

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY UTAH TO MODIFY THE WEXPRO PRODUCTION CAP	Docket No. 22-057-04
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**DIRECT TESTIMONY OF KELLY B MENDENHALL**

**FOR DOMINION ENERGY UTAH**

January 31, 2022

**DEU Exhibit 2.0**

## I. INTRODUCTION

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

2 A. My name is Kelly B Mendenhall. My business address is 333 South State Street, Salt Lake  
3 City, Utah.

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

5 A. I am employed by Dominion Energy Utah, Idaho and Wyoming (DEU, Dominion Energy,  
6 or Company) as Director of Regulatory and Pricing. I oversee and am responsible for state  
7 regulatory matters affecting Dominion Energy in Utah and Wyoming.

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

9 A. I have listed my qualifications in DEU Exhibit 2.1.

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

11 A. The purpose of my testimony is to explain 1) the basis and drivers behind the Settlement  
12 Stipulation dated January 31, 2022 and attached as DEU Exhibit 1.0 to the Application in  
13 this Docket (Settlement Stipulation); 2) the safeguards that have been included in the  
14 stipulation to protect DEU customer interests.

15 **Q. What prompted the discussions between Dominion Energy, the Utah Division of  
16 Public Utilities (Division), the Utah Office of Consumer Services (Office), and the  
17 Wyoming Office of Consumer Advocate (OCA) (together with Dominion Energy and  
18 Wexpro, the Parties) regarding the production limit in the Wexpro Agreement?**

19 A. In February 2021, a severe cold weather event resulted in power outages across the state of  
20 Texas.<sup>1</sup> The outages occurred, in part, because natural gas fuel supply production declined  
21 due to freezing temperatures and cold weather.<sup>2</sup> This event highlighted the importance  
22 of gas supply reliability. Since that time, Dominion Energy has seen volatile price swings  
23 in natural gas spot prices further illustrating the importance of price stability. As a result,

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<sup>1</sup> FERC, *Final Report on February 2021 Freeze Underscores Winterization Recommendations* [press release], <https://www.ferc.gov/news-events/news/final-report-february-2021-freeze-underscores-winterization-recommendations>

<sup>2</sup> *Id.*

24 the Company evaluated various options that would improve the reliability and price  
25 stability of its gas supply. The Company has also discussed many of these options with the  
26 Division, the Office, and OCA. These discussions culminated in agreement among the  
27 Parties that it could be beneficial, within specific parameters, to allow Wexpro the ability  
28 to produce supply levels above the level currently allowed within the Wexpro II Agreement  
29 and subsequent settlement stipulations.

30 **Q. Please elaborate on the impact the Texas weather event had on Company gas supplies.**

31 A. The extremely low temperatures in Texas, Kansas, Oklahoma and other parts of the  
32 Midwest created multiple supply problems as natural gas demand spiked to high levels that  
33 natural gas suppliers could not meet due to freeze offs and other operational challenges.  
34 During the period from February 12<sup>th</sup> through February 18<sup>th</sup>, the Company saw  
35 unprecedented price spikes, with some spot purchases costing as much as \$170.53 per  
36 dekatherm. At the time, about 15% of the Company's supply was vulnerable to these price  
37 spikes. Its customers in Utah, Idaho, and Wyoming incurred over \$60 million of additional  
38 costs, resulting in a bill increase of approximately 5%.

39 During this seven-day event, Wexpro provided about 28% of the Company's gas supply at  
40 an average cost of \$4.04/Dth. Because Wexpro supply is dedicated to the Company's  
41 customers using a cost-of-service agreement, the Wexpro supply was not impacted by the  
42 market volatility that impacted other supply sources in February of 2021. Dominion  
43 Energy did not need to compete for Wexpro supplies, nor was it required to pay top market-  
44 prices for that gas supply. Dominion Energy's customers in Utah, Wyoming and Idaho did  
45 experience some of the cost impact of the February, 2021 event, but it could undoubtedly  
46 have been much worse. The Company learned from this event and views Wexpro supplies  
47 as a reliable hedge against this sort of market volatility in the future.

48 **Q. Has the Company seen price fluctuations since the February, 2021 extreme weather**  
49 **event.**

50 A. Yes. In 2021 a combination of higher demand and lower supply created stress on natural  
51 gas prices across the country. The increased demand came from the increased use of

52 natural gas for power generation combined with higher natural gas prices in Europe that  
53 made LNG exports more attractive. The reduced supply was driven by lower rig counts in  
54 the country, low storage inventories and disruptions in supply from hurricanes in  
55 2021. This caused natural gas prices to swing wildly, sometimes moving up or down over  
56 20% daily through the 2021 -2022 winter heating season.

