BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH FOR APPROVAL OF MODIFICATIONS TO TARIFF SECTION 7.07	Docket No. 18-057-~~22~~ T05 by mail

DIRECT TESTIMONY OF JORDAN K. STEPHENSON

FOR DOMINION ENERGY UTAH

DEU Exhibit 1.0

November 1, 2018

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jordan K. Stephenson. 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, Inc. as a Regulatory Affairs Analyst. I am responsible for preparing various regulatory filings including the results of operations, infrastructure rate adjustment (tracker) cost reports and rate adjustments, and other regulatory reports and correspondence. I am testifying on behalf of Questar Gas Company dba Dominion Energy Utah (Dominion Energy or Company).

Q. What are your qualifications to testify in this proceeding?

A. I have listed my qualifications in DEU Exhibit 1.1.

Q. Attached to your written testimony are DEU Exhibits 1.1 through 1.4. Were these prepared by you or under your direction?

A. Yes.

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

A. The purpose of my testimony is to: 1) describe the changes the Company proposes to make to its Utah Natural Gas Tariff No. 500 (Tariff), 2) illustrate the potential benefits the proposed changes would provide to current customers receiving service under the Natural Gas Vehicle (NGV) rate schedule, and 3) describe the metering and accounting mechanisms that would allow the Company to offer NGV capacity under proposed changes.

II. TARIFF SECTION 7.07 PROPOSAL

Q. Please describe the Company's proposed changes to Section 7.07.

A. Dominion Energy has attached as DEU Exhibit 1.2 legislative and clean versions of the proposed Tariff modifications. The proposed modification would allow Dominion Energy to offer capacity at its NGV stations to Bio-methane (referred to in my testimony as Renewable Natural Gas or RNG) suppliers. In order to receive transportation service from a receipt point into the Company's system, to a designated NGV station, an RNG supplier would need to enter into a special contract with the Company, and the contract would be subject to approval by the Utah Public Service Commission (Commission). In most cases, the Company anticipates charging the RNG transportation customers the Distribution Non-Gas portion of the NGV rate, as well as interruption, imbalance, and administration charges related to transportation services. The Company can also foresee circumstances where an RNG transportation customer may seek Commission approval to offer a lower rate, if extraordinarily high volumes or other factors would support such a rate as being in the public interest.

It is important to note that the Company does not propose to change any rates or other provisions governing current service under the NGV rate class.

Q. Why is the Company proposing this change at this time?

A. The Company has observed several trends in the natural gas refueling market that have led to this proposal. These include: 1) the compressed natural gas (CNG) refueling market shifting more heavily towards fleet operations, 2) fleet operators increasingly pursuing ways to reduce their own NOx and carbon footprints, 3) the introduction of near-zero NOx CNG engines for larger fleet vehicles (class 4 to class 8), 4) RNG being recognized as an alternative fuel under the federal Renewable Fuel Standard, and 5) an increase in the supply of RNG driven by technological advancements and customer demand.

All of these developments have led to a market of CNG fleets that are seeking a supply of RNG as a transportation fuel. This proposal would allow the Company to better serve this segment of customers in a way that aligns to their specific needs. Additionally, the Company has recently received a specific request from an RNG supplier with fleet customers who wish to use the Dominion Energy Utah network of NGV stations.

Q. Please provide more detail on how RNG plays a role in serving this market.

A. RNG used as CNG has emerged as a valuable product to fleet operators seeking to contribute to cleaner air and a reduced carbon footprint. One major component of air quality is NOx emissions. Particulate matter from NOx emissions contributes to lower air quality. CNG engines offer the lowest NOx emissions available today. In some cases, the lifecycle NOx emissions resulting from capturing methane to create RNG for use in a near-zero NOx engine can result in a net-negative NOx impact overall.

A similar opportunity exists from a carbon perspective. Carbon Dioxide is a greenhouse gas that many fleet operators are seeking to limit. Capturing raw methane to create RNG for use in a CNG engine can result in a net-negative carbon impact overall. At this time, this is the only fuel the Company is aware of that provides these "net-negative" carbon and NOx benefits in real applications.

For example, the California Air Resource Board administers a Low-Carbon Fuel Standard (LCFS) in California that measures the lifecycle carbon intensity of various fuel sources. Attached as DEU Exhibit 1.3 is a comprehensive list of all fuel sources participating in this program. These fuel sources include diesel, biodiesel, ethanol, hydrogen, grid electricity, renewable electricity, CNG, and RNG. Interestingly, five of the fuels provide a negative carbon intensity score, meaning that more carbon is removed from the atmosphere than is produced throughout the full lifecycle from production to combustion. All five fuels come from renewable natural gas (three use RNG as CNG and two use RNG to create hydrogen through methane reformation).

