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 FRED G. WOOD, III

FOR JOINT APPLICANTS

July 28, 2016

Joint Notice and Application Exhibit 6.0R

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I. INTRODUCTION

Q. Are you the same Fred G. Wood, III that offered Direct Testimony in this matter?

A. Yes.

Q. What is 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 comments, concerns and recommendations made by the Office of Consumer Services ("Office") and the Division of Public Utilities ("Division"). Specifically, my testimony (i) discusses the financial and non-financial benefits of the Merger, as well as the protections afforded to Dominion Questar, including Dominion Questar Gas, as a result of the Merger; (ii) presents additional commitments the Joint Applicants make in connection with the Merger; (iii) responds to positions concerning transaction costs; (iv) addresses post-Merger cost of service issues, including the Merger integration process, transition costs, cost allocation and cost cap / hold harmless provisions; and (v) address the "most favored nation clause." Other Joint Applicant witnesses will further address these issues as indicated in my responses.

II. MERGER BENEFITS AND PROTECTIONS

Q. Various witnesses from the Division and the Office have questioned benefits of the Merger. How do you respond?

A. In determining whether to approve the Merger as being in the public interest, the Joint Applicants understand that it is important for Dominion and Questar to show that the combination of these companies will be beneficial to customers, as well as to Utah as a whole. We firmly believe that the Joint Notice and Application and testimony submitted in this proceeding, along with the various commitments contained therein, demonstrate and sufficiently support such benefits. I will describe later in this rebuttal testimony certain additional commitments that the Joint Applicants are also now making based on the concerns and comments raised by the Division and the Office in their testimony.

Q. Why does Dominion believe that Questar Gas, its customers, and the State of Utah will benefit from this Merger?

A. Let me first address this in terms of Dominion's scale, experience, operational diversity, and core values as a company. Dominion is one of the largest energy companies in the United States, with more than a century of experience in regulated utility operations and a broad footprint in the areas of gas transmission and distribution, in addition to electric generation, transmission and distribution services. Dominion has an outstanding record of safe operations, environmental responsibility, superior customer service, and commitment to our employees and the communities we serve. These principles will complement similar operating values at Questar. In addition, Dominion's large and stable platform will provide important risk mitigation benefits for Questar Gas, ready access to cost-effective capital resources, and operational benefits. In an era of increasing operational complexity, regulatory requirements and consolidation in the industry, Dominion will be a stable and effective partner for Questar and its customers for many years into the future.

Q. Mr. Wood, how does this translate specifically into financial or other benefits to Questar Gas' customers?

A. The Merger benefits have been outlined and discussed by the Joint Applicants in direct testimony and are summarized as follows:

- Dominion Questar Gas will benefit from being part of a corporate organization that has enhanced geographic, business and regulatory diversity, along with greater financial and operational scale;

- Dominion's operations in the Mid-Atlantic region will strengthen Questar Corp. and Questar Gas. An example of the benefit of geographic diversity is that if a natural disaster were to occur in Dominion Questar Gas' service area after the Merger, Dominion Questar Gas would have access to resources such as call centers, operations and management outside the affected area during and immediately after that disaster;

- As one of the largest and safest operators of energy infrastructure assets, the combined company and its subsidiaries will benefit from the adoption of best practices across an expanded platform of service, which stands to improve employee and public safety, increase customer service and minimize operational costs;

- Dominion Questar Gas will benefit from participation in Dominion's services company model wherein each of Dominion's operating businesses has access to an array and level of services, support, and economies of scale that are typically only available to a much larger company;

- Dominion Questar Gas will benefit by having an enhanced ability to finance capital investment and ensure safe, reliable and cost-effective operations across a growing customer base;
- Dominion Questar Gas will continue to maintain access to short-term funds which provide liquidity at cost-effective rates; and
- Dominion Questar Gas will benefit from the voluntary pension contribution of $75,000,000 that Dominion has committed to make as part of the Merger, as well as increased local charitable contributions, both of which will be undertaken solely at Dominion shareholder expense.

Joint Applicant Witness David A. Christian (adopting the direct testimony of Joint Applicant Witness Diane Leopold) specifically addresses examples of how these benefits of the combination may directly enhance Dominion Questar Gas' operations in the future across many areas that impact the safe, reliable and cost-effective distribution of natural gas, along with other important aspects of customer service.

