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 Proposed Merger of Questar Corporation and Dominion Resources, Inc.	Docket No. 16-057-01

REBUTTAL TESTIMONY OF DAVID M. CURTIS

FOR JOINT APPLICANTS

Joint Notice and Application Exhibit 3.0R

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I. INTRODUCTION

Q. Are you the same David M. Curtis that offered Direct Testimony in this matter?

A. Yes.

Q. Please explain the purpose of your rebuttal testimony.

A. The purpose of my rebuttal testimony is to support the approval of the proposed merger ("Merger") between Dominion Resources, Inc. ("Dominion") and Questar Corporation ("Questar Corp."), including Questar Gas Company ("Questar Gas"). After the Merger is effective ("Effective Time"), Questar Corp. will become a wholly-owned subsidiary of Dominion that will continue to exist as a separate legal entity (herein referred to as "Dominion Questar"), and Questar Gas (herein referred to as "Dominion Questar Gas") will remain a direct, wholly-owned subsidiary of Dominion Questar and will continue to exist as a separate legal entity with its own complete set of books and records.

I will respond to the direct testimony of Douglas Wheelwright and Kathleen Kelly, submitted by the Division of Public Utilities ("Division"), the direct testimony of Lane Kollen for the Utah Office of Consumer Services ("Office"), and the direct testimony Curtis Chisolm submitted by the American Natural Gas Council ("ANGC"). Specifically, I will address Wexpro Company's ("Wexpro's") return on investment, Questar Gas' capital structure, the Joint Applicants' proposed pension contribution, Merger savings credit, issues related to Questar Pipeline Company ("Questar Pipeline"), income tax issues and issues related to ANGC's proposal to allow transportation customers to pool.

II. WEXPRO RETURN ON INVESTMENT

Q. Mr. Wheelwright expressed concerns about the post-Merger capital structure of Dominion Questar Gas and the continuation of future earnings for Wexpro. Do you expect that Wexpro's rate of return will change as a result of the proposed Merger?

A. No, Wexpro calculates the operator service fee based on a rate of return on investment base. The calculation of this rate of return is defined in the Wexpro Agreement, the Wexpro II Agreement and the Trail and Canyon Creek Stipulations (Docket Nos. 12-057-13, 13-057-13 and 15-057-10). For pre-2016 investment in the original Wexpro properties, this return is based on a premium over allowed returns on equity for a basket of other rate regulated companies. For Wexpro II properties and post-2015 investment on original Wexpro properties, this return is based on Utah and Wyoming allowed returns on rate base for Questar Gas.

Q. Will changes in the sources of capital for Wexpro change these returns?

A. No, these returns are set by a formula established in the agreements. The Merger will not have any impact on the return component of Wexpro's operator service fee.

III. DOMINION QUESTAR GAS CAPITAL STRUCTURE

Q. Mr. Wheelwright also expressed concerns about Dominion Questar Gas's post-Merger capital structure. Please describe his concerns.

A. Mr. Wheelwright argues that after the Merger has closed, Dominion Questar Gas rates should be based on a hypothetical capital structure rather than the actual capital structure.

Q. Do you agree with Mr. Wheelwright?

A. No. The Utah Public Service Commission (“Commission”) has historically used the Company’s actual capital structure for rate-making purposes. Mr. Wheelwright provides no evidence why this should change going forward.

Q. What is Questar Gas' current capital structure and how is the capital structure expected to change by the end of 2016?

A. At December 31, 2015, Questar Gas' capital structure consisted of 47% long-term debt and 53% common equity. In 2016, Questar Gas plans to issue $100 million of long-term debt and receive an equity contribution of $50 million from Questar Corp. By December 31, 2016, Questar Gas is forecasting that its capital structure will consist of 48% long-term debt and 52% equity.

Q. Should Dominion Questar Gas' actual capital structure be used in setting future rates?

A. Yes, as I mentioned before, Questar Gas' rates have historically been set using Questar Gas' own capital structure rather than its parent capital structure or some other hypothetical capital structure. I do not believe this needs to change after the proposed Merger. Dominion Questar Gas plans to continue to issue its own long-term debt. Dominion has committed to maintain credit metrics to support a strong investment grade credit rating. These credit metrics would include maintaining an adequate percentage on common equity in the capital structure.

IV. PENSION CONTRIBUTION

Q. Please explain the quantifiable customer benefits that come from Dominion's commitment to contribute to the Questar pension plan.

A. Dominion has committed to fund an additional $75,000,000 to the Questar Retirement Plan, as discussed by Joint Applicants Witness Wood, and this benefit can be quantified. This equates to an estimated $3.3 million annual reduction to customer rates.

Q. Mr. Wheelwright is unconvinced that the proposed contribution to the pension plan will have any benefit to Dominion Questar Gas customers. Do you believe the pension contribution will provide quantifiable benefits?

A. Yes. The major components of pension cost include service cost for the current year's accrued benefits, interest cost on the plan's liabilities, amortization of actuarial gains and losses and a credit for estimated returns on plan assets. An additional contribution of $75 million to the pension plan would change the calculation of estimated returns on plan assets. The higher return on assets would directly reduce Dominion Questar Gas' portion of pension expense from the Dominion Questar retirement plan. This pension expense is included in rates as part of cost of service.

