Witness OCS-2D

BEFORE THE

PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE JOINT NOTICE AND	**)**	
APPLICATION OF QUESTAR GAS COMPANY	**)**	
AND DOMINION RESOURCES, INC. OF	**)**	**DOCKET NO. 16-057-01**
PROPOSED MERGER OF QUESTAR	**)**	
CORPORATION AND DOMINION RESOURCES,	**)**	
INC.	**)**	

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE

OFFICE OF CONSUMER SERVICES

CONTAINS REDACTED EXHIBIT SUBJECT TO RULE 746-100-16

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JULY 7, 2016

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DIRECT TESTIMONY OF LANE KOLLEN

I. QUALIFICATIONS AND SUMMARY

A. Qualifications

Q. Please state your name and business address.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. What is your occupation and by whom are you employed?

A. I am a utility rate and planning consultant holding the position of Vice President and Principal with the firm of Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I earned both a Bachelor of Business Administration in Accounting degree and a Master of Business Administration degree from the University of Toledo. I also earned a Master of Arts in theology degree from Luther Rice University. I am a Certified Public Accountant, with a practice license, Certified Management Accountant, and Chartered Global Management Accountant. I am a member of several professional organizations.

I have been an active participant in the regulated utility industry for more than thirty years, both as an employee and as a consultant. Since 1986, I have been a consultant with Kennedy and Associates, providing services to state government agencies and large consumers of utility services in the ratemaking, financial, tax, accounting, and management areas. From 1983 to 1986, I was a consultant with Energy Management Associates, providing services to investor and consumer owned utility companies. From 1976 to 1983, I was employed by The Toledo Edison Company in various positions in the areas of accounting, auditing, taxes, and planning.

I have appeared as an expert witness on accounting, finance, ratemaking, and planning issues before regulatory commissions and courts at the federal and state levels on hundreds of occasions. I have developed and presented papers at various industry conferences on ratemaking, accounting, and tax issues. I have testified in dozens of utility merger and other restructuring proceedings, including mergers between electric and gas utility holding companies, as is the case in this proceeding. Most recently, I testified in the Southern Company/AGL Resources merger before the Georgia Public Service Commission ("GPSC") on behalf of the GPSC Staff. Most of these merger and restructuring proceedings have been resolved through settlement and the adoption of various conditions that ensure customers are protected from harm and timely benefit from opportunities, notably cost savings. My qualifications and regulatory appearances are further detailed in Exhibit___(LK-1).

Q. Who do you represent in this proceeding?

A. I represent the Utah Office of Consumer Services ("OCS").

B. Purpose

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the Joint Notice and Application

("Application")of Questar Gas Company ("Questar Gas") and Dominion Resources, Inc. ("Dominion") (or together, "Applicants") for authorization of a transaction (the "transaction" or "Merger") whereby Dominion will acquire Questar Corporation, the parent company of Questar Gas and other affiliates, including Questar Pipeline Company ("Questar Pipeline") and Wexpro. The Applicants also seek an accounting order authorizing Questar Gas to defer "transition" costs incurred in connection with the Merger for subsequent recovery if deemed appropriate by the Utah Public Service Commission ("Commission").

C. Summary

Q. Please summarize your testimony.

A. I recommend that the Commission deny authorization for the proposed Merger unless it imposes necessary conditions. The proposed Merger does not meet the Commission's established merger standards, which protect customers and the public from harm and ensure that customers and the public timely receive benefits.

The proposed Merger imposes significant risks on customers and the public that are inadequately mitigated through the commitments offered by the Applicants and that are not offset with specific and quantified benefits through rate reductions and/or enhanced service quality. These risks include:

1. Risk of increased costs and customer rates with no certainty of offsetting savings or reductions in customer rates, including the costs due to affiliate agreements and increased credit risks.

2. Risk of diminished service quality and reliability.

3. Risk of liability from unrelated businesses and activities, including nuclear risk.

4. Risk of diminished local governance, decision-making, and autonomy.

5. Risk of diminished local access by regulators to decision-makers, regulatory personnel, books and records.

6. Risk of diminished local employment.

The Applicants have not identified and offer no tangible or quantifiable benefits to customers; the benefits asserted by the Applicants are generalized and incapable of quantification.

It is not in the public interest for the Commission to approve the merger, unless it imposes conditions that significantly expand upon the commitments offered by the Applicants. These conditions are necessary to mitigate the risks imposed on customers and the public, ensure that customers are protected from increased costs and diminished service quality, and ensure that customers benefit from timely reductions in rates and enhanced service quality requirements. The conditions also address local control, decision-making, and autonomy, as well as local staffing.

In the following sections of my testimony, I describe the proposed Merger; expand on the standards applied by the Commission in prior proceedings; describe in greater detail the risks imposed by the Merger on customers and the public; address the appropriate accounting and ratemaking for the purchase costs (goodwill, fair value in excess of net book value, other accounting changes, transaction costs), transition costs, and savings, including the deferred accounting for transition costs sought by Questar Gas; address various affiliate risks and costs, including costs incurred from Dominion Resources, Inc. Service Company ("Dominion Service"), Wexpro, and Questar Pipeline Company

("Questar Pipeline"); expand on the other risks and generalized benefits claims; and finally, propose modified or additional conditions that expand on the commitments offered by the Applicants, including a proposal to timely provide savings to customers. In addition to recommending conditions throughout my testimony, I list these modified and additional conditions in my Exhibit___(LK-2).

OCS witness Mr. Richard Baudino provides separate testimony wherein he addresses the credit quality and service quality risks imposed by the Merger and the conditions necessary to mitigate those risks if the Commission does not deny the Merger.

II. DESCRIPTION OF PROPOSED MERGER

A. Overview

Q. Please provide a description of the proposed Merger.

A. The proposed Merger is described in the Application, a PowerPoint presentation made in a technical conference held on April 28, 2016, and responses to discovery in this proceeding and the Wyoming proceedings. I have attached a copy of the PowerPoint presentation as my Exhibit___(LK-3).

Dominion Resources, Inc. and Questar Corporation entered into an Agreement and Plan of Merger ("Plan") dated January 31, 2016. The Plan was attached to the Application in this proceeding as Exhibit 1.1. On the date of closing, Questar Corporation will become Dominion Questar Corporation, a wholly owned subsidiary of Dominion that will continue to exist as a separate legal entity. On the date of closing, Questar Gas will become

Dominion Questar Gas, and will remain a direct wholly owned subsidiary of Dominion Questar Corporation.

After the closing, Dominion plans to contribute (“dropdown”) all or part of the Questar Pipeline affiliate to Dominion Midstream Partners, L.P. (“Dominion Midstream”), a Master Limited Partnership (“MLP”), and divest certain Questar Pipeline assets. Dominion will not contribute the Wexpro affiliate to Dominion Midstream or to any MLP without Commission approval. [Leopold Direct Testimony at 15].

After the closing, Questar Gas will continue to receive certain shared or common services from Questar Corporation; however, in the future, all or some of these services will be provided by Dominion Service. Dominion has not identified or quantified any savings that may result from economies achieved through the proposed Merger.

After the closing, Dominion has no plans to change the organizational structure of Questar Gas or the Utah operations. Dominion has no plans to change the Questar Gas tariffs on file with the Commission, except to reflect the change in name to Dominion Questar Gas Company and other changes in the ordinary course of business. Questar Gas will continue to account for its costs in accordance with the Uniform System of Accounts and will maintain all financial books and records in Salt Lake City where they may be accessed in accordance with current practice.

After the closing, Questar Gas will continue to obtain natural gas from the Wexpro affiliate pursuant to Agreements approved by the Commission and pipeline transportation services from the Questar Pipeline Company affiliate pursuant to FERC tariffs.

Finally, the Applicants offer numerous commitments that they claim will provide benefits to Questar Gas customers and Utah. [Application at 25]. These commitments are categorized as Business, Employee Matters, Regulatory, Financial, and Community. [*Id.*, 25-30].

