

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In The Matter of:

**THE APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR AN ADJUSTMENT)
OF ITS ELECTRIC AND GAS RATES; A)
CERTIFICATE OF PUBLIC CONVENIENCE AND)
NECESSITY; APPROVAL OF OWNERSHIP OF)
GAS SERVICE LINES AND RISERS;)
AND A GAS LINE SURCHARGE.)**

CASE NO. 2012-00222

**DIRECT TESTIMONY OF JOHN MEHLING ON
BEHALF OF HESS CORPORATION**

DATED: OCTOBER 31, 2012

Direct Testimony of John Mehling

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

Q. Please state your full name and business address.

A. My name is John Mehling. My business address is 201 South Capitol Avenue, Suite 600, Indianapolis, Indiana 46225.

Q. By whom are you employed and in what capacity?

A. I am employed by Hess Corporation (“Hess”) as Manager of Regional Natural Gas Operations.

Q. What are Hess’ energy marketing business interests in Kentucky?

A. Hess is a competitive natural gas and electric supplier that operates throughout the East Coast and Midwest.¹ More specifically, Hess is a licensed natural gas supplier that provides supply services to over 9,100 commercial and industrial (“C&I”) customers in 18 states. In the last few months, Hess has made significant investment to expand its operational capabilities and to be able to serve customers throughout the Midwest, including Illinois, Indiana, western Ohio, Michigan and Kentucky. Hess opened an Indianapolis, Indiana office to serve customers in these regions. While the Commission does not require natural gas suppliers to be licensed, Hess has taken steps to become certified and approved to participate in the gas transportation programs of several Kentucky local natural gas distribution companies (“LDCs”), including Columbia Gas of Kentucky, Duke Kentucky, Atmos Energy, Delta Natural Gas and Louisville Gas & Electric (“LG&E”).

Q. What are your duties as Hess’ Manager of Regional Operations?

¹ Hess currently serves customers in Maine, New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Ohio, Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, and Georgia.

1 A. As Manager of Regional Natural Gas Operations, I oversee all day-to-day duties for our
2 natural gas operations (including operations, scheduling, nomination and pricing) for the LDCs
3 in western Ohio, Michigan, Illinois, Indiana and Kentucky.

4 **Q. What is your educational background?**

5 A. I obtained a Bachelor of Arts in Business Administration from Bellarmine University in
6 1989. I also received a Masters Degree in Business Administration from the University of
7 Louisville in 1993.

8 **Q. What professional background?**

9 A. Prior to my current role as Manager of Regional Operations, I was Director of Gas
10 Operations for a Midwest natural gas supplier, Proliance Energy, LLC, in Indianapolis, Indiana
11 from 2003 until I joined Hess earlier this year. At Proliance, I was responsible for all natural gas
12 operations relating to upstream and downstream activities. Proliance is a natural gas supplier
13 that is focused on serving customers throughout the Midwest, including Kentucky. Before
14 Proliance, I worked at another natural gas supplier, Sigcorp Energy Services, LLC, in Evansville,
15 Indiana as a gas trader (Sigcorp merged with Proliance in June 2002). Prior to Sigcorp, I worked
16 at LG&E Energy Marketing from 1997 through 1998 as an energy coordinator with
17 responsibilities that included daily imbalance trading and scheduling gas on interstate pipelines.

18 My resume is attached hereto as Exhibit 1.

19 **Q. Have you previously testified or provided comment before the Commission?**

20 A. No, however, as you can see from my previous answers, I have over 15 years of
21 experience working for competitive natural gas suppliers specifically dealing with the
22 operational requirements of gas transportation programs. Through my current and previous

1 roles, I am very familiar with gas transportation programs throughout the Midwest, including
2 LG&E and the other major Kentucky LDCs. I have a detailed knowledge of the gas
3 transportation program parameters that are necessary for a natural gas supplier to effectively
4 market natural gas supply services to C&I customers.

5 **Q. Please describe LG&E's petition in this proceeding.**

6 A. In its electric and natural gas general rate case filing, LG&E, as an electric distribution
7 company ("EDC") and LDC in Kentucky, has applied for an increase in distribution rates.
8 Additionally, in this application, LG&E has proposed revisions to its current natural gas
9 transportation program. My testimony specifically deals with LG&E's current natural gas
10 transportation program and LG&E's proposed revisions to this program in this proceeding.