Q. How can these benefits you describe be quantified for purposes of the Commission's consideration?

A. First, I think it is important to recognize that some of the benefits that I and other witnesses are describing are qualitative in nature, and/or are likely to occur but difficult to assign a dollar value to at this pre-Merger stage of the combination. That does not minimize their importance, though, nor do we believe that it excludes them from the Commission's consideration in determining whether to approve the Merger.

With that said, I would highlight the following financial benefits of the Merger:

- <u>$75 Million Pension Contribution</u>: Dominion, at shareholder expense, will contribute $75 million to Questar's currently underfunded pension plan. This contribution, which will be made within six months of the closing of the Merger, will directly reduce pension expense recovered through customer rates (these savings are presently estimated at approximately $4 million annually), and this benefit will continue in perpetuity. I will describe a proposed mechanism for promptly flowing these benefits directly to Dominion Questar Gas' customers in my discussion ahead on additional commitments by the Joint Applicants.

- <u>Lower Operating Costs Post-Transition</u>: Dominion's scale, which provides opportunities for more efficient provision of services by Dominion Questar Gas (without compromising service levels), is expected to reduce certain cost of service elements over time. Merger-related integration savings cannot be quantified as yet, but will certainly be subject to evaluation in a future general rate case, with a commitment by Dominion Questar Gas to regularly report on integration progress in the interim. I will also discuss later in this rebuttal testimony an additional commitment by the Joint Applicants along these lines designed to hold customers harmless from any potential increase in costs associated with the Merger.

- <u>Increased Charitable Contributions:</u> Dominion, at shareholder expense, will increase Questar Corp.'s historic level of charitable contributions by at least $5 million ($1 million annually for at least five years).

Q. In assessing "net benefits" associated with the Merger, are there also protections for customers which the Joint Applicants have committed to that reduce or eliminate risks and potential negative consequences of the combination?

A. Yes. Many of these protections center on Questar Gas maintaining its independent operational authority and financial integrity. While Questar Gas and its customers will benefit from becoming a part of the larger Dominion family, this will occur while maintaining autonomy in key respects over the Company's historically sound operations. In this respect, the Merger will be notable for what will *not* change, as well as what will change. Dominion Questar Gas will be an independent operating subsidiary of Dominion with local management authority. Commitments to necessary and cost-effective capital investments will continue, and performance against customer satisfaction standards will be maintained, if not augmented, after the Merger. Numerous legal and financial ring-fences will exist to appropriately separate and insulate Dominion Questar Gas from other Dominion affiliates. Direct access to the capital markets will be maintained and enhanced. Regulatory oversight and authority will be seamless, and Dominion Questar Gas will continue its close partnership with regulators and stakeholders in its operating jurisdictions. In short, the benefits of the Merger, including cost of service reductions over time, can be provided without adverse impact to Questar Gas' core mission and provision of services. The commitments along these lines previously made by the Joint Applicants are set out in the "Commitments and Benefits" section of the Joint Notice and Application at pages 25-32 and described in my direct testimony, which I hereby incorporate by reference.

III. ADDITIONAL COMMITMENTS

Q. You mentioned additional Merger-related commitments by the Joint Applicants beyond those identified in the Application. Please elaborate.

A. The Joint Applicants believe that the evidence provided to date demonstrates that the Merger will benefit Questar Gas and its customers and is in the public interest. However, the Joint Applicants are wholly committed to taking reasonable efforts in order to address any concerns over the Merger raised by interested parties, including the Division and the Office. To that end, the Joint Applicants have provided additional information to the Office and the Division, responding to over 350 discovery requests and participating in a Technical Conference on April 28, 2016. The Joint Applicants have also carefully considered the positions advocated in the testimony of the Division's and the Office's witnesses. As a result, the Joint Applicants are willing to make the following additional commitments, and/or to clarify or amplify prior commitments as contained in the Joint Application. These additional commitments address four subjects as discussed more fully below: (1) pension plan contribution and associated rate credit; (2) transaction costs; (3) transition costs; and (4) cost cap / hold harmless provisions.

