

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**

**IN THE MATTER OF)
THE NARRAGANSETT ELECTRIC COMPANY) DOCKET NO. 4963
D/B/A NATIONAL GRID 2019 GAS COST)
RECOVERY FILING)**

**DIRECT TESTIMONY
OF
JEROME D. MIERZWA**

**ON BEHALF OF
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS**

October 4, 2019

EXETER
ASSOCIATES, INC.
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TESTIMONY OF JEROME D. MIERZWA

Docket No. 4963

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I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Jerome D. Mierzwa. I am a principal and President of 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. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master’s Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation (“NFG Distribution”) as a Management Trainee in the Research and Statistical Services Department (“RSS”). I was promoted to Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted various financial and statistical analyses related to the Company’s market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation’s (“NFG Supply”) rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting and activities related to federal regulation. I was also

1 responsible for preparing NFG Supply's Purchase Gas Adjustment ("PGA")
2 filings and developing interstate pipeline and spot market supply gas price
3 projections. These forecasts were utilized for internal planning purposes as
4 well as in NFG Distribution's annual purchased gas cost review proceedings.

5 In April 1990, I accepted a position as a Utility Analyst with Exeter
6 Associates, Inc. ("Exeter"). In December 1992, I was promoted to Senior
7 Regulatory Analyst. Effective April 1, 1996, I became a principal of Exeter.
8 Since joining Exeter, my assignments have included gas and water utility
9 class cost of service and rate design analysis, evaluating the gas purchasing
10 practices and policies of natural gas utilities, sales and rate forecasting,
11 performance-based incentive regulation, revenue requirement analysis, the
12 unbundling of utility services, and the evaluation of customer choice natural
13 gas transportation programs.

14 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
15 PROCEEDINGS ON UTILITY RATES?

16 A. Yes. I have provided testimony on more than 325 occasions in proceedings
17 before the Federal Energy Regulatory Commission ("FERC"), utility regulatory
18 commissions in Arkansas, Delaware, Georgia, Illinois, Indiana, Louisiana,
19 Maine, Montana, Nevada, New Jersey, Ohio, Pennsylvania, Texas, Utah, and
20 Virginia, as well as before the Public Utilities Commission of Rhode Island
21 ("Commission").

22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS
23 COMMISSION?

24 A. Yes. I have previously testified before this Commission in the following water
25 utility rate proceedings:

- 1 • City of Newport, Water Division Docket Nos. 2985, 4355, 4295, and
2 4933;
- 3 • Providence Water Supply Board Docket Nos. 2048, 3163, 3832, 4406,
4 and 4618;
- 5 • Kent County Water Authority Docket Nos. 2555, 3311, and 4611;
- 6 • Pawtucket Water Supply Board Docket Nos. 2674 and 3945;
- 7 • Suez Water Rhode Island, Inc. Docket No. 4800; and
- 8 • Woonsocket Water Division Docket Nos. 4320 and 4879.

9 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

10 A. Exeter was retained by the Division of Public Utilities and Carriers (“Division”)
11 to review the Annual Gas Cost Recovery (“GCR”) filing of the Narragansett
12 Electric Company d/b/a National Grid (“NGrid RI” or “the Company”). My
13 testimony presents the results of my review.

14 Q. WHAT IS YOUR EXPERIENCE WITH RESPECT TO EVALUATING
15 THE GAS PROCUREMENT PRACTICES OF NATURAL GAS LOCAL
16 DISTRIBUTION COMPANIES (“LDCs”) LIKE NGRID RI?

17 A. Over the last nearly 30 years, I have reviewed and assessed the gas
18 procurement practices of approximately 40 different LDCs. For many of these
19 LDCs, I have performed gas procurement reviews on an annual basis. In
20 total, I estimate that I have performed approximately 200 such reviews.
21 These assessments include review of an LDC’s capacity and gas supply
22 resource portfolios. An LDC’s capacity resource portfolio would generally
23 include those resources necessary to deliver gas supplies to the LDC’s
24 distribution system (citygate) such as firm interstate pipeline transportation
25 service, and interstate pipeline storage service. An LDC’s gas supply
26 portfolio would generally include purchase arrangements that provide for the

1 availability of gas at interstate pipeline receipt points which are then
2 subsequently delivered to the LDC utilizing the LDC's capacity resource
3 portfolio. Gas withdrawn from interstate pipeline storage facilities would
4 generally be delivered to an LDC utilizing the LDC's capacity resource
5 portfolio. Gas supply arrangements that provide for the delivery of gas
6 directly to an LDC's citygate would be considered a capacity resource. An
7 LDC's on-system storage facilities, including underground storage, LNG, and
8 propane facilities, can be considered combined capacity and gas supply
9 resources.