57 **Q. Please describe the current limitations on Wexpro production.**

58 A. As the Settlement Stipulation points out, the Canyon Creek Settlement Stipulation<sup>3</sup>  
59 provided that “Questar Gas and Wexpro will manage the combined cost-of-service  
60 production from Wexpro I and Wexpro II properties to: (a) 55% of Questar Gas’ annual  
61 forecasted demand identified in the IRP; or (b) 55% of the Minimum Threshold as defined  
62 in the Trail Settlement Stipulation . . .”<sup>4</sup> In the Settlement Stipulation, the Parties have  
63 agreed that it will be beneficial and prudent, under certain circumstances, to increase that  
64 limit to provide additional gas supply as a protection against gas price and supply volatility.

65 **Q. Please describe the Settlement Stipulation.**

66 A. The Settlement Stipulation provides that Dominion Energy and Wexpro would be  
67 permitted to manage the combined cost-of-service production from Wexpro I and Wexpro  
68 II properties at a level that exceeds the 55% threshold if that is approved and if certain  
69 conditions are satisfied. Specifically, Wexpro must file a plan with both the Utah Public  
70 Service Commission (Utah Commission) and the Public Service Commission of Wyoming  
71 (Wyoming Commission) (together the Commissions) that shows that volumes are  
72 projected to be provided at a cost lower than the five-year forecast curve (together with  
73 shut-ins); that the production is not expected to exceed 65% of Dominion Energy’s annual  
74 forecasted demand or 65% of the Minimum Threshold as defined in the Trail Settlement  
75 Stipulation. If, based on this filing, the Commissions determined the proposed increase was

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<sup>3</sup> Canyon Creek Settlement Stipulation dated October 26, 2015, Docket No. 15-057-10 at ¶20 ; Canyon Creek Settlement Stipulation dated October 26, 2015, Docket No. 30010-145-GA-15 (Record No. 14224) at ¶20.

<sup>4</sup> Settlement Stipulation dated October 26, 2015, Utah Docket No. 15-057-10, Wyoming Docket No. 30010-145-GA-15, Wyoming Record No. 14224.

76 approved, the production amount for the Company's customers could be increased in  
77 accordance with the approved plan.

78 **Q. How does the proposal contained in the Settlement Stipulation help protect customers**  
79 **against future market volatility?**

80 A. The Settlement Stipulation could allow Wexpro to produce more volumes for Dominion  
81 Energy's customers. Because those volumes are provided at the cost-of-service they are  
82 not subject to market swings. Additionally, those volumes are dedicated to Dominion  
83 Energy's customers—avoiding any need to compete for volumes during times of scarcity.

84 **Q. Has the Company pursued other hedging options in addition to increasing the**  
85 **Wexpro production cap?**

86 A. Yes. In addition to evaluating options related to the Wexpro supply, the Company has also  
87 revisited its other purchasing practices. Historically, the Company has entered into first—  
88 of-month (FOM) contracts to hedge supplies. A FOM contract fixes the monthly price for  
89 natural gas at the price in effect on the first day of the month. Under these contracts, even  
90 if prices spike later in the month, the Company's price does not change while the contract  
91 is in effect. Additionally, the Company has several storage contracts to ensure that winter  
92 supply is available when needed. The Company has evaluated options for maximizing its  
93 available storage. This winter, the Company entered into additional fixed-price contracts  
94 to help mitigate price risk. The Company discussed these options in its fall pass-through  
95 and pass-on filings in Utah and Wyoming respectively. The Company believes that  
96 continuing to use this diversified approach in the future is prudent as it will provide  
97 flexibility in choosing cost-effective alternatives. This Settlement Stipulation offers  
98 additional flexibility with regard to the Wexpro option.

99 **Q. If the Commissions were to approve a 10% increase in Wexpro production, what**  
100 **impact would that have on the overall gas supply of DEU?**

101 A. This could result in 32,000 Dth/day of additional Wexpro production. Using the 2021/2022  
102 heating season as an example, 32,000 Dths would increase the hedged amount on a typical

103 winter day when temperatures are about 34° F, from 24% to 28.5%. On a design day, when  
104 average temperatures are -5° F, it would increase the hedged supply from 13.8% to 15.9%.