Pension Plan Contribution and Proposal for Immediate Rate Credit to Reflect Reduced Pension Expense

Q. Please explain the previously offered commitment on the pension contribution.

A. In the Joint Notice and Application as commitment "k," the Joint Applicants committed as follows:

> Dominion will use commercially reasonable efforts (subject to changes in interest rates or other actuarial factors and the plans' investment performance) to provide up to $75,000,000 toward the full funding of (i) Questar Corporation's ERISA-

qualified defined-benefit pension plan in accordance with ERISA minimum funding requirements for ongoing plans, and (ii) Questar Corporation's nonqualified defined-benefit pension and postretirement medical and life insurance (other post-employment benefit ("OPEB")) plans on a financial accounting basis, in each case by the end of the first fiscal year commencing on or after the Effective Time, subject to any maximum contribution levels or other restrictions under applicable law.

Q. What is the Joint Applicants' expanded commitment as to this issue?

A. The Joint Applicants now commit as follows:

Dominion, at shareholders' expense, will contribute a total of $75,000,000 toward the full funding of (i) Questar Corporation's ERISA-qualified defined-benefit pension plan in accordance with ERISA minimum funding requirements for ongoing plans, and (ii) Questar Corporation's nonqualified defined-benefit pension and postretirement medical and life insurance (other post-employment benefit ("OPEB")) plans on a financial accounting basis, subject to any maximum contribution levels or other restrictions under applicable law, thereby reducing pension expenses over time in customer rates. Dominion represents that said $75,000,000 contribution, based on current plan funding, would be permissible and well within maximum contribution levels and other restrictions under applicable law. Dominion will fully fund this contribution within six months of the Merger Effective Time. 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. A review of the proper inclusion and rate treatment of this credit would occur as part of the next infrastructure rate adjustment mechanism proceeding. This credit would continue through the conclusion of the Company's next (non-pending) general rate case in or about 2019, at which time the credit would be removed from the infrastructure rate adjustment calculation and the on-going benefits of the pension funding would be included in the base rate calculation, in the general rate case, on a permanent basis.

Q. Please summarize the changes in this commitment.

A. There are three ways that Joint Applicants are enhancing this pension plan contribution commitment. First, Dominion is clarifying its unequivocal commitment to this $75,000,000 contribution (at shareholder expense) for the benefit of Questar Gas employees and its customers, thereby enhancing the earlier commitment language to "use commercially reasonable efforts" to do so. Second, Dominion is committing to a certain timeframe for the contribution, which will occur within six months following the Effective Time of the Merger. Finally, the Joint Applicants are proposing a mechanism to provide immediate rate relief to customers associated with the reduced levels of pension expense that will result from this $75,000,000 contribution to the pension plan.

Q. How much will customers save as a result of the Dominion voluntary pension funding?

A. Adding $75,000,000 to the plan assets will translate directly into a reduction in pension expense borne by the customers. As Joint Applicant Witness David M. Curtis calculates, using a 7.0% plan asset return rate would yield about $3.3 million in annual savings to Dominion Questar Gas customers. Additionally, $0.6 million in annual pension savings would accrue to Wexpro Company ("Wexpro") when the $75,000,000 pension contribution is made. This would be passed to Questar Gas General Service customers through the monthly calculated Wexpro operator service fee, for a total customer benefit of approximately $4 million annually. While the value of and return on plan assets will fluctuate depending upon market conditions in the future, the benefit to customers (and employees) of this funding will continue in perpetuity.

Transaction Costs

Q. What are the Joint Applicants' refined commitments with respect to transaction costs?

A. The Joint Applicants agree that costs associated with effecting the Merger transaction will not be recovered from customers. In the Joint Notice and Application, Dominion offered descriptive criteria as to what constitutes such transaction costs. Now, in response to questions raised concerning certain categories of costs, the Joint Applicants are committing to a further refined definition of transaction costs.