Q. Have the Applicants identified or quantified any specific savings from the proposed Merger?

A. No. The Applicants claim generally that there will be benefits to customers from Dominion's ownership of Questar Gas due to "greater financial strength and buying power, broader expertise in utility operations and business planning, and a shared focus on safety, reliability, customer service and efficiency of business operations over the long term." [Application at 14]. These benefits are described in generalized terms in the Application and by several of the Applicants' witnesses in their testimony; however, none of these claimed benefits are quantified, and no specific savings opportunities are identified or quantified. [Farrell Direct Testimony, Wood Direct Testimony, Leopold Direct Testimony]. Nor have the Applicants quantified any claimed benefits in response to discovery, including, but not limited to, the response to DPU 6.32. I have attached a copy of the response, along with all other responses cited in that response, as my Exhibit___(LK-4).

The Applicants also state that the proposed Merger "may result in lower costs to Dominion Questar Gas for these [shared or common] services over time." [Application at 12]. However, the Applicants have not yet determined synergies or cost savings that may result from the proposed merger. [*Id.*]. The Applicants have consistently maintained throughout this proceeding that they cannot identify or quantify specific savings opportunities at this time.

The only quantified benefit is the Applicants' offer to increase corporate contributions to charities within the Questar Gas local retail service territory by $1 million annually for at least five years. [Wagstaff Direct Testimony at 4]. However, this offer is independent of any savings that may be achieved through the integration process and does not provide customer benefits, although it may provide some other public interest benefit.

B. Status of the Proposed Merger; Activities Before and After Closing

Q. What is the status of the proposed Merger?

A. The Applicants plan to close the Merger by the end of this year. The Applicants have developed an integration framework and formed integration teams to address operations and shared services. The operations teams are structured to address the integration of Questar Corporation and the three major subsidiaries, Questar Gas, Questar Pipeline, and Wexpro into the Dominion structure and organization. There are seven shared services teams functionally focused on human resources, information technology and telecommunications, supply chain and facilities, regulatory/external affairs, finance and risk management, tax, and accounting. [PowerPoint presentation to Utah parties on April 28, 2016].

The Applicants are actively engaged in "Day 1" integration activities and identification of best practices and efficiency savings. Despite repeated discovery requests from several parties in this and the Wyoming proceedings, the Applicants provided no studies and no reports related to the planning or implementation of such integration activities until they recently provided copies of biweekly status reports in response to OCS 3.08. These status reports provide high-level summaries of the integration activities. I have attached a copy of the response to OCS 3.08 as my Confidential Exhibit___(LK-5).

Other than the high-level biweekly status reports, the Applicants' responses indicate that they are engaged in the "transition process" and have only made tentative decisions, if any, on significant issues, including, but not limited to, centralized services, staffing, employee benefits, accounting, and deferrals of transition costs and savings.

The Applicants are unable or unwilling at this time to quantify costs or savings resulting from the Merger and have offered no proposal to timely provide Questar Gas customers rate reductions to reflect expected or achieved savings. The Applicants state that the Questar Gas general rate case filing this month will be based on "projected costs absent any merger," according to the response to OCS 2.27, and that the filing will include no transition costs, according to the response to OCS 3.13. In other words, the pending Questar Gas general rate case filing does not reflect any costs or savings due to the Merger. Thus, the Applicants will retain all achieved savings until the next Questar Gas rate filing unless the Commission acts in this proceeding or in the pending rate case to ensure that customers receive timely rate reductions for expected or achieved savings. I have attached a copy of these responses as my Exhibit___(LK-6).

C. Investigations by OCS and Other Parties

Q. Please describe the investigations of the Merger by OCS and other parties.

A. OCS has been actively engaged in reviewing the transaction in this proceeding and has issued dozens of discovery requests. The Division of Public Utilities ("DPU") also has been very active in this docket and issued dozens of discovery requests. Similarly, the Wyoming Staff and Office of Consumer Advocate have been actively engaged in reviewing the transaction in Wyoming Docket Nos. 30010-150-GA-16 and 30025-1-GA-16 and have issued dozens of discovery requests. The OCS has reviewed all the discovery responses in this proceeding and in the Wyoming proceedings.

D. Commitments Offered by Applicants

Q. Please describe the "commitments" offered by the Applicants.

A. The Applicants have offered 30 "commitments," which are listed and described in their Application. [Application at 25-30]. Most of these "commitments" are 1) statements of intent or aspirational and not actually commitments, e.g., "Dominion intends to maintain Dominion Questar Gas' customer service at or better than current levels and will strive for continued improvements; 2) statements that recognize legal obligations, e.g., "Dominion and its subsidiaries will continue to honor the Wexpro Stipulation and Agreement, the Wexpro II Agreement or the conditions approved in connection with inclusion of properties in the Wexpro II Agreement; 3) restatements of their Application requests, e.g., "Dominion Questar Gas may defer transition costs associated with the Merger and will only seek recovery of such transition costs to the extent that it can demonstrate that such costs result in a net benefit to customers; and 4) commitments to maintain the status quo, e.g., "Dominion Questar Gas will continue to follow the Commission's Integrated Resource Plan process and guidelines." In addition, the Applicants have offered certain commitments that are consistent with commitments offered by the utilities or conditions imposed in other merger proceedings, e.g., "Dominion Questar Gas will maintain a complete set of books and records, including accounting records, for Dominion Questar Gas at its corporate office in Salt Lake City, Utah."

Q. Do the Applicants include any commitments that customers will not be harmed as the result of the Merger or any commitments to improve service quality or to ensure that achieved savings are flowed through to customers in a timely manner?

A. No. These are overarching concerns of the Commission, as evidenced in prior Commission decisions in other merger proceedings and as set forth in the various standards it has applied in those proceedings.

E. Request for an Accounting Order to Defer Transition Costs

Q. Please describe the Applicants' request for an accounting order to defer transition costs incurred by Questar Gas.

A. The Applicants request "an accounting order authorizing Questar Gas to defer for possible recovery in rates, if it elects to do so, the transition costs it incurs associated with the Merger." [Application at 36]. Despite the significance of this request, the only Applicant witness to address the request was Mr. Fred G. Wood, III. He addressed the request only to the extent that he listed it as a "commitment," stating that "Dominion Questar Gas may defer transition costs associated with the Merger and will only seek recovery of such transition costs to the extent that it can demonstrate that such costs result in a net benefit to customers." [Wood Direct Testimony at 15]. I would note that the proposal for an accounting order is a request; it does not qualify as a "commitment."

Q. Have the Applicants described the transition costs that will be deferred or how the deferrals will be recovered for ratemaking purposes?

A. No. The Applicants declined to provide a working definition of transition costs in response to OCS 2.12, although they described transition costs as "generally expenditures resulting from the preparation and implementation of activities necessary to integrate the purchased entity into the acquiring entity" in response to DPU 3.08. The Applicants declined to provide a description of any proposal to defer and track such costs for purposes of later recovery in response to OCS 2.13. Thus, there is no actual proposal for the deferrals other than the general request for an accounting order. I have attached copies of these responses as my Exhibit___(LK-7).

Q. Do the Applicants plan to reduce any such deferrals for savings achieved as a result of the Merger?

A. No. As I subsequently discuss, Questar does not plan to reduce any transition cost deferrals by the savings or to separately defer the savings. The Applicants stated in response to OCS 2.13 that any such savings would be reflected in rates in a future rate case. In other words, Questar Gas does not plan to timely flow through the savings to customers when they are achieved, but rather plans to retain such savings until a future rate case.

Q. The Applicants state that "Questar Gas will only seek recovery of such transition costs to the extent that it can demonstrate a net benefit to customers" in Mr. Woods' testimony. Have the Applicants provided a methodology for the calculation of the "net benefit"?

A. No. As I subsequently discuss, the Applicants have no specific proposal for the deferral of transition costs or the calculation of the "net benefit" to determine ratemaking recovery. In response to OCS 2.13, the Applicants stated that "The methodology for calculating the net benefit will be developed as part of the transition process."