105 **Q. Does the Settlement Stipulation contain any safeguards to protect customers ?**

106 A. Yes. It is important to note that this Settlement Stipulation does not, itself, give Wexpro  
107 approval to increase production above 55%. Rather it provides a framework under which  
108 Wexpro and Dominion Energy could request to increase production levels in the future.  
109 Under that framework, Wexpro could only plan to produce volumes in excess of the 55%  
110 cost of service production level when Wexpro and the Company show that: 1) the planned  
111 production is expected to be provided at a cost lower than the five-year forecast curve  
112 together with shut-in costs; (2) the planned production does not exceed (i) 65% of  
113 Dominion Energy's annual forecasted demand identified in its Integrated Resource Plan  
114 (IRP), or (ii) 65% of the Minimum Threshold as defined in the Trail Settlement Stipulation  
115 (Minimum Threshold). Additionally, any application seeking to modify the 55%  
116 restriction would require Dominion Energy and Wexpro to set forth a date by which  
117 Wexpro I and Wexpro II production levels will again be reduced to a level at or below 55%  
118 of Dominion Energy's annual IRP forecast or the Minimum Threshold. Finally, once the  
119 Company has made a filing with this information to both Commissions, the plan must be  
120 found by both Commissions to be in the public interest considering the factors listed in  
121 paragraph 15 of the Settlement Stipulation.

122 **Q. Please explain why shut-in costs have been included in the cost/benefit analysis that**  
123 **must be submitted in any application to modify the 55% limitation.**

124 A. When Wexpro exceeds the 55% production level, there could be times during the summer  
125 months when production exceeds supply on the Dominion Energy system. While  
126 Dominion Energy has storage available, the production level may exceed the available  
127 storage capacity. In these instances, Wexpro would be required to shut in some wells,  
128 which would come at a carrying cost. Because these carrying costs would be passed on to  
129 customers, the Parties agree that these costs should be included in the cost/benefit analysis  
130 to determine if the proposed plan is beneficial to customers.

131 **Q. Please explain why a sunset date showing when production levels will be reduced to**  
132 **55% or less is required in the plan.**

133 A. Wexpro currently provides cost of service production up to 55% of the total Company  
134 supply of DEU as a general rule. Parties recognized that, under certain price environments,  
135 it could be beneficial for Wexpro to produce more than 55%, but they also generally agreed  
136 that these circumstances should be reviewed on a case-by-case basis, and not as a “carte  
137 blanche” cost of service production increase. Under the terms of this Settlement  
138 Stipulation, Wexpro has the flexibility to file to change its plan, or file multiple plans, but  
139 any changes would need to be reviewed and approved by both Commissions. This will  
140 provide regulators with increased transparency and clarity.

141 **Q. Why is it in the public interest for the Settlement Stipulation to be approved now**  
142 **rather than wait to include these terms in a future filing where Wexpro asks the**  
143 **Commission to exceed the 55% cost of service level by drilling or acquiring new**  
144 **properties?**

145 A. The Company believes that the terms contained in the Settlement Stipulation are best  
146 considered independent of a proceeding to include new properties in Wexpro II for several  
147 reasons. First, under the Settlement Stipulation, Dominion Energy could, conceivably,  
148 seek to modify the 55% limitation by increasing drilling on existing Wexpro properties,  
149 without purchasing any new properties. Also, dockets seeking approval to include new  
150 properties as Wexpro II properties are time sensitive, and adding another set of  
151 considerations to such a docket could complicate the process for stakeholders and the  
152 Commissions. Indeed, the Parties have discussed the terms of this Settlement Stipulation  
153 for months, which has allowed for a much more measured and thoughtful approach as the  
154 Parties have not been under time constraints to reach a consensus. By laying the framework  
155 now for a future filing, Wexpro, Dominion Energy and the Parties have resolved many of  
156 the preliminary issues that could have otherwise been raised as concerns, and as a result,  
157 future applications will be more streamlined, less contentious, and less administratively  
158 burdensome. For these reasons, it is in the public interest for this Settlement Stipulation to  
159 be approved, and the Company respectfully requests Commission approval.

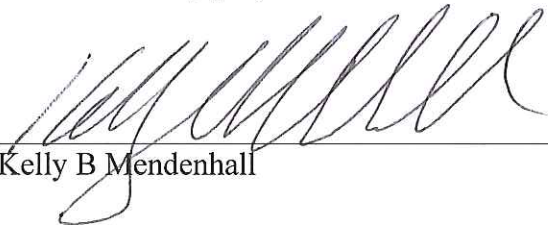
160 **Q. Does this conclude your testimony?**

161 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.

  
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Kelly B Mendenhall

SUBSCRIBED AND SWORN TO this 31<sup>st</sup> day of January, 2022.

  
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Notary Public