Q. What is the Joint Applicants' augmented definition of transaction costs and position on their recoverability?

A. Joint Applicants commit as follows:

> Transaction costs are defined as costs incurred to complete the acquisition of the equity interests, including the costs of bringing the merging entities into agreement and obtaining approvals for the Merger. Transaction costs associated with the Merger will not be recovered through rates regulated by the Commission. The Joint Applicants commit to exclude from rates the following as transaction costs:

- Legal, consulting, and other professional advisor costs to initiate, prepare, consummate, and implement the Merger, including obtaining regulatory approvals.
- Rebranding costs, including website, advertising, vehicles, signage, printing, stationery, etc.
- Executive change in control (severance) costs.
- Financing costs related to the Merger, including bridge and permanent financing costs.

Following this augmented definition, the areas of disputed transaction costs appear to be limited. I will address those remaining issues in a subsequent section of my rebuttal testimony.

Transition Costs

Q. Have the Joint Applicants modified their position with respect to transition or integration costs associated with the Merger?

A. Yes. During the transition period, costs associated with integrating the two companies will be incurred across a host of areas. Ultimately, the goal of the integration process will be to provide a cost-effective platform for the continued operation of Dominion Questar Gas, including the leveraging of Dominion's services company model. We are confident that the Merger will result in an aggregate cost structure that is beneficial to Dominion Questar Gas' customers. However, based on concerns expressed over the earlier transition cost deferral proposal, and recognizing that identification and quantification of specific transition costs at this stage is not reasonably possible, the Joint Applicants have determined to withdraw their request for permission to defer such costs.

Q. What is the Joint Applicants' revised proposal, then, with respect to transition costs?

A. The Joint Applicants request approval of the following commitment:

> Any transition or integration costs arising from the Merger will not be deferred and will be expensed as incurred during the transition period. Dominion Questar Gas' cost of service for the purpose of developing distribution non-gas base rates will be evaluated in Dominion Questar Gas' next general rate case filing, which is currently anticipated in or about 2019, and this filing shall identify remaining transition costs, if any, in Dominion Questar Gas' test period.

Cost Cap / Hold Harmless Provisions

Q. How will the Joint Applicants mitigate the risk to customers associated with potentially higher operating costs due to the Merger?

A. As I noted, while the opportunities for cost savings have yet to be identified and quantified, and those savings will occur over time, we are confident that the Merger will not increase total operating costs borne by Dominion Questar Gas' customers. To that end, the Joint Applicants are committed to two key provisions which will hold customers harmless against any such increase in costs arising as a result of the Merger.

Q. What are those commitments?

A. The Joint Applicants commit as follows:

> Dominion Questar Gas will not seek recovery in its next general rate case of any increase in the aggregate total of Operating, Maintenance, Administrative and General expense (excluding energy efficiency and bad debt costs) per customer,

> unless it can demonstrate that the increase in such total expenses was not a result of the Merger.

Q. Is the same commitment being made with respect to Dominion Questar Gas' cost of capital?

A. Yes. Joint Applicant Witness James R. Chapman addresses this in greater detail, but the Joint Applicants are now committing that:

> For the first four years following the Effective Time, in any rate proceeding where Dominion Questar Gas' rate of return is established or the utility seeks to reset the previously authorized rate of return on rate base, Dominion Questar Gas will demonstrate that its cost of debt proposed for recovery in rates is not greater than would have been incurred absent the Merger.

IV. REBUTTAL TO DIVISION AND OFFICE WITNESS TESTIMONY

Transaction Costs

Q. Turning to the testimony specifically, Office Witness Kollen and Division Witness Kelly take the position that the Joint Applicants should not be able to seek recovery of transaction costs. Do you agree?

A. Yes, as noted and defined above. We agree with Mr. Kollen that a more detailed description of transaction costs would be beneficial and have further refined this commitment accordingly.

Q. Do you agree with Division Witness Kelly's recommendation on page 40 of her testimony that the corporate levels of Questar Corp. and Dominion should be

responsible for the transaction costs, not the affiliates of either entity, and those transaction costs should be ineligible for recovery regardless of whether the Merger occurs or is terminated?

A. Yes. Joint Applicants agree and have previously taken the position that transaction costs associated with the Merger will be undertaken at shareholder expense and will not be passed on to customers in rates. If there are any costs that must be recognized on Dominion Questar Gas' Generally Accepted Accounting Principles ("GAAP") books and records, Dominion will establish the appropriate cost tracking mechanisms necessary to readily identify such amounts. In the event the Merger is terminated, the costs will be borne by the acquirer or acquiree as specified in Section 7.3 of the Agreement and Plan of Merger between Dominion and Questar Corp. To the extent Questar Corp. pays a termination fee, these costs will be kept at the parent level and will not be passed on to customers in rates.

