptible aspect of NNT service to meet design day demands.

Q. MR. PLATT CLAIMS THAT IN YOUR DIRECT TESTIMONY YOU
STATE THAT ONLY 45 PERCENT OF COMPANIES RESPONDED TO
THE AGA SURVEY THAT WAS PROVIDED AS EXHIBIT 2.04. HE
CLAIMS THAT THIS IS EITHER A MISUNDERSTANDING OR
MISSTATEMENT (PLATT REBUTTAL, LINES 183-194). IS MR. PLATT CORRECT?

A. No. In my direct testimony, I indicated that 45 percent of the LDCs responding to the AGA survey operate an on-system LNG facility, and that this 45 percent only referred to the LDCs responding to the survey which is a subset of all LDCs. Therefore, Mr. Platt has misinterpreted my testimony. There is no disagreement that 45 percent of the LDCs responding to the survey have on-system LNG.

Q. IN YOUR DIRECT TESTIMONY YOU NOTED THE SIGNIFICANT SUPPLY DISRUPTIONS THAT OCCURRED DURING THE BOMB CYCLONE OF 2018 AND THAT NO CUSTOMERS OUTAGES WERE REPORTED AND NO PLANS TO BUILD LNG FACILITIES RESULTED. WHAT WAS MR. PLATT’S RESPONSE TO YOUR TESTIMONY ON THIS ISSUE?

A. Mr. Platt claims that there were no gas supply issues as a result of the Bomb Cyclone because many companies already have on-system LNG facilities. He also claims that although temperatures were cold during the Bomb Cyclone, temperatures did not reach design day temperatures in major demand centers (Platt Rebuttal, Lines 195-213).

Q. WHAT IS YOUR RESPONSE TO MR. PLATT?

A. In the past, DEU has experienced gas supply disruption when temperatures were less extreme than the design day temperature it utilizes for capacity and gas supply planning purposes. DEU is requesting approval of an LNG facility in this proceeding to address gas supply disruption that might occur on a design day. LDCs generally maintain a balance between their capacity and gas supply resources and their projected design day demands. Thus, if an LDC with an LNG facility were to experience a supply disruption on a design day, their LNG facility would not be sufficient to address the supply
disruption. It is also likely that many of the LDCs that may have experienced supply
disruptions did not operate on-system LNG facilities. I believe it is reasonable to
expect that the LDCs that experienced supply disruptions during the Bomb Cyclone of
2018 also recognized, as does Mr. Platt, that the supply disruptions occurred at
temperatures less extreme than design day temperatures. Despite the similar
experiences of DEU and the LDCs that experience supply disruptions during the Bomb
Cyclone, there is no evidence that the other LDCs are actively pursuing the construction
of new or additional LNG facilities to address the potential for supply disruptions on a
design day. The logical conclusion from these observations is that the other LDCs have
found or have in place procedures to address design day supply disruptions without the
addition of incremental LNG facilities.

Q. MR. PLATT CLAIMS THAT IN A DATA REQUEST RESPONSE (OCS
DATA REQUEST 1.01 REQUESTED BY DEU) YOU INDICATED THAT
SEVERAL LDCS SECURE RESOURCES THAT EXCEED THEIR
PROJECTED DESIGN DAY REQUIREMENTS, AND CONCLUDES
THAT THIS IS EVIDENCE THAT LDCS AND COMMISSIONS ACROSS
THE UNITED STATES FIND IT PRUDENT TO BUILD A MARGIN OF
SAFETY INTO THEIR SUPPLY PORTFOLIO FOR RELIABILITY
(PLATT REBUTTAL, LINES 214-221). WHAT IS YOUR RESPONSE?

A. First, I would note that the design day forecasting models utilized by the other LDCs
referenced in my data request response do not utilize all of the independent variables
included in the Company’s design day model. The independent variables included in
the Company’s design day forecast model include:

• Heating degree days;
• Maximum windspeed;
• Average windspeed;
• Day of the week;
• Winter holiday indication; and
• Prior day demand.

Because all of these independent variables are not included in the forecasting models of the LDCs identified in the data response, it is more likely that if design day conditions were experienced, actual observed design day demands for these LDCs would exceed forecasted design day demands than would DEU’s actual observed demands exceed forecasted design day demand.