10 Q. PLEASE SUMMARIZE NGRID RI'S CURRENT GCR RATES AND
11 THE RATES PROPOSED IN THE COMPANY'S FILING.

12 A. The current High Load Factor GCR is \$0.6100 per therm and the current Low
13 Load factor GCR is \$0.7041 per therm. The Company is proposing a
14 decrease in the High Load Factor GCR of \$0.1364 per therm to \$0.4736 per
15 therm, or 22.4 percent. The Company is proposing a decrease in the Low
16 Load Factor GCR of \$0.1739 per therm to \$0.5302 per therm, or 24.7
17 percent. An average Residential Heating customer using 845 therms per
18 year will experience a total bill decrease of approximately \$146.95, or 10.9
19 percent.

20 Q. PLEASE SUMMARIZE YOUR FINDINGS AND
21 RECOMMENDATIONS.

22 A. My findings and recommendations are as follows:

- 23 • The Commission should direct the Company to work with the Division
24 to develop appropriate cost allocation procedures for incremental

1 design peak hour costs and to present those procedures in next year's
2 GCR filing;

3 • The Commission should direct NGrid RI to work with the Division to
4 evaluate the Company's current cost allocation procedures for
5 interstate pipeline firm transportation capacity assigned to the
6 Company's firm transportation customers and reflect modifications to
7 the current approach which addresses the allocation of fixed gas
8 supply reservation charges and to present those modifications in next
9 year's GCR filing;

10 • The Commission should direct the Company to work with the Division
11 to develop data exchange protocols for the Gas Procurement Incentive
12 Program ("GPIP") and Natural Gas Portfolio Management Plan
13 ("NGPMP") which provides additional transparency and for more
14 efficient auditing;

15 • Any decision concerning the recovery of the costs associated with the
16 incremental supplies purchased by the Company related to the
17 operational problems at the Providence LNG facility experienced on
18 January 21, 2019 should be deferred until the Division issues its report
19 investigating this event; and

20 • Subject to the above conditions, the rates proposed in NGrid RI's GCR
21 filing should be approved.

22 Q. BEFORE CONTINUING GENERALLY DESCRIBE THE TYPES OF
23 CUSTOMERS SERVED BY NGRID RI AND THE SERVICES
24 PROVIDED TO THOSE CUSTOMERS.

25 A. NGrid RI provides firm sales service to retail GCR customers. This is a
26 bundled service under which the Company arranges for the delivery of gas

1 supplies to its citygate to serve these customers and provides for the delivery
2 of these arranged supplies across its distribution system to end-use
3 customers. As such, NGrid RI contracts for interstate pipeline capacity and
4 gas supply resources to serve retail GCR customers.

5 NGrid RI also provides unbundled transportation service. Under
6 transportation service, end use customers purchase their gas supplies from
7 third-party marketers or suppliers (collectively “marketers”) which arrange for
8 the delivery of the gas supplies necessary to serve their customers to NGrid
9 RI’s citygate. NGrid RI provides for the delivery of the marketer-arranged
10 supplies from its citygate to the end-use customer. NGrid RI offers two
11 primary types of firm transportation service — FT-1 and FT-2. Under FT-1
12 service, a customer’s gas usage is measured on a daily basis. Under FT-2
13 service, a customer’s gas usage is generally measured on a monthly rather
14 than daily basis.

15 There are two categories of FT-1 customers — capacity assigned and
16 capacity exempt customers. The marketers serving capacity assigned FT-1
17 customers receive an assignment of the Company’s interstate pipeline
18 capacity to meet a portion of their customer’s gas supply requirements. The
19 remainder of a capacity assigned FT-1 customer’s requirements would be
20 met by other capacity and gas supply resources acquired by the marketer
21 serving the customer. The marketers serving capacity exempt FT-1
22 customers are not assigned any of the Company’s interstate pipeline capacity
23 resources. Marketers serving capacity assigned and capacity exempt FT-1
24 customers are required to deliver the gas supply requirements of their

1 customers on a daily basis within the imbalance tolerances permitted under
2 NGrid RI's tariff.

3 The marketers serving FT-2 customers also receive an assignment of
4 NGrid RI's interstate pipeline firm transportation capacity to meet a portion of
5 their customers' gas supply requirements. The marketers serving FT-2
6 customers would use this capacity to arrange and provide for the delivery of
7 gas supplies to NGrid RI's citygate. FT-2 marketers are also assigned a
8 portion of the Company's storage and peaking resources which the marketer
9 may use to meet the daily gas supply requirements of its customers that is not
10 met by the assigned interstate pipeline firm transportation capacity.