Q. Mr. Kollen and Ms. Kelly identified certain costs as transaction costs. Do you agree or disagree with their characterization of these costs as transaction costs?

While there is much common ground here, the Joint Applicants disagree with their characterization of certain costs as transaction costs. Below I set forth the costs Mr. Kollen and/or Ms. Kelly identify as transaction costs and explain why the Joint Applicants agree or disagree with their characterization of such costs.

- *Legal, consulting, and other professional advisor costs to initiate, prepare, consummate, and implement the merger, including obtaining regulatory approvals, and compliance with regulatory conditions* . . . . (Kollen at 27)

  Response: Joint Applicants agree that legal, consulting, and other professional advisor costs to initiate, prepare, consummate, and implement the Merger, including obtaining regulatory approvals, are transaction costs. The Joint

Applicants also agree that third party (outside counsel) legal costs incurred in obtaining regulatory approvals are transaction costs.

However, Joint Applicants do not agree to the broad suggestion that costs associated with "compliance with regulatory conditions . . ." would necessarily constitute transaction costs. For instance, the Joint Applicants are making a commitment to maintain customer service at current or better levels after the Merger. (*See* commitment "f") That could be considered a "regulatory condition" of the Merger approval, but such acts would be fundamental cost of service activities and such costs, if prudently incurred, would be eligible for recovery through rates. The Joint Applicants submit that the augmented commitment definition of transaction costs is appropriately tailored in this regard.

- *Rebranding Questar Corporation, Questar Gas, Questar Pipeline, and Wexpro as affiliates of Dominion, including website, advertising, vehicles, signage, printing, stationery, etc.* (Kollen at 27)

  Response: The Joint Applicants agree that these are transaction costs.

- *Directors and Officers ("D&O") tail insurance.* (Kollen at 27)

  Response: The Joint Applicants disagree that D&O tail insurance costs should be considered transaction costs. This is not a transaction cost that is a one-time cost without any associated savings. Rather, D&O tail insurance is a transition cost where there is a net benefit to customers in terms of the cost of D&O insurance. The current amounts for D&O insurance allocated to Questar Gas from Questar Corp. are expected to be higher than what will be allocated if the Merger is approved. In order to achieve that expected benefit, though, the tail insurance for activities that occurred prior to the Merger must be covered.

I would also note here that, if the Joint Applicants' Merger commitment on transition costs is approved, any D&O tail insurance premiums will be expensed as incurred during the transition period. To the extent there are such premium costs included in the next general rate case test period cost of service, they are not expected to be substantial. Regardless, the Joint Applicants submit that this category of costs is properly classified as a transition, and not a transaction cost.

- *Executive change in control (severance) costs.* (Kollen at 27; Kelly at 48)

  Response: The Joint Applicants agree that these are transaction costs.

- *Executive retention agreement costs.* (Kollen at 27)

  Response: Although the Joint Applicants do not agree that executive retention agreement costs are transaction costs (because they have a corresponding retention-related benefit), we agree not to seek recovery of such 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.* (Kollen at 28)

Response: The Joint Applicants agree that financing costs incurred to initially finance the Merger are transaction costs, and that costs to subsequently refinance the Merger are transaction costs.

As to any increases in financing costs following the Merger, Joint Applicants do not agree that these meet an appropriate definition of being a transaction cost. The Joint Applicants suggest that their commitment to a future cost of debt hold harmless provision, which both I and Mr. Chapman discuss, should sufficiently address concerns as to this issue.

- *Dominion Pipeline restructuring and refinancing costs.* (Kollen at 28)

Response: Although such costs are not directly related to the Merger, the Joint Applicants agree that costs to contribute Questar Dominion Pipeline assets to the Dominion Midstream Master Limited Partnership, including all legal, consulting, professional advisor or related costs, will not be recovered from customers.

Q. Division Witness Kelly and Office Witness Kollen also recommend that goodwill should be considered a transaction cost which is not recoverable in Dominion Questar Gas' rates. Do you agree?