11 **Q. Please explain gas transportation service generally.**

12 A. Gas transportation service is a service option provided by LDCs whereby the LDC
13 transports natural gas through its distribution pipelines to customers as a separate service from
14 the provision of the gas commodity itself. Customers taking gas transportation service typically
15 purchase their natural gas supply from a third-party supplier. The supplier, in coordination with
16 the LDC, is under the obligation to schedule and deliver the customer's natural gas to the LDC's
17 city-gate.

18 **Q. What are the benefits to customers associated with taking gas transportation
19 service?**

20 A. Customers taking gas transportation service, especially C&I customers, avail themselves
21 of a number of unique products to meet their specific gas supply needs as well as the potential to
22 realize cost savings compared to LDC supply offerings. First, obtaining natural gas supply from
23 the competitive market place allows customers to shop for the best price. Additionally, natural

1 gas suppliers can offer a multitude of product offerings that are specifically tailored to a
2 customer's usage profile and risk tolerance, including, but not limited to, fixed price, index-
3 following, and index with cap offerings. In contrast, LG&E only offers customers a quarterly
4 variable rate product.

5 Moreover, by taking competitive supply and participating in a an aggregation pool
6 comprised of a group of the supplier's customers, a customer whose usage deviates from its
7 typical usage profile can mitigate any associated penalties by having its deviations offset by
8 other pool customers.

9 **Q. Can you please describe the Commission's 2010 Order following its investigation of**
10 **natural gas retail competition program and how it relates to this case?**

11 A. In 2010, the Kentucky Legislature directed the Commission to conduct a study of natural
12 gas retail competition programs "to determine whether benefits could be derived from these
13 programs, and to determine whether natural gas retail competition programs could be crafted to
14 benefit Kentucky consumers."² After a comprehensive study, the Commission found that "the
15 evidence indicates that natural gas retail competition provides more benefits to consumers under
16 expanded transportation service than to residential customers under choice programs."³ Holding
17 that the Kentucky LDCs' existing transportation programs "bear further examination," the
18 Commission committed to "evaluate each LDC's tariffs and rate design in each LDC's next
19 general rate proceeding."⁴

20 It is my understanding that this is LG&E's first general rate proceeding since the
21 Commission's 2010 Order. Therefore, in the instant proceeding, the Commission should

² *An Investigation of Natural Gas Retail Competition Programs*, Docket No. 2010-00146, at 2 (KY PSC Dec. 28, 2010) ("2010 Order").

³ *Id.* at 23.

⁴ *Id.*

1 evaluate LG&E's current gas transportation program (and LG&E's proposed revisions) to
2 determine whether its design is crafted in a manner that allows the appropriate array of
3 customers to maximize the benefits of retail natural gas competition.

4 **Q. Can you describe LG&E's current gas transportation program design?**

5 A. LG&E currently provides two natural gas transportation services. Under Rate TS
6 transportation service, LG&E provides customers "firm" service, which is the equivalent level of
7 service provided to sales (*i.e.*, default) service, while allowing them the option to purchase
8 natural gas supply from a third-party supplier instead of LG&E. According to LG&E, Rate TS is
9 designed to serve low-load factor, temperature-sensitive customers that have potentially large
10 and temperature-dependent gas use in the winter months. Rate PS-TS allows TS customers to
11 join an aggregation pool.

12 Under Rate FT transportation service, LG&E provides customers an "interruptible"
13 service where customers taking natural gas supply from a third-party supplier may have their
14 supply interrupted or curtailed by LG&E in times of system reliability stress. LG&E claims that
15 this service option is designed to serve large, volume process gas loads.

16 **Q. Can you please describe key revisions that LG&E is proposing to its TS service that**
17 **specifically relate to your testimony?**

18 A. For LG&E's TS service, LG&E is proposing to withdraw Rider TS which includes a
19 participation threshold of either 50 Mcf per day or 50,000 Mcf per year. In its place, LG&E is
20 proposing a new Rider TS-2 with annual threshold only of 25,000 Mcf per year.⁵ LG&E claims
21 that this lower annual threshold will allow LG&E to provide lower-load factor, temperature-

⁵ Similarly, LG&E is proposing to implement Rider PS-TS-2 to allow TS-2 customers to join an aggregation pool. LG&E has made it clear that PS-TS-2 is not an aggregation service to allow non-qualifying customers to reach the minimum TS-2 threshold.