III. THERE ARE SIGNIFICANT RISKS TO THE PUBLIC FROM THE PROPOSED MERGER

A. The Proposed Merger Imposes Significant Risks on the Public with No Known or Certain Offsetting Benefits

Q. Please summarize the risks imposed on the customers and public by the proposed Merger.

A. The proposed Merger imposes risks that may harm Questar Gas customers and the public. First and foremost, the Merger imposes the risk of increased costs that will affect the revenue requirement and the Questar Gas rates charged to customers. Second, the Merger imposes the risk of diminished service quality and reliability. Third, the Merger imposes the risk of liability from unrelated affiliate business activities, including nuclear risk exposure from Dominion's Virginia Electric and Power Company subsidiary. Fourth, the Merger imposes the risk of diminished local governance and autonomy and decision-making is removed from Salt Lake City to Richmond. Fifth, the Merger imposes the risk of diminished local access by regulators to decision-makers, regulatory personnel, and books and records. Sixth, the Merger imposes the risk of diminished local employment.

I address each of these risks, except for the service quality risk, in more detail in the subsequent sections of my testimony. Mr. Baudino addresses the increase in service quality risk and credit risk in his testimony.

B. Risk of Increased Costs and Customer Rates with No Certainty of Savings or Reductions in Customer Rates (Including Costs Associated with Increased Financing and Credit Risks)

Q. Please describe the risk of increased costs and customer rates.

A. There is a risk of increased costs incurred directly by Questar Gas and costs incurred indirectly by Questar Gas through affiliate transactions. The Applicants have not implemented an accounting process to track transaction and transition costs, according to the response to OCS 2.12. To the extent that transaction costs are misclassified as transition costs or not even identified as either transaction costs or transition costs, they may be included in the revenue requirement in either the rate case filed this month or in future rate case filings.

In addition, there is the risk of increased financing costs. These risks are addressed by Mr. Baudino, who proposes conditions to ensure that these costs are not imposed on Questar Gas customers.

Finally, there is the risk of increased costs through affiliate transactions. Initially, Questar Gas will be charged for shared or common services by both Questar Corporation, its present provider of these services, and Dominion Resources Services, which will provide some or all of these services in the future. There also is the risk of increased costs in charges for natural gas from Wexpro and for transportation services from Questar Pipeline.

<u>C. Risk of Liability from Unrelated Businesses and Activities, Including Nuclear Risk</u>

Q. Please describe the risk from unrelated businesses and activities, including nuclear risk.

A. Dominion is heavily engaged in non-regulated activities through numerous affiliates that have riskier business and financial profiles. Dominion also has nuclear risk through its Virginia Electric Power Company affiliate, which owns and operates four nuclear generating units.

<u>D. Risk of Diminished Local Governance and Autonomy</u>

Q. Please describe the risk of diminished local governance and authority.

A. Questar Corporation, Questar Gas, Questar Pipeline, and Wexpro are all Utah companies headquartered in Salt Lake City. They are autonomous and locally governed, which provides local access and accountability as well as local community involvement by executives and other employees. After the closing, they will become subsidiaries of Dominion and no longer will be locally governed.

<u>E. Risk of Diminished Local Access by Regulators to Decision-Makers, Regulatory Personnel, Books and Records</u>

Q. Please describe the risk of diminished local access by regulators to decision-makers, regulatory personnel, and books and records.

A. This risk is similar to that of the risk of diminished local governance and autonomy, but this risk is from the perspective of the Commission and its ability to provide oversight, set rates, and perform its other public service functions. This requires local access by regulators to decision-makers, regulatory personnel, and the books and records of Questar Gas as well as affiliates that charge costs to Questar Gas, including, but not limited to, Questar Corporation, Dominion Service, Wexpro, and Questar Pipeline.

F. Risk of Diminished Local Employment

Q. Please describe the risk of diminished local employment.

A. There likely will be reductions in local staffing resulting from the transfer of some or all of the shared or common services presently provided by Questar Corporation to Dominion Service. There will be a reduction in local employment if those positions are eliminated in Salt Lake City and consolidated in Richmond.

The reduction in local employment could be mitigated if, after the closing, certain shared or common services are provided to Dominion affiliates, including the former Questar Corporation affiliates, in Salt Lake City rather than in Richmond.

If local employment is reduced, it will negatively impact the local economy and will affect government tax receipts and likely increase government distributions to assist those who lose their jobs.

IV. THE PROPOSED MERGER DOES NOT MEET THE STANDARDS ESTABLISHED BY THE COMMISSION FOR THE APPROVAL OF MERGERS IN PRIOR PROCEEDINGS

A. The Commission's Standards Ensure that Customers and the Public Are Protected from Harm and Timely Receive Benefits

Q. In prior merger proceedings, what standards has the Commission applied?

A. I have reviewed the Commission's Orders in Docket No. 98-2035-04 (Scottish Power acquisition of PacifiCorp) and Docket No. 05-035-54 (MidAmerican acquisition of PacifiCorp). In those Orders, the Commission identified four standards that it applied to ensure that there was no harm imposed on customers and the public and to ensure that there were benefits to customers and the public resulting from the proposed mergers. The Commission referred to the no-harm standard, positive net benefits standard, public interest standard, and just and reasonable standard. I subsequently address each of these standards in greater detail and why conditions are necessary to meet these standards if the Commission does not deny the Merger.

Q. What standards do the Applicants believe apply in this proceeding?

A. It isn't clear that the Applicants believe any standards apply in this proceeding or that Commission approval is necessary. In the Application, they state: "To the extent the Commission believes approval of the Merger is required under Utah law, Questar Gas and Dominion hereby request an order of the Commission authorizing the Merger." [Application at 2].

In the Statement of Joint Applicants on Jurisdiction and Standard for Approval filed on March 10, 2016 in this proceeding, they state: "If the Commission believes approval of the Merger is required, the standard for approval is a finding that the Merger is in the public interest." In that Statement, the Applicants acknowledge that "In addition, the Commission has previously concluded that a merger transaction must provide a net positive benefit to the public to satisfy the public interest standard," although they do not address whether they believe that standard for approval applies in this proceeding or whether they oppose such a standard. In that Statement, the Applicants assert that the commitments they offer ensure that the Merger is in the public interest and that it provides positive net benefits.

B. The No-Harm Standard Protects Customers and the Public from Harm

Q. Please describe the no-harm standard and how the Commission applied it in the Scottish Power proceeding.

A. The no-harm standard is the very minimum standard that should be applied in this or any other merger proceeding. Overall, it is a lesser standard than the positive net benefits standard applied by the Commission in prior merger proceedings, still it is applicable on an overall basis as an overarching condition and to specific costs that may or will be affected by the Merger. The no harm requirement may be met through the structure of the proposed merger, commitments offered by the Applicants, and conditions to approval imposed by the Commission.

In the Scottish Power/PacifiCorp merger, the applicants cited a "no-harm standard" under Utah law, but agreed to accept the positive net benefits to customers standard (Scottish Power/PacifiCorp merger, Docket No. 98-2035-04 Order at 27). Many of the conditions adopted in that merger were to ensure that there was no harm to customers.

Q. Do the commitments offered by the Applicants ensure that there is no harm to customers?

A. No. The commitments do not ensure that costs or rates will not increase or that service quality will be maintained or improved. To the contrary, the risks imposed may result in increased costs and excessive rates to customers and diminished service quality. The increased costs may be incurred directly by Questar Gas through transaction or transition costs or indirectly through increases in affiliate charges, whether through transition costs or otherwise. Although the Applicants commit that they will not seek rate recovery of acquisition premium (goodwill) or transaction costs from Questar Gas customers, they have declined to provide a working definition of transaction costs in response to discovery, which I subsequently discuss in greater detail. The diminished service quality or reliability may occur in the absence of minimum service quality metrics and penalties for failure to achieve. Although the Applicants commit to maintaining or improving service quality, this commitment is aspirational, and does not ensure that there is no deterioration in service quality. Mr. Baudino addresses service quality in more detail.

Additional commitments are necessary to ensure that there is no harm to customers now or in the future from the proposed Merger.

Q. Should the Commission adopt an overarching condition that the merger result in no harm to customers regardless of the cause of the harm?