A. Yes. In fact, the Joint Applicants made that commitment not to seek recovery of goodwill in the Joint Notice and Application as commitment "u."

To be clear, goodwill will be recorded at the Dominion parent level. None of the fair value in excess of the net book value of Questar Corp. (goodwill) will be recorded on the books of Wexpro or Questar Gas or be billed or allocated to these entities. As to Questar Pipeline, any decision regarding gas transmission rate treatment for any value above net book value for the contributed assets (goodwill) would be made by the Federal Energy Regulatory

Commission.

Q. Do the Joint Applicants agree with Division Witness Kelly that the commitment to increase Dominion Questar Gas' charitable contributions by $1 million per year for at least 5 years should be considered transaction costs and not recoverable in rates?

A. While not a transaction cost, we agree that this voluntary commitment by Dominion associated with the Merger will be undertaken at shareholder expense and not passed on to customers in rates.

Q. Division Witness Kelly recommends that the commitment to contribute to Questar Corp.'s pension and OPEB plans should be considered a transaction cost. Ms. Kelly also disagrees that the $75 million pension contribution will provide timely and quantifiable customer benefits because the contribution amount could be considered a transition cost and its benefit as a rate reduction is uncertain. Please respond.

A. As explained above, Dominion will contribute a total of $75 million toward the funding of Questar Corp.'s pension and OPEB plans. Like the charitable contributions discussed above, this is not a transaction cost, but rather a voluntary commitment that will be undertaken at shareholder expense. As noted previously, pension expenses collected in rates will be reduced as a result of this contribution – a clear customer benefit. Joint Applicant Witness Curtis addresses the pension plan commitment in more detail and explains the calculation of savings.

V. POST-MERGER COST OF SERVICE

Merger Integration Time Frame

Q. Division Witness Wheelwright points out that the Joint Applicants have not provided an estimated time frame for full integration of Questar Corp. (and Questar Gas) with Dominion. What is the estimated time frame for the integration process?

A. The integration process will formally begin upon the Effective Time of the Merger. Overall, Dominion anticipates Questar Corp. (and Questar Gas) will be fully integrated within two to three years of the Merger closing.

Q. Division Witness Kelly recommends on page 48 of her testimony that the Joint Applicants should be required to file for review and approval of Merger integration study materials and a final integration plan within 12 months. Please respond.

A. Although the Joint Applicants do not agree with many of the specific transaction reporting requirements suggested by the Division, the Joint Applicants are committed to working with the Division and the Office to develop periodic reporting requirements for an Integration Progress Report and for a report on affiliate transactions.

Transition Costs

Q. How do the Joint Applicants define transition costs?

A. Joint Applicants view transition costs generally as expenditures which are related to the preparation and implementation of activities necessary to integrate the combining companies. Examples of transition costs include, but are not limited to, the integration of financial, information technology, human resources, billing, accounting, and telecommunications systems. Other examples include severance payments to employees and changes to employee benefit plans, costs to terminate any duplicative leases, contracts and operations, and so forth.

Q. Witnesses Kollen (page 33), Kelly (page 48), and Mangelson (pages 3-4) recommend that the Commission should deny the Joint Applicants' request to permit Dominion Questar Gas to defer transition costs if the Merger is approved. What is the Joint Applicants' current position with respect to deferring transition costs?

A. The Joint Applicants acknowledge the concerns expressed by these witnesses about deferral of transition costs incurred in conjunction with the Merger and the measurability of such costs. As a result, the Joint Applicants are withdrawing their request to defer transition costs.

Q. How do the Joint Applicants now propose to address such costs in the ratemaking context?

A. As set out above, the Joint Applicants propose that any transition or integration costs arising from the Merger will not be deferred and will be expensed as incurred during the transition period. Further, Dominion Questar Gas' cost of service for the purpose of developing distribution non-gas base rates will be evaluated in the next general rate case proceeding, and this filing shall identify transition costs, if any, in Dominion Questar Gas' test period.