1 sensitive, large volume gas customers with an opportunity to transport their own gas supplies.
2 LG&E is not proposing to change the current FT participation threshold of 50 Mcf per day.

3 **Q. What are the attributes that Hess looks for in a gas transportation program?**

4 A. First, Hess looks for a participation threshold which is low enough to allow all C&I
5 customers that can economically take advantage of gas transportation service to participate.⁶
6 Obviously, the goal is to maximize customer enrollments and to expand our aggregation pools so
7 that we can optimize the efficiencies of operating the pools (and resultantly, offer more
8 competitive products to customers). Therefore, there needs to be a sufficient level of qualifying
9 customers to warrant our investment to market and operate in a LDC service territory.

10 **Q. What are the deficiencies with LG&E's gas transportation participation threshold?**

11 A. We commend LG&E's effort to lower the participation threshold for one of its
12 transportation program options (lowering the TS-2 threshold to 25,000 Mcf per year and
13 removing the TS-2 daily threshold requirement). However, LG&E's participation thresholds for
14 Rate TS-2 and Rate FT services are still too high. With LG&E's proposed revisions, Rider TS-
15 2's threshold would be 25,000 Mcf per year and Rider FT's threshold remains at 50 Mcf per day.
16 These participation thresholds are significantly higher than most of the thresholds set forth by the
17 other four largest Kentucky LDCs. For instance, it is my understanding that Duke Kentucky's
18 FT-L service threshold (equivalent to LG&E's proposed TS-2 service) is 2,000 Mcf per year,
19 while its IT service threshold (equivalent to LG&E's FT service) is 1,000 Mcf per month. In our
20 view, Duke Kentucky's gas transportation program thresholds are much more reasonable and

⁶ Transportation programs routinely have higher administrative costs (collected through distribution rates) than LDC-supplied default service options. These higher administrative costs are routinely offset by the reduced supply costs obtained through selecting a third-party supplier. A customer must undertake its own cost-benefit analysis as to whether it has sufficient demand that the supply cost savings realized through selecting a third-party supplier outweighs the increase in administrative costs assessed under a transportation program.

1 more in-line with other LDCs where we currently operate throughout the Midwest and East
2 Coast.

3 **Q. Which customers are prohibited from participating in LG&E's gas transportation**
4 **program as a result of the high participation thresholds?**

5 A. In our view, except for the extremely large industrial customers, the predominant share of
6 C&I customers are precluded from participating in the gas transportation program due to the high
7 participation thresholds. In our experience, there are many small and medium industrial
8 customers who cannot meet LG&E's interruptible service (Rate FT) threshold of 50 Mcf per day.
9 Similarly, based on our experience, almost all commercial customers who would focus on taking
10 TS-2 service cannot meet LG&E's firm service (Rate TS-2) participation threshold of 25,000
11 Mcf per year. More specifically, commercial customers such as large box stores (Wal-Mart,
12 Meijer, and Target), grocery stores (like Kroger), colleges, schools, and some hospitals cannot
13 participate in LG&E's gas transportation program due to the high participation thresholds.

14 As the Commission noted in its 2010 Order, "the evidence indicates that natural gas retail
15 competition provides more benefits to consumers under expanded transportation service than to
16 residential customers under choice programs."⁷ To disqualify all of these C&I customers from
17 participating in LG&E's gas transportation program would preclude these customers' ability to
18 realize the benefits of taking competitive natural gas supply, including gaining more price
19 certainty, shopping for the lowest natural gas rates, and hedging their natural gas supply costs in
20 a manner that reflects their risk tolerance. Such a result clearly runs afoul of the 2010 Order.

21 **Q. What revisions to LG&E's gas transportation participation thresholds do you**
22 **recommend?**

⁷ 2010 Order at 23.

1 A. I recommend that the Commission order LG&E to revise and standardize the
2 participation thresholds for TS-2 and FT service and set them both at 2,000 Mcf per year. A
3 2,000 Mcf per year threshold would be more in-line with Duke Kentucky's participation
4 threshold. These revisions will allow significantly more customers to participate in the gas
5 transportation program and realize the benefits of taking competitive natural gas supply.

6 **Q. Can you respond to LG&E's position that lowering gas transportation thresholds**
7 **will pose system reliability and integrity risks?**

8 A. I do not agree with this assessment. LG&E is opposed to lowering the gas transportation
9 participation thresholds below their current levels because it purportedly has reliability concerns
10 with allowing smaller customers to participate in the program. LG&E has reported no instance
11 where it has experienced system reliability issues as a result of having customers being served
12 under gas transportation service. More telling, several other Kentucky LDCs have much lower
13 participation thresholds and I am not aware of any instances in which these LDCs have
14 experienced system reliability issues as a direct result of their gas transportation programs.