A. Yes. This is necessary because the Applicants have not agreed to indemnify or hold customers harmless from any increases in costs or rates due to the proposed Merger. The Commission should adopt the following overarching condition. In addition to this overarching condition, I recommend other conditions that address specific costs. Mr. Baudino recommends various conditions that address credit costs.

> The Applicants shall hold harmless Questar Gas customers from costs resulting from the Merger, regardless of whether the costs are incurred directly by Questar Gas or incurred indirectly through affiliate charges from Questar Corporation, Dominion Service, Questar Pipeline, or Wexpro.

C. The Positive Net Benefits Standard Ensures that Customers and the Public Timely Receive Benefits

Q. Please describe the positive net benefits standard and how the Commission applied it in the Scottish Power and MidAmerican proceedings.

A. The positive net benefits standard requires that there be benefits to customers, not only assurance that there will be no harm. The positive net benefits standard was set forth in the Scottish Power/PacifiCorp merger, Docket No. 98-2035-04 Order at 27, and reiterated in the MidAmerican/PacifiCorp merger, Docket No. 05-035-54 Order at 4). As with the no-harm standard, the positive net benefits requirement may be met through the structure of the proposed merger, commitments offered by the Applicants, and conditions to approval imposed by the Commission.

Q. Do the commitments offered by the Applicants provide positive net benefits to Questar Gas customers?

A. No. The positive net benefits standard expands the no-harm standard to require positive net benefits to customers. The commitments offered by the Applicants do not provide any specific and quantifiable positive net benefits to customers. The Applicants have not offered or made commitments to provide any potential benefits to customers through reductions in rates or to improve service quality.

Additional commitments are necessary to provide specific and quantifiable net benefits to customers. I address these commitments in greater detail to ensure that there are reductions in rates for achieved savings. Mr. Baudino addresses these commitments in greater detail to ensure that there is a continued focus on and improvements in service quality.

Q. Should the Commission adopt an overarching condition that the merger result in positive net benefits?

A. Yes. This is necessary because the Applicants have not agreed to provide any specific or quantifiable positive net benefits to customers, except for the proposed increase in charitable contributions which may have public interest benefit, but does not provide any benefit to customers. The Commission should adopt the following overarching condition. In addition, I recommend other conditions that address specific positive net benefits. Mr. Baudino recommends various conditions that address service quality.

> The Applicants shall provide positive net benefits to Questar Gas customers through specific and quantifiable net benefits, which include timely rate reductions to reflect achieved savings.

D. The Public Interest and Just and Reasonable Standards Ensure that Customers, Employees, and the Public Are Protected from Harm and Timely Receive Benefits

Q. Please describe the public interest standard and just and reasonable standards and how the Commission applied those standards in the Scottish Power proceeding.

A. The Commission cited the public interest standard and the just and reasonable standard in its Order approving the Scottish Power/PacifiCorp merger. [Docket No. 98-2035-04 Order at 27]. The Commission did not define those standards in that Order, but asserted that the conditions offered by the applicants and supplemented in the settlement in that proceeding ensured that the merger was in the public interest and was just and reasonable. The conditions in the settlement addressed customer, local access, employee, and other concerns that extended beyond costs, rates, and service quality.

In my experience, the public interest standard and just and reasonable standard require that there be no harm at a minimum and may require that there be positive net benefits, depending on the jurisdiction. In my experience, the public interest standard is quite broad and covers all risks imposed by the merger, while the just and reasonable standard is primarily applicable to the effects on costs and customer rates.

Q. Do the commitments offered by the Applicants ensure that the proposed Merger is in the public interest and just and reasonable?

A. No. First, the commitments offered by the Applicants do not ensure that there is no harm or that there are positive net benefits to customers. If those standards are not met, then the Merger cannot be in the public interest or just and reasonable.

Second, the commitments offered by the Applicants do not adequately address the risks of liability from unrelated businesses and activities, including nuclear risk; diminished local governance and autonomy; diminished local access by regulators to decision-makers, regulatory personnel, and books and records; diminished local employment; diminished local employee benefits.

Additional commitments are necessary to ring-fence Questar Gas from liabilities imposed by affiliates, ensure maintenance of local governance and autonomy, ensure local access, and ensure that local employment is not gutted or that local employee benefits are not modified to achieve savings that will be retained by Dominion.

V. THE COMMISSION SHOULD DEFINE TERMS AND SPECIFY ACCOUNTING AND RATEMAKING FOR MERGER COSTS AND SAVINGS TO ENSURE THAT CUSTOMERS AND THE PUBLIC ARE PROTECTED FROM HARM AND TIMELY RECEIVE BENEFITS REGARDLESS OF WHETHER THE MERGER IS APPROVED OR NOT

A. Purchase Costs Should Not Be Recorded on Questar Gas Company's Accounting Books and Not Allowed Recovery in Rates from Customers

Q. Please define the term "purchase costs."

A. Purchase costs include goodwill (acquisition premium), the excess of fair value over the net book value of the acquired company's assets, transaction costs, and transition costs that are not incurred to achieve savings.

Q. Please define the term "goodwill."

A. Goodwill is the excess of the purchase price over the fair value of the assets of the acquired company. The Applicants agree with this definition, according to their response to OCS 2.06. I have attached a copy of this response as my Exhibit___(LK-8).

These costs typically are recorded on the acquiring company's accounting books and on the acquired company's accounting books. In this case, the goodwill initially will be recorded on Questar Corporation's accounting books and will not be "pushed down" onto the accounting books of its subsidiaries, or more specifically, onto the accounting books of Questar Gas, Questar Pipeline, or Wexpro, according to the Applicants' response to OCS 2.06. However, when Questar Pipeline is contributed to Dominion Midstream, the goodwill for Questar Pipeline will be transferred from Questar Corporation to Dominion

Midstream, according to the response to OCS 2.06. It is not clear whether the goodwill for Questar Pipeline will be pushed down onto the accounting books of Questar Pipeline upon completion of the transfer.

Q. Have the Applicants committed to not seek recovery of the goodwill associated with the Merger from Questar Gas customers?

A. Yes. This is included in commitment "u" in the Application. [Application at 28]. In that commitment, the Applicants state that "Dominion Questar Gas will not seek recovery of any acquisition premium (goodwill) cost or transaction costs associated with the Merger from its customers. Dominion will not record any portion of the cost to acquire or any goodwill associated with the Merger on Dominion Questar Gas' books and is planning to make the required accounting entries associated with the Merger on that basis."

Q. Is commitment "u" sufficient to ensure that none of the goodwill is recovered from Questar Gas customers?

A. No. The commitment should be extended to ensure that none of the goodwill is recorded on the books of Questar Pipeline or Wexpro and that none of the goodwill is recovered from Questar Gas customers directly or indirectly through affiliate transactions, including the purchase of gas transportation services from Questar Pipeline or the purchase of gas from Wexpro pursuant to the Wexpro Agreements.

Q. Please define the term "fair value" and describe the accounting for "fair value" in excess of the net book value of the acquired company's assets.

A. Fair value is the excess of the market value over the net book value of the acquired company's assets. The Applicants agree with this definition, according to their response to OCS 2.08. I have attached a copy of this response as my Exhibit___(LK-9).

In an acquisition, the accounting rules require that the net book value of the acquired company's assets be written up to the fair or market value. This is accomplished through accounting entries on the acquired company's accounting books that debit (increase) the various assets and credit (increase) the additional paid in capital component of common equity.

In this case, the excess of the fair value over the net book value of the acquired company's assets initially will be recorded on Questar Corporation's accounting books and will not be "pushed down" onto the accounting books of its subsidiaries, or more specifically, onto the accounting books of Questar Gas, Questar Pipeline, or Wexpro, according to the Applicants' response to OCS 2.06, OCS 2.09, and WY 2.03. However, when Questar Pipeline is contributed to Dominion Midstream, the excess of the fair value over the net book value for Questar Pipeline will be transferred from Questar Corporation to Dominion Midstream, according to the response to OCS 2.06. It is not clear whether the fair value in excess of the net book value for Questar Pipeline will be pushed down onto the accounting books of Questar Pipeline.