As discussed, the integration process is expected to progress over a two to three year period. During that time frame, the Joint Applicants believe that it is reasonable to expense costs as incurred. By the time of Dominion Questar Gas' next filed general rate case, which is currently anticipated in or about 2019, we expect that the vast majority of transition costs will have been incurred, and the picture will be far clearer as to such costs, as well as associated savings. Contrary to proposals such as that contained on pages 35-36 of Mr.

Kollen's testimony, the Joint Applicants submit that evaluating the future test period cost of service to set appropriate prospective base rates in that proceeding is a reasonable approach to addressing concerns about transition costs and savings and is consistent with the best interests of customers.

Q. On page 38 of his testimony, Office Witness Kollen suggests potential savings ranges associated with the Merger based on industry studies as well as Dominion's experience with prior gas LDC acquisitions. Do you have any comments?

A. Conceptually, the Joint Applicants agree with Office Witness Kollen's overall assessment that the Merger will result in net benefits for customers over time. The studies Mr. Kollen cites (the Concentric study as well as the specific examples of The East Ohio Gas Company ("Dominion East Ohio") and Hope Gas, Inc.) support this concept as well. I do not agree, however, that combinations such as this one are "one-size fits all" or that the savings ranges identified in these case studies would translate directly to those realized in Questar Gas' cost of service. Actual net savings could be more or less than those achieved in other contexts, and at this point they are not reasonably determinable.

Q. On pages 32-33 of his testimony, Office Witness Kollen identifies a list of costs that he requests the Commission to conclude are transition costs that would not be considered incurred to achieve savings. Additionally, Division Witness Kelly recommends that the Commission should deny recovery of any transition cost. Please respond.

A. I believe that Mr. Kollen's list of costs that he considers "are not incurred to achieve savings" is both overly broad and oversimplified. For example, it is difficult to see how employee severance costs, which he includes in his list, reasonably could be identified as a cost category that is not incurred to achieve savings which would result in benefits to customers through lower cost of service. Similarly, Ms. Kelly's recommendation to deny recovery of any transition cost is overbroad. If such costs are prudently incurred, then they should be eligible for recovery through rates.

Regardless, as discussed above, the Joint Applicants are no longer requesting to defer transition costs. Costs will be expensed as incurred during the integration period, and Dominion Questar Gas will report on such costs during this timeframe. Further, if the Joint Applicants' proposal to address transition costs, and any associated savings, in the next general rate case for Dominion Questar Gas is accepted by the Commission, then a full evaluation of the benefits can be made at that time.

In short, any of the costs identified by Mr. Kollen on pages 32-33 of his testimony, or any transition cost that Ms. Kelly would automatically deem ineligible for recovery, could be reasonable and could achieve net savings, and pre-judging the prudence or recoverability of such costs would be inappropriate.

Cost Allocation and Cost Cap / Hold Harmless Provisions

Q. Division Witness Wheelwright and Office Witness Kollen contend that Dominion should have identified specific dollar limits for the total corporate overhead allocated to Dominion Questar Gas in the future. Do you agree?

A. No, I do not. While I understand the perspective that more specific information regarding cost allocations would be preferable as soon as possible, the process of merging two companies and their respective corporate support functions is complex and requires a careful and deliberate approach to avoid decisions made in haste negatively affecting the cost-effective provision of reliable service to Questar Gas customers. Dominion believes that a measured, thoughtful and diligent approach is best for customers and will provide long-term service-quality and cost efficiency benefits to Dominion Questar Gas customers. Having the level of detail that Division Witness Wheelwright and Office Witness Kollen suggest at the time of the Application is simply not reasonable or practical.

Q. Division Witness Wheelwright uses Dominion East Ohio's corporate cost allocation information to assert that the allocation costs to Questar Gas could potentially be higher if the Merger is approved. Do you agree with his analysis?

A. No. The Joint Applicants have provided the parties with allocated cost information for the last five years for Dominion East Ohio. Based on this information, Mr. Wheelwright improperly infers that costs allocated to Questar Gas could be higher as a result of the Merger.