15 Moreover, LG&E has several tools at its disposal to manage system reliability. Unlike
16 the other major Kentucky LDCs, LG&E has on-system storage in addition to pipeline
17 transportation capacity. This portfolio of resources provides LG&E with sufficient operational
18 flexibility to deal with customer demand during the operating day and throughout the year.
19 Further, as it notes in its application, LG&E already has the ability to issue Operational Flow
20 Orders ("OFOs") to direct suppliers to deliver more than expected gas so that LG&E can manage
21 FT customer demand on the system more effectively. In addition, LG&E has the ability to
22 curtail (or interrupt) demand for FT (*i.e.*, interruptible) customers.

1 Similarly, LG&E is proposing to implement an “Action Alert” notice system under Rate
2 PS-TS-2 whereby LG&E can require a Pool Manager to deliver anywhere between 0% and
3 100% of the total maximum daily quantity of the Pool on any given day. LG&E has proposed a
4 strict penalty structure for non-compliance with an Action Alert notice. LG&E has more than
5 enough operational assets and administrative mechanisms in place to ensure that all
6 transportation customers and Pool Managers accurately forecast customer load and fulfill all of
7 their delivery obligations so LG&E can meet all system demand reliably. There is no legitimate
8 reliability risk that warrants not significantly lowering LG&E’s gas transportation participation
9 thresholds.

10 **Q. Can you respond to LG&E’s assertion that lowering gas transportation thresholds**
11 **will impact the rates charged to sales customers?**

12 A. I do not agree with LG&E’s assertion. LG&E claims that by lowering the Rate FT
13 participation threshold, more customers will leave sales service and switch to FT service, and
14 thus, decrease these switching customers’ contribution to fixed costs. LG&E’s position rests on
15 the improper assumption that it cannot make any changes to its upstream capacity and on-system
16 storage portfolio if, in fact, more customers leave sales service. For instance, LG&E could
17 employ a capacity release program in order to shift costs away from sales customers.
18 Additionally, LG&E should be routinely evaluating its upstream capacity and on-system storage
19 assets to determine whether it is cost-effective to shed some of these assets. Again, the other
20 major Kentucky LDCs have much lower participation thresholds and I am not aware of any
21 reports that they have had issues with recovering upstream capacity costs and/or have
22 experienced inappropriate cost shifting to sales customers. As such, LG&E’s argument that

1 allowing more customers to switch to FT service will result in higher rates to sales customers is
2 premised on improper inaction by LG&E and should be disregarded.

3 **Q. Can you please reiterate Hess' recommendations to modify LG&E's gas**
4 **transportation program?**

5 A. Yes. Hess recommends that the following modification be implemented:

6 Revise the participation threshold for a customer to take TS-2 and FT service to 2,000 Mcf
7 per year.

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

9 A. Yes.

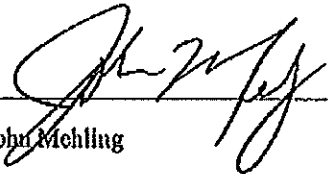
VERIFICATION

STATE OF INDIANA

COUNTY OF MARION

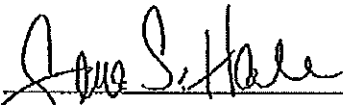
BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared, John Mehling, who, being by me first duly sworn deposed and said that:

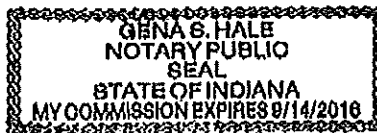
He is appearing as a witness on the behalf of the Hess Corporation before the Kentucky Public Service Commission in an Application filed by Louisville Gas and Electric Company, and if present before the Commission and duly sworn, his testimony would be set forth in the annexed testimony.


John Mehling

SWORN TO AND SUBSCRIBED BEFORE ME this

25th day of September, 2012


NOTARY PUBLIC



John B. Mehling

2424 Willow Lakes East Blvd.
Greenwood, IN 46143

67mehlman@earthlink.net
Home:(317) 889-9191
Cell: (317) 371-6374

Energy Marketing Experience

Proliance Energy, LLC,

2002 - Present

Indianapolis, IN

Proliance Energy is a Midwest Energy Marketer with over \$1.5 billion in revenue serving 1900 wholesale, industrial, and commercial end-users behind 35 LDCs in nine states. The company manages more than 800,000 dth per day of pipeline capacity and over 80 bcf of storage assets on more than 10 interstate pipeline systems. The company has over 100 employees.