In addition, the data request response referenced by Mr. Platt refers to maintaining capacity resources in excess of design day demands or a capacity reserve. In this proceeding, DEU is claiming it is necessary to maintain back-up gas supply resources in excess of design day demands in the event a supply shortfall is experienced, not additional capacity. DEU’s proposal to maintain reserve supply resources will cost sales customers hundreds of millions of dollars. In contrast, for those LDCs identified in the data request response, the costs associated with maintaining gas supply resources to fill their capacity reserve would typically be de minimis, if there are any costs at all. This is because the costs associated with reserving gas supplies for delivery to an upstream pipeline receipt point is typically de minimis, or non-existent.

Q. MR. PLATT CLAIMS THAT THE MAJORITY OF LDCS FOR WHICH INFORMATION IS AVAILABLE IN THIS PROCEEDING HAVE SOME FORM OF ON-SYSTEM STORAGE AND BENEFIT FROM HAVING ON-SYSTEM STORAGE (PLATT REBUTTAL, LINES 222-236). WHAT IS YOUR RESPONSE?
As explained in my direct testimony and earlier in my surrebuttal, those LDCs that currently have on-system storage utilize that storage as both a capacity and gas supply resource. In this proceeding, DEU is proposing an on-system storage facility that would serve as a back-up gas supply resource. There has been no evidence presented of a single LDC in the country currently utilizing on-system storage solely as a back-up gas supply as DEU proposes.

Q. IN YOUR DIRECT TESTIMONY YOU CLAIMED THAT THE RESULTS OF THE AGA SURVEY WHICH INDICATED THAT 45 PERCENT OF LDCS OPERATED ON-SYSTEM LNG FACILITIES WAS NOT A RELEVANT FACTOR IN THIS PROCEEDING. MR. PASKETT CLAIMS THAT THE 45 PERCENT FIGURE IS RELEVANT (PASKETT REBUTTAL, LINES 38-57). WHY DOES MR. PASKETT DISAGREE WITH YOUR CLAIM?

A. It appears that Mr. Paskett believes I found the 45 percent statistic irrelevant largely because the AGA survey included only a small number of LDCs.

Q. IS THE SMALL SAMPLE SIZE THE PRIMARY REASON YOU FOUND THE 45 PERCENT FIGURE IRRELEVANT?

A. No. As explained in my direct testimony, I have reviewed the capacity and gas supply resource portfolios of approximately 40 LDCs. None of those LDCs with on-system LNG facilities use those facilities solely as a back-up gas supply resource. Therefore, it is likely that none of the 45 percent of LDCs with LNG facilities included in the AGA survey utilize their LNG facility solely as a back-up gas supply resource to address design day supply shortfalls as DEU is proposing in this proceeding. DEU has not identified any LDCs that currently utilize their on-system LNG facility solely as a back-up gas supply resource. I found the 45 percent statistic not to be a relevant statistic for
this proceeding primarily because based on the evidence presented in this proceeding, none of the LDCs identified in the AGA survey with LNG facilities use that facility solely as a back-up gas supply resource as DEU proposes in this proceeding. The evidence presented in this proceeding indicates that the 45 percent of LDCs identified in the AGA survey use LNG facilities as both a gas supply and capacity resource. To be relevant to this proceeding, DEU should have initiated an AGA survey with questions designed to determine whether LDCs with on-system LNG facilities use those facilities as both capacity and gas supply resources or solely as back-up gas supply resources, and also to assess how these LDCs would manage a supply disruption that occurred on a design day.

Q. MR. PLATT ON LINES 106 - 111 ADMITS THAT PAST OUTAGES AT COALVILLE, MONTICELLO, GLENDALE, SARATOGA AND OGDEN VALLEY WOULD NOT HAVE BEEN PREVENTED BY THE COMPANY’S PROPOSED LNG FACILITY. HAS DEU PROVIDED ANY ANALYSIS AS TO WHETHER SIMILAR OUTAGES ALONG THE WASATCH FRONT MIGHT NOT REQUIRE THE PROPOSED LNG FACILITY TO BE SUCCESSFULLY AVOIDED OR RESOLVED?

A. Yes. In response to DPU 4.18 (attached as Mierzwa Exhibit 2.1S), the Company provided its 2017 – 2018 Contingency Planning Analysis dated February 6, 2018. This analysis modeled the impact on DEU’s High Pressure System of the loss of a major city gate station. The conclusion of this report stated: “Contingency analysis indicates that in most cases if a gate station outage occurs, gas supply can be reallocated to nearby stations to maintain system pressures.”

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.