Q. Is commitment "u" sufficient to ensure that none of the fair value in excess of net book value is recovered from Questar Gas customers?

A. No. The commitment should be extended to ensure that none of the fair value in excess of net book value is recorded on the books of Questar Pipeline or Wexpro and that none of the excess of fair value over net book value is recovered from Questar Gas customers directly or indirectly through affiliate transactions, including the purchase of gas transportation services from Questar Pipeline or the purchase of gas from Wexpro pursuant to the Wexpro Agreements.

Q. Are there any potential changes to the assets and liabilities recorded on the accounting books of Questar Corporation and its affiliates that may be required by the Merger?

A. Yes. Dominion may be required to restate the assets and liabilities of Questar Corporation, as well as the assets and liabilities of Questar Gas, Questar Pipeline, and Wexpro to conform to Dominion's accounting policies, according to the Applicants' responses to WY 1.23 and WY 2.03. I have attached a copy of these responses as my Exhibit___(LK-10).

Q. Is commitment "u" sufficient to ensure that none of these changes in the assets and liabilities on the accounting books of Questar Corporation, Questar Gas, Questar Pipeline, and Wexpro are reflected in Questar Gas' cost of service for ratemaking purposes?

A. No. Commitment "u" does not address this issue. Nor does any other commitment proposed by the Applicants address this issue. Consequently, the commitment should be extended to ensure that any accounting changes required to conform the Questar entities' accounting to Dominion's are not reflected in Questar Gas' cost of service for ratemaking purposes. The best way to do that is to ensure that the changes are recorded in subaccounts so that they can be readily excluded for ratemaking purposes.

Q. Please define the term "transaction costs."

A. Transaction costs are costs incurred in pursuing and executing the merger and typically include, but are not limited to, the following costs:

a. Legal, consulting, and other professional advisor costs to initiate, prepare, consummate, and implement the merger, including obtaining regulatory approvals, and compliance with regulatory conditions, although the response to OCS 2.24 indicates that Applicants do not agree that third party legal costs incurred in obtaining regulatory approvals are transaction costs.

b. Rebranding Questar Corporation, Questar Gas, Questar Pipeline, and Wexpro as affiliates of Dominion, including website, advertising, vehicles, signage, printing, stationery, etc., although the Applicants cite "signage" as a transition cost in the response to DPU 3.08.

d. Directors and Officers ("D&O") tail insurance.

e. Executive change in control (severance) costs, which the Applicants have quantified at approximately $15 million, according to the response to DPU 6.69.

f. Executive retention agreement costs.

g. Financing costs incurred to initially finance the merger, costs to subsequently refinance the merger, and increases in financing costs, including short term debt, long-term debt, and common equity due to increased credit risks caused by the merger.

h. Dominion Pipeline restructuring and refinancing costs.

The Applicants declined to provide a definition of transaction costs in response to OCS 2.10, although they generally described such costs in response to DPU 3.07 and provided examples in the responses to OCS 2.10, OCS 2.24, DPU 3.01, and DPU 3.07. I have attached a copy of these responses as my Exhibit___(LK-11).

Q. Have the Applicants committed to not seek recovery of the transaction costs associated with the Merger from Questar Gas customers?

A. Yes. This is included in commitment "u" in the Application. [Application at 28]. In that commitment, the Applicants state that "Dominion Questar Gas will not seek recovery of any acquisition premium (goodwill) cost or transaction costs associated with the Merger from its customers. Dominion will not record any portion of the cost to acquire or any goodwill associated with the Merger on Dominion Questar Gas' books and is planning to make the required accounting entries associated with the Merger on that basis." The Applicants reiterated their commitment that all transaction costs will be recorded at the holding companies and will not be pushed down to Questar affiliates in the responses to OCS 2.11 and WY 1.05. I have attached a copy of these responses as my Exhibit___(LK-12).

Q. Is commitment "u" sufficient to ensure that none of the transaction costs are recovered from Questar Gas customers?

A. No. The commitment should be extended to include a definition of transaction costs and a list of the known transaction costs. This is important because there is a distinction between transaction costs and transition costs for ratemaking purposes. The Applicants have committed that they will not seek recovery of transaction costs from Questar Gas customers, but they seek an accounting order for the deferral and potential recovery of transition costs, which could result in recovery up to the "net benefit" due to the Merger.

The commitment also should be extended to ensure that none of the transaction costs are recovered from Questar Gas customers directly or indirectly through affiliate transactions, including the purchase of gas transportation services from Questar Pipeline or the purchase of gas from Wexpro pursuant to the Wexpro Agreements.

B. <u>Transition Costs That Are Not Incurred to Achieve Savings Are Properly Characterized as Transaction Costs and Should Be Recorded at Dominion or Questar Corporation and Not Allowed Recovery in Rates from Customers</u>

Q. Please define the term "transition costs."

A. Transition (integration) costs are costs incurred to integrate the Questar Corporation and Dominion holding companies, Questar Corporation and Dominion Services shared or common services and activities, the Dominion and Questar utilities, and other affiliates. The costs include, but are not limited to:

a. Day 1 integration (capital expenditures and expenses).

b. Post Day 1 integration (capital expenditures and expenses).

c. Technology integration (capital expenditures and expenses).

d. Employee severance costs, except for executive change in control (golden parachutes).

e. Employee relocation/transfer costs.

f. All other capital expenditures and expenses incurred to implement the merger that are not defined as and included in Transaction costs.

The Applicants declined to provide a definition of transition costs in response to OCS 2.12, although they generally described such costs and provided examples in the response to DPU 3.08. The Applicants declined to identify all such transition costs or how they would be recorded by each entity in response to OCS 2.12. In addition, the Applicants have not quantified actual or projected transition costs, although they were asked to so, and have not separately accounted for actual transition costs incurred to date. Further, the Applicants plan to track transition costs for only 1 year after closing, according to the response to WY 2.13. I have attached a copy of the responses to OCS 2.12, DPU 3.08 and WY 2.13 as my Exhibit___(LK-13).

Q. Are there transition costs that are not incurred to achieve savings and other transition costs that are specifically incurred to achieve efficiencies and savings?

A. Yes. Transition costs can be subdivided into two categories:

a. Costs that are incurred to integrate/reorganize, but are *not* incurred to achieve savings. An example of transition costs that will not be incurred to achieve savings are the costs necessary to integrate hardware and software platforms used by the Questar entities into the platforms used by Dominion. The Applicants provided a list of planned IT integrations in response to OCS 2.23; however, the integration planning is not due to be completed until third quarter 2016; some systems will be "bridged" initially and then fully integrated in 2017.[1]

b. Costs incurred to integrate/reorganize that will achieve savings.

The distinction between these two categories of transition costs is important because transition costs that are not incurred to achieve savings are analogous to transaction costs. They are costs of the Merger, not costs incurred to achieve efficiencies or savings. If the Commission authorizes recovery of transition costs in any manner, whether through deferral and amortization or otherwise, then the transition costs that are not incurred to achieve savings should not be authorized for recovery.

Q. Does commitment "u" address transition costs that are not incurred to achieve savings?

A. No. There is no reference in commitment "u" to transition costs. The commitment should be extended to include transition costs that are not incurred to achieve savings and a list of the known transition costs that fall within that category.

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[1] I have attached a copy of this response as my Exhibit___(LK-28).

Q. Please provide a revised commitment "u" that addresses all concerns with the "purchase costs," including goodwill, excess of fair value over net book value, transaction costs, changes to conform the accounting for assets and liabilities to Dominion's accounting, and transition costs that are not incurred to achieve savings.

A. I recommend that if the Commission does not deny the Merger, then it adopt the following revised commitment "u" as a condition of its approval.