11 In summary, NGrid RI secures the interstate pipeline firm
12 transportation capacity, storage, peaking resources, and gas supplies
13 necessary to meet the requirements of its retail GCR sales customers, the
14 interstate pipeline firm transportation capacity assigned to FT-1 and FT-2
15 marketers, and the storage and peaking requirements of FT-2 customers.
16 These requirements are commonly referred to as NGrid RI's planning load.

17 II. DESIGN HOUR

18 Q. HAS NATIONAL GRID RI PROPOSED ANY SIGNIFICANT
19 CHANGES TO ITS GAS PROCUREMENT PRACTICES IN THIS
20 YEAR'S GCR PROCEEDING?

21 A. Yes. NGrid RI is directly served by two interstate pipelines — Tennessee
22 Gas Pipeline ("TGP") and Algonquin Gas Transmission, LLC ("AGT"). While
23 the Company's firm transportation contracts with TGP and AGT specify
24 maximum daily delivery quantities, as explained in greater detail in the Joint

1 Direct Testimony of Elizabeth D. Arangio and Samara A. Jaffe beginning at
2 page 8, line 8, TGP and AGT may impose hourly flow restrictions under these
3 contracts. Because the design peak hour of the Company's customers is
4 greater than the limits which may be imposed by TGP and/or AGT, the
5 Company is proposing to secure additional resources to meet the design
6 peak hour requirements of its customers. The specific resources the
7 Company is proposing to acquire are identified in the confidential response to
8 DIV-1-5. However, the total costs associated with the additional resources is
9 not presently known.

10 Q. DO YOU HAVE A CONCERN WITH THE COMPANY'S ACQUISITION
11 OF ADDITIONAL RESOURCES TO MEET DESIGN PEAK HOUR
12 REQUIREMENTS OR THE RECOVERY OF THE ASSOCIATED
13 COSTS?

14 A. I do not have any concerns at this time with respect to the acquisition of
15 additional resources to meet peak hour requirements. However, the
16 Company is proposing to recover the costs associated with the additional
17 resources from only GCR and FT-2 transportation customers (DIV-1-5). The
18 additional resources acquired by the Company will be available to meet the
19 design peak hour demands of all customers and, therefore, benefit all
20 customers served by NGrid RI including capacity assigned FT-1 and capacity
21 exempt FT-1 customers. As such, FT-1 customers should contribute to the
22 recovery of the costs associated with the incremental design peak hour
23 resources.

24 Q. WHAT DO YOU RECOMMEND?

1 A. Given the limited time available to address this issue and the uncertainty
2 concerning the associated costs, I recommend that the Commission direct the
3 Company to work with the Division to develop a plan that provides for a
4 reasonable allocation of design peak hour costs to all customers, and to
5 present that plan in next years' GCR filing.

6 **III. CAPACITY PATH COST ASSIGNMENT**

7 Q. HOW MUCH INTERSTATE PIPELINE FIRM TRANSPORTATION
8 CAPACITY IS THE COMPANY MAKING AVAILABLE FOR
9 ASSIGNMENT TO FT-1 CAPACITY ASSIGNED AND FT-2
10 MARKETERS?

11 A. The Company has made available 35,258 Dth firm transportation capacity per
12 day on seven different pipeline paths. The paths and corresponding daily
13 quantities are identified in Attachment EDA/SAJ-1, page 13, of the
14 Company's filing.

15 Q. HOW ARE THE CHARGES ASSESSED TO FT-1 AND FT-2
16 MARKETERS FOR THE INTERSTATE PIPELINE FIRM
17 TRANSPORTATION CAPACITY THEY ARE ASSIGNED
18 DETERMINED?

19 A. The process used to determine the costs assessed for the assignment of
20 capacity to FT-1 and FT-2 customers/marketers is explained in detail
21 beginning at page 25, line 10 of the Joint Direct Testimony of NGRID RI
22 witnesses Arangio and Jaffe. In summary, the process attempts to charge
23 FT-1 and FT-2 marketers for assigned capacity the same weighted average
24 cost for interstate pipeline firm transportation capacity (or demand) (WACOD)
25 that is charged to GCR sales customers. I believe that charging all customers

1 the same costs for assigned firm transportation capacity is fair and
2 reasonable.