In addition, because RNG is recognized as an alternative fuel under the federal Renewable Fuel Standard (RFS), producers and fleets qualify for Renewable

Identification Number (RIN) credits when using RNG as a transportation fuel. These RIN credits are purchased by obligated parties under the RFS at very attractive prices, providing a strong incentive to use RNG as a transportation fuel.

Q. Please describe the RFS program in more detail.

A. Under the Renewable Fuel Standard, obligated parties are required to include a certain amount of alternative fuels in their portfolio. These obligated parties are local refiners or importers of transportation fuel. Obligated parties can fulfill their alternative fuel obligation by producing or purchasing the alternative fuel, or by purchasing RIN credits to offset this obligation.

A RIN credit is generated by an alternative fuel producer when that alternative fuel is used in the transportation fuel market. This could be in a passenger vehicle, a large semi-truck, or any other over-the-road application. It could also be from large industrial vehicles such as mining trucks or refuse trucks. The value of a RIN from RNG depends on the RNG feedstock, but in many cases the RIN price can dwarf the price of a gallon equivalent of natural gas.

Q. How can RNG provide a net-negative NOx lifecycle?

A. RNG comes from various waste sources that emit methane. In some cases, operators of these waste facilities flare the methane on site rather than allow methane emissions to escape into the atmosphere. When methane is flared it converts into CO2, a far less potent greenhouse gas than raw methane. However, flaring can also cause NOx emissions. By capturing this methane and placing it into a commercial pipeline as RNG, flaring is no longer required and the associated NOx is eliminated. If that RNG is then used in a near-zero NOx engine, much less NOx is produced than would have been produced while flaring. This process can result in a net-negative NOx impact that is attractive to fleets seeking minimal NOx emissions.

Q. How can RNG provide a net-negative carbon lifecycle?

A. If emitted into the atmosphere, methane has approximately 25 times more global warming potential than CO2. If that methane is processed and converted into RNG, it can be injected into a commercial pipeline and used for energy. The byproducts produced when burning that methane for energy are essentially CO2 and water. Thus, there can be a net-negative carbon impact by capturing methane from biogas source and converting that into useable RNG for vehicle fuel.

Q. Does the Company know of any examples of RNG production in Utah?

A. Yes. The Wasatch Resource Recovery project at the South Davis Sewer District's South plant is expected to begin generating pipeline-quality RNG in 2019. This RNG will come from food waste and other waste streams that otherwise would be sent to a landfill and ultimately result in stray methane emissions. The Wasatch Resource Recover project will have the capacity to provide between four to five times the amount of RNG it would take to supply Dominion Energy's NGV stations at their current load. In addition, WRH Associates is developing a project to produce RNG from the Bayview Landfill in Elberta, Utah that could produce a similar amount of RNG.

Q. Will these projects provide RNG to the Company's system that can be transported to Dominion Energy's existing NGV stations?

A. With the proposed tariff modifications, they could. The Company's proposal would allow interested fleet CNG customers to use these local RNG sources within the Dominion Energy network of stations.

Q. How will the Company assure that RNG suppliers are procuring natural gas for use at the Company's NGV stations from a valid RNG project?

A. The proposed tariff modifications require that an RNG supplier demonstrate a valid pathway from the RNG production facility to the NGV stations. This type of validation is very common in the RNG industry as it is required under the Federal Renewable Fuel Standard.

It should be noted that the tariff modification allows for an 18 month window of time for projects under construction to be completed while using the Company's NGV stations. The Company has observed that it is common for RNG producers to begin securing offtake agreements while constructing an RNG production facility. This 18 month window will allow producers to begin extending fueling contracts to their customers in preparation for their RNG site to be placed into service.

Q. Are there other benefits to permitting transport of RNG to the Company's NGV stations?

A. Yes. Because of the economic incentives provided to biomethane producers there is a growing demand for RNG, especially in the transportation sector. There is a large demand for renewable natural gas in California and other surrounding states. The implementation of the proposed Tariff language will provide a way for the renewable natural gas produced in Utah, and the accompanying economic and environmental benefits, to remain in Utah.

III. BENEFIT TO EXISTING CUSTOMERS

Q. How would this proposal benefit existing NGV customers?

A. Over the last few years, the Company has seen a decline in usage at its stations. DEU Exhibit 1.4 provides the monthly usage at all of the stations over the last five years. Because the DNG portion of the NGV rate is comprised largely of fixed costs, a continued downward trend will result in a higher rate at NGV stations. Higher rates at the NGV stations could cause demand to further decline. Allowing RNG transportation customers to utilize the stations and to pay a part of those DNG costs will help to offset the fixed costs at these stations and reduce the NGV rate in the long-run.