> Dominion Questar Gas shall not seek recovery of any acquisition premium (goodwill) cost, excess of fair value over net book value, transaction cost, or transition cost that is not incurred to achieve savings due to the Merger from its customers. This includes costs incurred directly by Questar Gas and indirectly through charges from affiliates, including Questar Corporation, Dominion Service, Questar Pipeline, and Wexpro. Dominion Questar Gas shall not record any portion of the purchase costs, including goodwill and excess of fair value over net book value due to the Merger on its accounting books. Dominion Questar Gas shall not record any portion of the transaction costs or transition costs that are not incurred to achieve savings due to the Merger on its accounting books, or if it is required to do so by Generally Accepted Accounting Principles ("GAAP") or the Uniform System of Accounts, that it will do so in separately identifiable subaccounts.
>
> a. Transaction costs shall be defined as costs that are incurred in pursuing and executing the merger.
>
> b. Transaction costs shall include, but are not limited to:
>
> - Legal, consulting, and other professional advisor costs to initiate, prepare, consummate, and implement the Merger, including obtaining regulatory approvals, and compliance with regulatory conditions, although the response to OCS 2.24 indicates that Applicants do not agree that third party legal costs incurred in obtaining regulatory approvals are transaction costs.
> - Rebranding Questar Corporation, Questar Gas, Questar Pipeline, and Wexpro as affiliates of Dominion, including website, advertising, vehicles, signage, printing, stationery, etc., although the Applicants cite "signage" as a transition cost in the response to DPU 3.08.
> - Directors and Officers ("D&O") tail insurance.
> - Executive change in control (severance) costs, which the Applicants have quantified at approximately $15 million, according to the response to DPU 6.69.

- Executive retention agreement costs.
- Financing costs incurred to initially finance the merger, costs to subsequently refinance the Merger, and increases in financing costs, including short term debt, long-term debt, and common equity due to increased credit risks caused by the Merger.
- Dominion Pipeline restructuring and refinancing costs.

c. Transition costs shall be defined as costs incurred to integrate the Questar Corporation and Dominion holding companies, Questar Corporation and Dominion Service shared or common services and activities, the Dominion and Questar utilities, and other affiliates.

d. Transition costs that are not incurred to achieve savings shall include, but are not limited to:

- Day 1 integration (capital expenditures and expenses).
- Post Day 1 integration (capital expenditures and expenses).
- Technology integration (capital expenditures and expenses).
- Employee severance costs, except for executive change in control (golden parachutes).
- Employee relocation/transfer costs.
- All other capital expenditures and expenses incurred to implement the Merger that are not defined as and included in Transaction costs.

C. No Transition Costs Should Be Deferred; The Applicants' Deferral Proposal Is Not Defined and Does Not Protect Customers Or Ensure That Customers Receive Timely Benefits

Q. If the Commission approves the Merger, should it authorize Questar Gas to defer transition costs?

A. No. The Commission should direct the Applicants to expense all transition costs as incurred unless it timely flows through expected or achieved savings to customers through a reduction in rates. The Commission should not approve a proposal that the Applicants cannot or will not define. As I previously noted, the Applicants have not provided an actual proposal for deferral and recovery of transition costs, have not properly defined transition costs or provided a comprehensive list of such costs, and have not proposed a methodology for the calculation of Merger Savings.

If the Commission adopts the OCS recommendations to reduce rates 13 months after the closing and deny the request for accounting order, then the Company will have a behavioral incentive to minimize the transition costs and maximize the achieved savings, It will have to fund the transition costs that it incurs through the achieved savings in the 12 months after the closing.

Q. If the Commission does authorize deferral of transition costs, should it require that the deferrals be reduced by achieved savings if there is not a concomitant reduction in rates to reflect the savings?

A. Yes. I recommend that the Commission deny the request for an accounting order. As I subsequently discuss, I recommend that rates be reduced in the 13th month following the closing. However, the Applicants may achieve savings starting on Day 1 after closing and throughout the following 12 months. If customers are required to pay for transition costs as an offset to the savings flowed through to customers in future rates, then the deferred transition costs should be reduced by achieved savings prior to the reduction in rates.

Q. Do the Applicants agree that Merger Savings should be recorded as a reduction to the deferred transition costs if the Commission authorizes an accounting order?

A. No. The Applicants do not agree that Merger Savings should be recorded as an offset to the regulatory asset for deferred transition costs, according to the responses to OCS 2.13 and OCS 3.05. I have attached a copy of these responses as my Exhibit___(LK-14).

Q. If the Commission does authorize deferral of transition costs, should the Commission establish a condition that ensures that customers are not harmed and that they receive the benefits of expected or achieved savings?

A. Yes. If it does not deny the Merger and allows the deferral of transition costs, then the Commission should establish a condition that defines the transition costs that may be deferred and requires an offset for achieved savings not yet reflected in rate reductions to customers. The offset for achieved savings should commence immediately after the closing and continue until the savings are reflected in rates to customers.

I recommend that the Commission adopt the following condition.

> Questar Gas shall not be allowed to defer transition costs. If the Commission chooses to approve the request to defer transition costs, then Questar Gas shall be allowed to defer transition costs incurred to achieve savings, subject to reduction for achieved savings not yet reflected in rate reductions to customers. The calculation of achieved savings shall be consistent with the definition of Merger Savings used to calculate the rate reduction for such savings, i.e., the difference between the O&M/A&G expenses in the 12 months ending the month prior to the closing and the same expenses in the 12 months starting in the month after the closing on a ratemaking basis, adjusted to remove expenses for reserve accruals (bad debt, storm damage, etc.) and unusual, abnormal, and nonrecurring expenses. In no event shall negative savings be used to increase the deferred transition costs.

D. Net Merger Savings Should Be Timely Flowed through to Customers

Q. Please define Merger Savings.

A. Merger Savings are those reductions in operating expenses (operation and maintenance, or O&M, and administrative and general, or A&G, expenses) achieved as the result of the Merger through efficiencies and adoption of best practices.

Q. Can this definition be reduced to a formula?

A. Yes. Merger Savings can and should be objectively calculated pursuant to a simple formula. I recommend that the Commission calculate Merger Savings in the first year as the difference between the O&M/A&G expenses in the 12 months ending the month prior to the closing and the same expenses in the 12 months starting in the month after the closing on a ratemaking basis, adjusted to remove expenses for reserve accruals (bad debt, storm damage, etc.) and unusual, abnormal, and nonrecurring expenses. I recommend that the Commission calculate Merger Savings in each subsequent year using the same 12 months ending the month prior to closing, but update the subsequent 12 months starting the month immediately following the prior year calculation of savings. In no event shall this calculation result in negative savings or an increase in costs and used to increase the deferred transition costs or recover additional costs through the ratemaking process.

Q. Have the Applicants proposed a definition or methodology to calculate Merger Savings or quantified any savings?

A. No. The Applicants have identified no quantifiable savings from the merger, according to the responses to WY 1.21, OCS 2.13, and OCS 2.15. The Applicants have identified no specific plans (activities or timeline) and have prepared no analyses or studies that will "reduce administrative and operations and maintenance expenses incurred by Dominion Questar Gas, according to the response to DPU 6.32, even though such potential savings are cited as a benefit of the Merger. [Application at 31]. I have attached a copy of the responses to WY 1.21, OCS 2.15, and DPU 6.32 as my Exhibit___(LK-15).

The Applicants have identified potential areas of savings in response to DPU 4.17, although they have not quantified any savings. The Applicants claim that "Dominion did not study the mergers of other holding companies and/or utilities to identify and/or quantify transaction costs, transition costs and/or synergy savings," according to the response to OCS 2.20. Nevertheless, Dominion's experience in two prior acquisitions may provide some indication of the savings that may be achieved from this acquisition. The Applicants have provided pre- and post-merger O&M/A&G expenses for Dominion East Ohio and Dominion Hope, two LDCs previously acquired by Dominion in the response to DPU 4.25. The savings are very significant. In 1999, prior to its acquisition by Dominion, East Ohio incurred $270.077 million in non-gas O&M/A&G expenses. In 2001, the year after its acquisition by Dominion, Dominion East Ohio incurred $201.096 million in non-gas O&M/A&G expenses, a reduction of 26%. In 2002, the second year after the acquisition, Dominion East Ohio incurred $159.093 million in non-gas O&M/A&G expenses, a cumulative reduction of 41%.