Q. How much will customers benefit as a result of the pension funding?

A. Based on a 7.0% expected return on plan assets, the $75,000,000 contribution would result in approximately $5,200,000 in annual pension expense reductions (pension contribution multiplied by expected return on plan assets). Applying Questar's current allocation methodology, $3.3 million in annual benefit would be allocated to Dominion Questar Gas customers. Additionally, $0.6 million in annual pension benefit would accrue to Wexpro. This would ultimately be passed to Questar Gas General Service customers through a lower monthly calculated Wexpro operator service fee.

Q. How do you propose to pass the $3.3 million in benefits allocated to Questar Gas on to customers?

A. As Mr. Wood has indicated, Joint Applicants intend to provide the $3.3 million benefit immediately to customers. Joint Applicants propose that, with Commission approval, a $3.3 million aggregate annual Dominion Questar Gas customer credit be applied through the infrastructure rate adjustment mechanism within 60 days of the Effective Time of the

Merger, reducing the amount collected through the tracker surcharge by this amount. This pension credit would result in a reduced infrastructure rate adjustment surcharge of $3.3 million per year. The Joint Applicants propose this credit would continue in the infrastructure tracker until the next (non-pending) general rate case. At that time the credit would be removed from the infrastructure rate adjustment calculation and the ongoing benefits of the pension funding would be moved to base rates and exist in perpetuity.

V. QUESTAR PIPELINE AND INCOME TAX ISSUES

Q. Office Witness Kollen suggests that the contribution of all or part of Questar Pipeline to Dominion Midstream Partners, L.P. ("Dominion Midstream") may result in increased costs for Dominion Questar Gas customers. Do you agree?

A. Contribution of all or a part of Questar Pipeline to Dominion Midstream will not result in any additional costs to customers. Dominion Questar Gas will continue to receive transportation and storage services from Questar Pipeline under existing federally-regulated contracts, tariff and rates and would not see any changes in costs. If Questar Pipeline's tariff or rates were to change in the future, such changes would only occur through proceedings before the Federal Energy Regulatory Commission ("FERC").

While not quantifiable at this time, it is likely that Dominion Questar Gas customers could benefit over time from having a large, well-capitalized parent company which maintains diverse and attractive capital markets access in the bond, equity, and master limited partnership equity markets (the latter access being supported by the contribution of the Questar Pipeline business).

Q. Mr. Kollen proposes that the rates that Dominion Questar Gas pays to Questar Pipeline be reduced by 25% to reflect the impact of changes in Questar Pipeline's

income taxes. Is this an appropriate recommendation?

A. No for several reasons. As I mentioned, Dominion Questar Gas will continue to receive services from Questar Pipeline under the currently-existing contracts and tariff provisions. Any future changes to the tariff and rates would only occur through proceedings before the FERC.

Additionally, the FERC's long-standing policy permits partnerships and other pass-through entities that provide natural gas pipeline services to recover income tax allowances in rates if the entity can demonstrate that the eventual owner or owners has an actual or potential tax liability on income earned by the assets. Dominion will continue to have a liability for income taxes for its ownership interests in Dominion Midstream and would be able to demonstrate that other unit holders would have income tax liability related to their economic interests.

Q. On page 44 of his testimony, Mr. Kollen states that the Merger could result in changes in income tax expense for Dominion Questar Gas, Questar Pipeline, and Wexpro, all of which could affect the costs incurred by Dominion Questar Gas due to consolidated tax returns by Dominion. Please respond.

A. The recovery of income taxes from customers for Questar Gas, Questar Pipeline and Wexpro will not be impacted by the Merger.

Currently, Questar Corp. files consolidated federal and state income tax returns, which include the taxable income of Questar Gas, Questar Pipeline and Wexpro. Questar Gas, Questar Pipeline and Wexpro account for income taxes on a separate return basis and record tax expenses and benefits as they are generated. Questar Corp. retains at the corporate level any differences between the consolidated income tax expenses and those expenses recorded at the business units. These differences relate primarily to the calculation of consolidated state income taxes and apportionment methods that may differ from the separate return calculations. These differences are not passed down to the business units and therefore are not included in the revenue requirement or operator service fee calculations. This methodology is consistent with Dominion's practice for consolidated state tax adjustments, and would not change as a result of the Merger.

Q. Please explain the process to determine the appropriate recovery of income tax expenses from customers.

A. Questar Gas and Questar Pipeline both use the rate base method to determine income tax expense recovery. In each general rate case, the appropriate rate base, the appropriate equity portion of capital structure and the appropriate allowed return on equity are determined. The equity portion of rate base is multiplied by the allowed return on equity to obtain an after-tax equity return. This return is "grossed up" by dividing by one minus the effective income tax rate to calculate the income tax recovery to be included in the revenue requirement. As described above, the effective income tax rate is calculated on the separate return basis, which takes into account the federal income tax rate and state income tax rates in the states in which they conduct business. Thus, any changes to consolidated income taxes have no effect on Questar Gas customer rates.