Director of Gas Operations

10/03 - Present

Responsible for the daily supervision of all operations relating to upstream and downstream activities. Manages a group of 15 individuals responsible for creating and directing the strategy and processes associated with Commercial & Industrial Services, Utility Services, Small LDC Services and Pipeline Scheduling functional areas. Responsible for the direction of the daily management of all nominations and balancing on the interstate pipelines and the local distribution companies. Direct the supply planning activities related to our utility customers.

Key Accomplishments

- Maintained staffing level while increasing customer counts by 1000 end-users
- Integrated four distinct functional areas into a successful cross-trained operations team
- Administered the development of proprietary nominations and balancing system
- Enhanced customer financial settlement process that resulted in net gain over \$1 million annually
- Developed internal safeguard procedures to ensure FERC compliance concerns
- Oversaw the development of various hedging strategies to reduce balancing costs by \$500K annually

Volume management responsibilities that include:

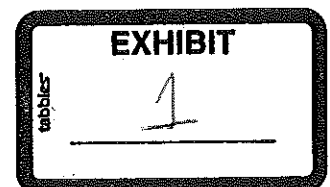
- Scheduling deliveries in accordance with the LDC & Pipeline tariff requirements
- Timely nominations on pipeline & LDC electronic bulletin boards
- Balancing daily and monthly deliveries with customer's consumption & upstream deliveries
- Manage the imbalance trading process
- Monthly reconciliation of cumulative deliveries against consumption and the timely reporting of that activity for the pipelines & LDCs

Transactional Accounting responsibilities that include:

- Timely updates and management of volumetric data in the transactional system(s)
- Month-end invoicing allocations based upon contract terms for all delivered volumes by account
- Pipeline costs allocation and pipeline invoice reconciliation

Utility & Pipeline tariff administration and management responsibilities that include:

- Tariff review and analysis
- Rate review and analysis
- Operational summary of salient tariff terms and conditions
- Contract negotiations for elected LDC services
- LDC & Pipeline relationship management
- Ensure compliance with all FERC requirements



- Manage company's compliance with CGA50 settlement

Economic management responsibilities that include:

- Optimization of imbalance activities
- Ensure optimal transportation routes
- Coordinate appropriate timing of purchases and sales related to balancing
- Work with Trading group to optimize the overall trading portfolio
- Assist the pricing desk with deal structuring and appropriate pricing terms
- Develop revenue generation projects related to utility portfolios

Supervisory responsibilities include:

- Carry out supervisory responsibilities in accordance with the organization's policies and applicable laws
- Responsibilities include interviewing, hiring and training employees
- Planning, assigning, and directing work
- Appraising performance; rewarding and disciplining employees
- Addressing complaints and resolving problems

Sigcorp Energy Services, LLC,

Evansville, IN

1999 - 2002

(Merged with Proliance Energy June, 2002)

Sigcorp Energy Services was a Midwest Energy Marketer with \$850 million in revenue serving 700 wholesale, industrial, and commercial end-users behind 25 LDCs and 5 interstate pipelines in six states. The company had 35 employees.

Gas Trader

01/99-10/03

Responsible for the pricing, sourcing and structuring of physical transactions with an emphasis towards the optimization involving transportation and storage assets.

- Teamed to generate \$15 million in revenue annually
- Negotiated short- and long term natural gas physical trades
- Attained asset optimization by seeking to arbitrage physical positions
- Obtained pipeline transportation through negotiations with pipeline companies
- Developed capacity release program
- Reconciled pipeline invoices for payment

LG&E Energy Marketing,

Louisville, KY

6/97 - 12/98

Energy Coordinator

- Scheduled/nominated gas flow on numerous interstate pipelines
 - Assisted physical gas traders with operational related updates
 - Managed over 100 industrial/commercial accounts behind Chicago LDCs
 - Communicated with plant managers to manage energy needs
 - Handled daily imbalance trading
-

Education

University of Louisville
Master of Business Administration
Louisville, KY 1993

Bellarmino University
Bachelor of Arts: Business Administration
Louisville, KY 1989