In 1999, prior to its acquisition by Dominion, Hope incurred $42.806 million in non-gas O&M/A&G expenses. In 2001, the year after its acquisition by Dominion, Dominion Hope incurred $37.479 million in non-gas O&M/A&G expenses, a reduction of 12%. In 2002, the second year after the acquisition, Dominion Hope incurred $29.203 million in non-gas O&M/A&G expenses, a cumulative reduction of 32%.

I have attached the response to DPU 4.17 as my Exhibit___(LK-16) and the response to DPU 4.25 as my Exhibit___(LK-17).

Q. Have other utility mergers achieved significant cost savings?

A. Yes. Concentric Energy Advisors recently performed a study for Wisconsin Energy Corporation that quantified the actual savings from utility mergers. It quantified savings of 3%-5% of the O&M expense incurred prior to the merger compared to the O&M/A&G expense incurred after the merger. The results of this study were reflected in testimony by Mr. John Reed, the President of Concentric Energy Advisors, submitted in a recent Wisconsin Energy Corporation/Integrys merger proceeding before the Wisconsin Public Service Commission in Docket No. 9400-YO-100. I was an active participant and witness in that proceeding. I have attached a copy of the relevant pages from Mr. Reed's testimony as my Exhibit___(LK-18).

Q. What would the annual savings be if the experience of other utilities and Dominion are applied to Questar Gas?

A. Questar Gas incurred $162.5 million in non-gas O&M/A&G expense in 2015, according to its SEC 10-K filing. The annual savings would be $5 million to $8 million if the Concentric study range of 3% - 5% is applied. The annual savings would be $20 million to $67 million if the Dominion prior LDC acquisition savings range of 12% - 41% is applied. These annual savings do not reflect the amortization of any transition costs.

Q. Why is the Applicants' failure to provide a methodology or quantify the savings relevant to the denial or approval of the Merger?

A. It is relevant for numerous reasons. The first is that the calculation of Merger Savings is essential to providing customers a timely sharing of cost savings due to the Merger, an important issue under the positive net benefits standard. There will be no sharing of cost savings unless there is a methodology to calculate those savings.

The second reason is that the Applicants' future request to recover any authorized deferrals of transition costs depends on the calculation of the "net benefit," or the Net Merger Savings. Yet the Applicants have declined to provide a methodology or calculation for the "net benefit."

The third reason is that it is necessary to calculate the Merger Savings used to reduce the transition costs deferred if the Applicants' request for an accounting order is authorized and there is no immediate rate reduction.

The fourth reason is that it defers the calculation of Merger Savings to a future rate proceeding. In that future rate proceeding, the utility may propose that savings be calculated based on so-called avoided costs. That may be an extreme exercise in subjective analyses. For example, the utility may have increased staffing levels after the closing, but argue that it would have increased staffing levels even more but for the Merger. Of course, this is a subjective hypothesis and cannot be objectively tested.

The fifth reason is that the Applicants plan to track transition savings for only one year after closing, according to the response to WY 2.13. That plan does not resolve the issue of how the savings will be calculated or how they will be tracked, and does not address the Applicants' own proposal to recover transition costs to the extent there is a "net benefit."

Q. Is a timely reduction in rates an essential condition if the Commission does not deny authorization for the Merger?

A. Yes. The positive net benefits standard requires a timely reduction in rates, particularly given the risks of cost increases, diminished service quality, and the other risks imposed by the Merger.

Q. What is an appropriate condition to ensure that there is a timely reduction in rates for achieved cost savings?

A. I recommend that the Commission adopt the following condition, which includes the requirement to timely reduce rates and the methodology to determine the reduction in rates.

> Questar Gas shall timely reduce rates, either through a reduction in the base revenue requirement and rates or a surcredit rider, in the 13th month after the closing of the Merger and updated on the annual anniversary thereafter. The reduction shall be equal to the greater of $10 million or the Merger Savings less an amortization over 10 years of the transition costs incurred to achieve savings, reduced by the Merger Savings achieved prior to the rate reduction. Merger Savings shall be defined as the reduction in operating (O&M and A&G) expenses calculated as the difference between the 12 months ending the month before the closing to the 12 months starting the month after the closing and updated on the annual anniversary thereafter. All expenses shall be calculated on a ratemaking basis and exclude all transition costs and all abnormal and nonrecurring costs. The Applicant shall file a report showing the calculation of the Merger Savings and Transition costs, including all workpapers and electronic workpapers in live format with all formulas intact. The rate reduction shall go into effect, subject to adjustment after review and audit of the Merger Savings and Transition costs by the DPU.

VI. CHANGES IN CORPORATE RESTRUCTURE MAY HARM CUSTOMERS WHILE PROVIDING BENEFITS THAT DOMINION WILL RETAIN

Q. Please describe the organizational changes that Dominion plans and the potential effect on the costs charged to Questar Gas.

A. After the closing, Questar Gas will be a second tier subsidiary of Dominion and reported within the Dominion Energy segment. Dominion does not plan to contribute Questar Gas to Dominion Gas Holding ("DGH") even though the other Dominion gas utilities are owned by DGH and obtain all financing through DGH, according to the responses to DPU 2.12 and 2.13. Dominion does not plan to merge Questar Gas into any Dominion entity within the next 5 years, according to the response to WY 1.22. Dominion does not plan any changes in the Questar Gas organization chart, a copy of which was provided in the response to DPU 4.14. Dominion has no plans to transfer assets or contracts into or out of Questar Gas after the closing, according to the response to WY 1.20. I have attached the responses to DPU 2.12, DPU 2.13, DPU 4.14, WY 1.20, and WY 1.22 as my Exhibit___(LK-19).

After the closing, Dominion plans to contribute, or dropdown, Questar Pipeline to Dominion Midstream. Dominion Midstream is organized as an MLP, which means that it is a pass-through entity for income tax purposes and does not incur income tax expense. The MLP structure avoids the double taxation under the present Questar Pipeline structure as a traditional C corporation where it is taxed at the corporation level and the shareholders of Questar Corporation also are taxed on dividend distributions. The details of the dropdown of Questar Pipeline to Dominion Midstream have not been definitively determined at this point, according to the responses to DPU 6.18 and WY 2.03.1. The Applicants have not performed any analyses or studies to quantify the potential costs or benefits to customers from the contribution of all or part of Questar Pipeline to Dominion Midstream, according to the response to DPU 6.18. I have attached a copy of the response to OCS 3.03 as my Exhibit___(LK-22) and the response to DPU 6.18 and all the other responses cited in that response, including WY 2.03.1, as my Exhibit___(LK-20).

It is possible that the contribution will result in an increase in the common equity ratio at Questar Corporation and increase the shared or common costs allocated and charged to Questar Gas and Wexpro. It is possible that the equity ratio at Dominion Midstream or Questar Pipeline will increase and be used to calculate any FERC determined "cost-based" Questar Pipeline charges to Questar Gas. It is possible that the goodwill allocated to Questar Pipeline, but not initially recorded on its accounting books at the closing will be recorded on its accounting books after the contribution to Dominion Midstream, as I previously discussed. This may cause an increase in the wholesale transportation rates charged to Questar Gas. The Applicants assert that "Any decision regarding gas transmission rate treatment for any value above net book value for the contributed assets ('goodwill') would be made by FERC," according to the response to DPU 6.52. It also is possible that the contribution will be considered a tax sale; if so, the accumulated deferred income taxes ("ADIT") could or would be extinguished, potentially increasing any FERC determined wholesale cost-based rates and charges to Questar Gas, according to the response to DPU 6.52. I have attached a copy of the response to DPU 6.52 as my Exhibit___(LK-21).

In addition, Questar Pipeline no longer will incur income tax expense under the MLP structure, but Dominion claims that the FERC precedent nevertheless is to include an allowance for income tax expense in cost-based rates, according to the response to OCS 3.03. Despite all these potential changes to the Questar Corporation charges to Questar Gas and Wexpro and the Questar Pipeline charges to Questar Gas, the Applicants failed to provide any analyses or studies that quantified the potential costs or benefits to customers, according to the response to DPU 6.18. I have attached a copy of the response to OCS 3.03 as my Exhibit___(LK-22) and the response to DPU 6.18 as my Exhibit___(LK-20).