3 Q. DO YOU HAVE A CONCERN WITH THE CURRENT COST
4 ASSIGNMENT PROCESS?

5 A. Yes. The payment of significant gas supply reservation (demand) charges is
6 required in order to obtain firm gas supplies on several of the Company's
7 interstate pipeline delivery paths. More specifically, for example, the TGP
8 Zone 6 Dracut and Everett delivery paths. These significant gas supply
9 reservation charges are not included in the Company's WACOD calculation.
10 Since the use of certain transportation paths requires the payment of gas
11 supply reservation charges, these charges should be included in the
12 Company's WACOD calculation for capacity costs and included in the
13 charges assessed for capacity assigned to marketers. I believe that such an
14 assessment to marketers is reasonable because if capacity were not
15 assigned to marketers, NGrid could reduce the amount of capacity it
16 maintains that requires the payment of gas supply reservation charges.

17 Q. WHAT DO YOU RECOMMEND?

18 A. I recommend that the Commission direct the Company to work with the
19 Division to evaluate the Company's current cost allocation procedures for
20 assigned interstate pipeline firm transportation capacity and reflect
21 modifications to the current approach which addresses the allocation of gas
22 supply reservations charges and to present those modifications in next year's
23 GCR filing.

1 **IV. GAS PROCUREMENT INCENTIVE PLAN AND NATURAL GAS PORTFOLIO**
2 **MANAGEMENT PLAN**

3 Q. BRIEFLY DESCRIBE THE COMPANY'S GPIIP AND NGPMP.

4 A. The objective of the GPIIP is to mitigate the volatility of NGrid RI's natural gas
5 costs and to encourage the Company to achieve lower-hedged commodity
6 costs for GCR customers. The details of the GPIIP are provided in
7 Attachment JMP-1 of the Company's GCR filing.

8 Under the NGPMP, the Company uses its interstate pipeline firm
9 transportation contracts, underground storage contracts, peaking supplies,
10 and gas supply contracts, when not required to meet GCR customer
11 requirements to generate incremental revenue generally through off-system
12 transactions. The Company is provided an incentive to engage in these
13 activities under the NGPMP. The details of the NGPMP are provided in
14 Attachment JMP-3 of the Company's GCR filing.

15 Q. DID YOU REVIEW THE RESULTS OF THE COMPANY'S GPIIP AND
16 NGPMP?

17 A. Yes.

18 Q. DID YOUR REVIEW IDENTIFY ANY CONCERNS WITHIN THE
19 INCENTIVE AWARDS CALCULATED BY THE COMPANY UNDER
20 EACH PLAN?

21 A. No, it did not. However, I believe that the current data exchange protocols for
22 these programs make review of the Company's activities more difficult than
23 necessary. For example, although all of the support is presented in Excel file
24 format, much of the data is hardcoded which makes data analysis more
25 difficult. Therefore, I recommend that the Commission direct the Company to
26 work with the Division to develop data exchange protocols for the GPIIP and

1 the NGPMP which provide additional transparency and for more efficient
2 auditing.

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V. PROVIDENCE LNG FACILITY INCREMENTAL COSTS

5 Q. ARE THERE ANY COST RECOVERY ISSUES THAT THE DIVISION
6 WOULD LIKE TO ADDRESS?

7 A. Yes. NGrid RI's affiliate, National Grid LNG, LLC, owns and operates an LNG
8 facility at Fields Point in Providence that provides vaporization services to
9 NGrid RI. As described in the Company's response to DIV-2-2, the Company
10 has included in its GCR reconciliation balance supply-related costs that were
11 incurred as a result of operational problems that were experienced at the
12 Providence LNG facility on January 21, 2019. Specifically, when the facility
13 could not vaporize sufficient LNG, the Company obtained supplemental
14 supplies. The incremental cost of the supplemental supplies was \$193,902.

15 Q. WHAT ARE YOU RECOMMENDING?

16 A. The Division recommends that any decision regarding the recovery of the
17 costs associated with the incremental supplies be deferred at this time. By
18 deferring the decision, the amount would be excluded from the reconciliation
19 balance without prejudice to the Company seeking recovery in the future and
20 without prejudice to the Division opposing such recovery, if it deems it
21 appropriate to do so.

22 Q. WHY ARE YOU RECOMMENDING DEFERRAL OF COST
23 RECOVERY FOR THE INCREMENTAL COSTS?

24 A. There is an extensive factual investigation that has been undertaken by the
25 Division relating to the events of January 21, 2019. More facts will emerge
26 when the Division's report is issued. As of the date this testimony was filed,

1 the Division's report had not yet been published. After publication of the
2 report, the Division will be able to provide more concrete reasons for its
3 position. However, it is not certain that the report will be issued in time for the
4 facts to be considered in this docket. In any event, the amount is too small to
5 materially affect the proposed rates which are subject to reconciliation and a
6 deferral is without prejudice to any party's rights to pursue the issue in a
7 future proceeding.

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.

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