Deferred income taxes are recorded for temporary differences between book income and taxable income. The largest difference is for book depreciation compared to tax depreciation. These differences are multiplied by the effective income tax rate and recorded as accumulated deferred income taxes. The balances in the accumulated deferred income taxes (generally a credit) reduce the rate base on which the company is allowed to earn a return.

Q. How does Wexpro address the recovery of income taxes?

A. The Wexpro and Wexpro II Agreements outline the method for recovery of income taxes under the Wexpro operator service fee. These Agreements establish a calculation of an after-tax return on investment base. This after-tax return is multiplied by the investment base to arrive at an after tax earnings amount. This amount is “grossed up” by dividing by one minus the effective income tax rate to calculate the income tax recovery to be included in the operator service fee calculation. Again, any changes to consolidated income taxes have no effect on the Wexpro operator service fee.

Wexpro also reduces its investment base by accumulated deferred income taxes.

Q. Will the components of regulatory recovery for income tax expenses change as a result of the Merger?

A. As stated in the Joint Application and supporting testimony, the Joint Applicants have committed that for regulatory purposes, Questar Gas’ accounting will continue to reflect assets at historical costs, approved depreciation rates and deferred income taxes based on original cost in accordance with the Uniform System of Accounts. Therefore, none of the components of the regulatory recovery of income tax expenses are expected to change as a result of the Merger. The separate return methodology will not change as a result of inclusion in the Dominion consolidated income tax returns. Rate base calculations for Questar Gas and investment base for Wexpro will not change as a result of the Merger.

Any decision regarding gas interstate transmission and storage rates related to possible changes in rate base, including accumulated deferred income taxes, would be made through proceedings before the FERC.

VI. TRANSPORTATION CUSTOMER ISSUES

Q. What is Mr. Chisholm's proposal related to pooling?

A. Mr. Chisholm proposes that Questar Gas allowing pooling. However, it is unclear whether he is proposing that pooling be allowed on Kern River Pipeline or Questar Gas. In one sentence he states that Questar Gas has not allowed Summit Energy to pool its customers when natural gas is sourced from Kern River pipeline. Later, he states that Pooling is a service provided by local distribution companies like Questar Gas.

Q. Do you agree that marketers should be allowed to nominate to a pool on Kern River's system?

A. Questar Gas has no opinion on this matter. That is a decision that should be made between the marketers and Kern River.

Q. Do you agree that pooling should be allowed on the Questar Gas system?

A. No. The Commission has previously addressed this issue. In Docket No. 14-057-31, Summit Energy LLC (the organization for whom Mr. Chisolm works and a member of ANGC) (Summit) argued that Questar Gas should allow transportation customers to aggregate or "pool" volumes delivered on behalf of their customers in order to avoid transportation imbalance charges associated with daily imbalances. The Commission rejected the proposal, noting that allowing such pooling "would put . . . the objectives of the daily imbalance charge in jeopardy and could create artificial market incentives among Agents". Docket No. 14-057-31, Order issued November 9, 2015, Page 36. As a result, Questar Gas' practice has not changed, and it does not allow its transportation customers to aggregate volumes.

Mr. Chisolm's proposal in this docket seems to be similar. He defines pooling to be a "service provided by local distribution gas companies like Questar Gas that allows suppliers . . . to deliver to the company the natural gas supplies that are needed to serve the full firm requirements of all of the firm transportation customers that are part of the supplier's pool." Chisolm Direct at lines 41-45. This appears to be an attempt to revisit the very issue that the Commission decided in Docket No. 14-057-31.

Q. Should the Commission consider requiring Dominion Questar Gas to implement this new service in this docket?

A. No. I propose the Commission reaffirm its decision in Docket 14-057-31.

Q. How do you respond to Mr. Chisolm's suggestion that Dominion Questar Gas "establish a relationship directly with Summit and other suppliers."

A. The Commission should reject this request. The Commission addressed this issue in Docket No. 14-057-31 and noted that the Commission's "mandate is to regulate Questar's relationship with its customers" not with agents and gas suppliers. Docket No. 14-057-31, Order issued November 9, 2015, Page 36. Gas suppliers like Summit are not Questar Gas's customers. The Commission has provided their decision on this matter in Docket No. 14-057-31, and it need not be revisited here.

Q. Would "establishing a relationship with Summit and other suppliers" eliminate the $4,500 fee?

A. The administrative fee includes not only account management costs, but also costs for nominations, gas control, and billing. The costs of these groups would continue to exist if Dominion Questar Gas established a direct relationship with Summit. If the administrative fee were eliminated these costs would need to be collected in volumetric rates. Thus, Mr. Chisholm's proposal to eliminate the $4,500 Administrative Fee results in either a "general rate increase" or a "general rate decrease" and should only be considered within a general rate case. The Commission should not consider addressing this proposed rate change here.

Q. Does this conclude your testimony?

A. Yes.

State of Utah)

) ss.

County of Salt Lake)

I, David M. Curtis, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief.

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David M. Curtis

SUBSCRIBED AND SWORN TO this __ day of July, 2016.

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Notary Public