Further, Dominion plans to transfer some or all of the shared or common services presently performed by Questar Corporation for Questar Gas, Questar Pipeline and Wexpro to Dominion Service. However, the Applicants have not yet identified the services that will be transferred, when they will be transferred, the cost to transfer, the savings from the transfer, where the services will be provided (Salt Lake City or Richmond), or what effect the transfer will have on local employment, according to the response to DPU 6.40 and the other responses referenced in the response. The Applicants are unable or unwilling at this time to quantify costs or savings resulting from the Merger, according to the responses to DPU 2.09 and DPU 6.40. In addition, there are differences in the allocation methodologies between Questar Corporation compared to Dominion Service, according to the responses to WY 2.21 (comparison of Questar Corporation and Dominion Service allocation methodologies) and DPU 2.10 (general information regarding Dominion Service allocations). I have attached a copy of these responses as my Exhibit___(LK-23).

These shared or common services costs are charged to Questar directly and through affiliate charges indirectly from Questar Pipeline and Wexpro. The costs charged to Questar Pipeline are recovered from Questar Gas through FERC tariffs. The costs charged to Wexpro costs are recovered from Questar Gas through various agreements approved by the Commission.

During the transition period, and perhaps on an ongoing basis, both Questar Corporation and Dominion Service will charge shared or common costs to Questar Gas, Questar Pipeline, and Wexpro. Charges from the two service companies could increase costs to Questar Gas, at least until Dominion transfers all shared or common service functions to Dominion Services. The Applicants provided direct and allocated charges by account/function/activity for 2010, 2011, 2012, 2013, 2014, and 2015 in the responses to DPU 2.05, DPU 2.05U, and DPU 5.01. The Applicants provided the allocation methods in the responses to DPU 2.06, DPU 2.07, DPU 2.08, DPU 5.05, and DPU 5.05U. I have attached a copy of these responses as my Exhibit___(LK-24).

The Applicants have not yet drafted the Dominion Service agreements, according to the response to DPU 4.19, or offered any commitments that costs will not increase as the result of the Merger.

Finally, the Merger will result in changes in income tax expense for Questar Gas, Questar Pipeline, and Wexpro, all of which could affect the costs incurred by Questar Gas. Presently, Questar Corporation files a consolidated income tax return and the Questar Corporation income tax expense is allocated to Questar Gas and the other affiliates based on net tax (gross tax less credits), according to the responses to DPU 5.02, 5.03, 5.04. After the closing, the Questar entities will be included in the Dominion consolidated tax return, where their income tax expense will be determined pursuant to the Dominion Consolidated Federal Income Tax Allocation Agreement ("Dominion Tax Agreement"). This could result in an increase in income tax expense. I have attached a copy of the responses to DPU 5.02, DPU 5.03, and DPU 5.04 as my Exhibit___(LK-25).

Q. Have the Applicants proposed any commitments or conditions to either hold harmless customers from cost increases due to the affiliate restructurings and other changes or to timely provide savings to customers?

A. No. Consequently, I recommend that the Commission adopt the following conditions.

> Questar Gas shall hold customers harmless from any increases in costs related to the affiliate restructurings due to the Merger, including, but not limited to, the

> provision of shared or common services by Dominion Service and Questar Corporation, the contribution of Questar Pipeline to Dominion Midstream, and the change in income tax expense due to the Dominion Consolidated Federal Income Tax Allocation Agreement compared to the present Questar Corporation tax allocation approach as described in response to OCS 2.42.
>
> Questar Gas shall hold customers harmless from any increases in costs related to the contribution of Questar Pipeline to Dominion Midstream and the extinguishment of any ADIT that existed prior to the transaction.
>
> Questar Pipeline shall reduce its wholesale tariff rates to Questar Gas to reflect a 25% sharing of the income tax expense reduction for a minimum of 10 years.

In addition, I recommend that the Commission adopt the conditions relating to affiliates and affiliate transactions that were adopted by the Commission in the Scottish Power/PacifiCorp merger proceeding. These included limitations on the types of transactions, approvals for certain transactions, reporting requirements, and access to books and records, among others (see Stipulation at 3-5).

VII. APPLICANTS' PROPOSED RING-FENCING COMMITMENTS ARE INADEQUATE

Q. Does the ring-fencing of Questar Gas as a separate non-recourse entity provide adequate liability protection if there is a significant event at Dominion or one of its subsidiaries, such as an accident at one of the nuclear generating units owned by VEPCO?

A. No. The ring-fencing commitments set forth in the Application regarding financing are necessary, but do not address the liability risk and potential costs that may be imposed on Questar Gas from another Dominion affiliate. Consequently, I recommend that the Commission adopt the following condition.

> Dominion shall indemnify Questar Corporation, Questar Pipeline, Questar Gas, and Wexpro from all liability incurred by any other Dominion subsidiary or affiliate now or at any time in the future.

VIII. APPLICANTS HAVE NOT DEFINED THE PROPOSED NEW WESTERN REGION HEADQUARTERS OR MADE ADEQUATE COMMITMENTS TO MAINTAIN LOCAL STAFFING LEVELS OR EMPLOYEE COMPENSATION AND BENEFITS

Q. Have the Applicants described the proposed new Western Region Headquarters, the activities or functions that it will perform, or the costs that it will incur or that may be charged to Questar Gas directly or through affiliate charges indirectly?

A. No. The Applicants stated that Questar Corporation headquarters in Salt Lake City will become Dominion's new Western Region headquarters. [Application at 25]; however, Applicants cannot or will not provide a more detailed description of functions or activities, timeline for development, estimated staffing levels, or costs, according to the responses to OCS 2.36, DPU 6.17. I have attached a copy of these responses as my Exhibit___(LK-26).

Q. Does this unknown constitute a potential risk to Questar Gas customers?

A. Yes. This unknown could result in increased costs to Questar Gas directly and through affiliate charges indirectly.

Q. Have the Applicants proposed any commitments or conditions to either hold harmless customers from cost increases due to this proposed new Western Region headquarters?

A. No. Consequently, I recommend that the Commission adopt the following condition.

> Dominion shall hold Questar Gas customers harmless from any cost increases due to the proposed new Western Region headquarters.

Q. Have the Applicants provided any information, studies, or analyses or organizational and staffing changes at Questar Corporation that may result in reductions in local employment?

A. No. The Applicants claim that they do not know what organizational and staffing changes will be made at QC and that they have performed no studies or quantifications, according to the response to DPU 6.20. Applicants declined to estimate how many local employees will remain local after the closing and 5 years after the closing in the responses to DPU 6.45 and DPU 6.67. I have attached a copy of these responses as my Exhibit___(LK-27).

Q. To the extent that shared or common services are transferred from Questar Corporation to Dominion Services, should all related local staffing be transferred to Richmond?

A. No. To the extent that there are efficiencies and positions are eliminated, then the Applicants should make every attempt to maintain local staffing levels rather than eliminating all positions locally. This can be accomplished by prioritizing local employee staffing and retaining, transferring, or expanding certain shared services functions in Salt Lake City rather than transferring all functions to Richmond.

Q. Should the Commission address local staffing through a condition?

A. Yes. The Applicants offer commitment "j," which states: "Dominion will give employees of Dominion Questar and its subsidiaries due and fair consideration for other employment and promotion opportunities within the larger Dominion organization, both inside and outside of Utah, to the extent any such employment positions are realigned, reduced or eliminated in the future as a result of the Merger." However, this commitment does not address or prioritize local employee staffing and retaining, transferring, or expanding certain shared services functions in Salt Lake City rather than transferring all functions to Richmond.

I recommend that the Commission adopt the following condition.

> Dominion shall not reduce local staffing headcounts by more than 25% from the present levels due to consolidation of Questar Corporation and Dominion Service shared or common service activities. Staffing increases due to the new Western Regional headquarters may be counted in local staffing headcounts. Dominion shall give consideration to the retention or transfer of certain shared or common services in Salt Lake City rather than moving or consolidating such functions in Richmond.

Q. Does this complete your testimony?

A. Yes.