Q. If this renewable natural gas is not used in DEU NGV stations how will it be used?

A. Due to the high value of the Low Carbon Fuel Standard (LCFS) credit incentive in California, RNG is typically nominated for transportation fuel in California or states with

similar types of incentives. Consequently, RNG is not typically used in Utah transport applications.

Q. Why couldn't Dominion Energy purchase RNG for use at its stations for these customers?

A. Renewable Identification Number (RIN) credits are typically earned by the producer that provides RNG for transportation. An RNG producer can enter into a contract with a purchaser to transfer the RNG credits for use in a transportation fuel, and doing so with a fleet owner makes a great deal of sense. The Company could not currently enter into such agreements with individuals fueling vehicles at NGV stations. The Company is, however, exploring ways that it may offer RNG options to its customers in the future. If it determines that these options have merit and could serve customers well in a utility context, the Company may bring some of these solutions before the Commission for consideration. At this time the Company believes that the proposal included in this Application represents the best option to serve current and potential NGV customers at minimal risk.

IV. RATES, METERING, AND ACCOUNTING

Q. Has the Company considered what type of rates might be included in a special contract to use the NGV stations in this manner?

A. Yes. While any proposed rate would be brought to the Commission for approval at a future date, the Company intends to charge the distribution non-gas rate of the NGV Tariff for volumes transported through the NGV stations. This rate covers all non-gas related costs associated with the NGV stations as delineated in the most recently approved general rate case. Such costs include operating and maintenance expense, depreciation expense, property tax, income tax, and an allowed return on rate base. The distribution non-gas rate also includes any subsequent adjustments for the infrastructure tracker replacement rate as well as the federal tax law changes. By charging this rate, Dominion Energy can assure that the revenue received for the service is fair to current NGV customers who have supported and will continue to support the station costs.

As mentioned previously, the Company foresees a circumstance in which a very large amount of volumes could be transported through the NGV stations by an RNG supplier. In that case the Company may propose a reduced rate for incremental volumes over a specific amount. Any such proposal would be submitted to the Commission as part of a separate docket requesting approval for a special contract.

In addition to the DNG portion of the NGV rate, the Company would propose that the RNG supplier be responsible to pay any penalties, daily imbalance charges, and administrative fees by delivery point for the transportation services to transport RNG on the system.

Q. How will the Company track the volumes of RNG suppliers separately from the Company's own customer volumes?

A. The Company will utilize well-established card-reading technology to track the daily usage and revenue data associated with these RNG suppliers and their customers. When a special contract is approved by the Commission, the RNG supplier will receive custom fleet cards for refueling at the Dominion Energy stations. When using that card, the transaction can be tracked and treated uniquely. This will allow all parties to have the information needed to appropriately bill and account for the transaction on an hourly basis.

Q. Please provide an example of how this would work.

A. As an example, an RNG supplier (Supplier A) may engage with a large refuse truck fleet that wishes to convert from diesel to CNG and become an RNG customer. Supplier A could enter into a special contract with Dominion Energy, subject to Commission approval, to use the NGV stations for that delivery. If the contract was approved, Supplier A's fleet usage at each station would be tracked separately using card reader technology. On a daily basis, that data would be matched to the supply data to track any imbalances between the total usage and the supply, similar to how transportation service is tracked today.

On a monthly basis, Supplier A would receive a bill according to the contract provisions. There would be no collection at the pump, but rather the usage would be settled as arranged through the special contract, using data collected through the card reader system.

IV. CONCLUSION

Q. Is the proposed Tariff change just, reasonable and in the public interest?

A. Yes. As mentioned previously, any incremental revenue that exceeds marginal costs in the NGV class will help support the cost-of-service of that class. The Company is proposing this Tariff change to create the opportunity to offer service and apply the revenue from that service to offset the current NGV class costs. This will ultimately help to mitigate large NGV rate increases in future rate case proceedings. This arrangement requires no capital or additional rate base and will potentially provide substantial benefit with very little risk to customers. In addition, the Company supports the potential clean air benefits resulting from increased RNG/CNG transportation fuel and believes that such benefits should be supported in responsible ways. Accordingly, the Company believes the proposal is just, reasonable and in the public interest and requests that the Commission approve the proposed Tariff provision.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)
) ss.
County of Salt Lake)

I, Jordan K. Stephenson, 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.

Jordan K. Stephenson

SUBSCRIBED AND SWORN TO this 1 day of November, 2018.

GINGER JOHNSON
Notary Public State of Utah
My Commission Expires on:
August 4, 2019
Comm. Number: 684539

Notary Public