The size of a utility operation (often measured by number of customers) is a key driver of total and allocated costs. As such, when comparing costs between Dominion East Ohio and Questar Gas, an adjustment to account for the difference in size is required, since Dominion East Ohio has 1.2x the number of customers than Questar Gas. When adjusted to standardize for this fact, as shown in the table below, Dominion East Ohio's allocated costs were comparable with Questar Gas' over the last five-year period. On this appropriately adjusted basis, Dominion East Ohio's total corporate cost allocations have averaged $45.1 million per year. By contrast, during that same period, Questar Gas' total corporate cost allocations have averaged $45.0 million per year.

($ millions)	Questar Gas[1]	Dominion East Ohio[2]	Dominion East Ohio compared to Questar Gas
Average (2011—2015) total corporate allocation costs per year	$45.0	$45.1	+$0.1 million per year$

Contrary to Mr. Wheelwright's assumption, this evidence, while inconclusive, suggests that allocated costs are comparable and are not expected to be higher as a result of the Merger. As previously discussed, the Joint Applicants expect that cost of service will be reduced over time due to the Merger.

Q. Witness Kelly expresses concern with increased costs during the integration period and suggests that the Commission should limit recovery of costs and investments. Please respond.

A. Although the Joint Applicants are confident that the Merger will ultimately reduce total operating costs borne by Dominion Questar Gas' customers, we are committing to two additional key provisions which will hold customers harmless against any potential increase in costs arising as a result of the Merger. As noted previously, Dominion Questar Gas will not seek recovery in its next general rate case of any increase in the aggregate total of Operating, Maintenance, Administrative and General expenses (excluding energy efficiency and bad debt costs) per customer, unless it can demonstrate that the increase in such total expense was not a result of the Merger. In addition, for the first four years

[1] Based on an updated discovery response provided by the Joint Applicants
[2] Adjusted for customer count; based on Dominion East Ohio 2015YE customer count of 1,193,036, Questar Gas 2015YE customer count of 990,381 and gross (unadjusted for customer count) Dominion East Ohio average (2011—2015) total corporate allocation costs per year of $54.4 million.

following the Effective Time, in any rate proceeding where Dominion Questar Gas' rate of return is established or the utility seeks to reset the previously authorized rate of return on rate base, Dominion Questar Gas will demonstrate that its cost of debt proposed for recovery in rates is not greater than would have been incurred absent the Merger, as Mr. Chapman addresses in detail.

Q. Division Witness Wheelwright and Office Witness Kollen express concerns that the Merger will result in an increase in customers' rates due to costs that may be allocated to them through shared services and affiliates transactions. Do you agree?

A. No. Dominion has a verifiable track record of providing high-quality and cost-effective service to gas utility customers and extensive experience in allocating costs fairly and appropriately among its subsidiaries and affiliates. Dominion anticipates that the overall allocated costs to Dominion Questar Gas will decrease from the amount currently allocated by Questar Corp. to Questar Gas. The Joint Applicants are also confident that, as a result of the Merger, Questar Gas will benefit from lower overall operating costs as evidenced by their commitment to the cost cap and hold harmless provisions discussed above.

Joint Applicant Witness Maria E. (Gina) Jones will address the details of the affiliate and shared services accounting that will be employed if the Merger is approved. Ms. Jones will also address how costs will be assigned during the transition period. Additionally, Ms. Jones discusses the processes in place to ensure that shared service costs are properly allocated from Dominion Resources Services, Inc. to Dominion Questar Gas.

VI. MOST FAVORED NATION CLAUSE

Q. On pages 62-63 of her testimony, Division Witness Kelly notes that the Merger proceedings in Wyoming and Idaho could establish acquisition conditions after the

record closes in Utah. In order for the Commission to protect against any adverse impacts to Utah customers from those proceedings, Ms. Kelly recommends the Commission adopt a "most favored nation clause" should it approve the Merger. The "most favored nation clause" would ensure that Utah customers are afforded at least the same level of benefits and protections that are provided to customers in other states. Do you have any comments?

A. Yes, the Joint Applicants accept and agree to a "most favored nation clause," as suggested by Division Witness Kelly. If the Public Service Commission of Wyoming approves the Merger and the Joint Applicants accept those terms, then the Joint Applicants would also agree to provide those applicable benefits and protections in Utah.

Q. Does this conclude your testimony?

A. Yes.

Commonwealth of Virginia)
) ss.
County/City of ________________)

I, Fred G. Wood, III, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

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

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Notary Public