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 MARIA E. ("GINA") JONES

FOR JOINT APPLICANTS

July 28, 2016

Joint Notice and Application Exhibit 8.0R

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I. INTRODUCTION

Q. Please state your name and business address.

A. My full name is Maria E. Jones, but I am known at Dominion Resources, Inc. ("Dominion") as Gina Jones. My business address is 701 East Cary Street, Richmond, Virginia 23219.

Q. By whom are you employed and what is your position?

A. I am Accounting Manager for Dominion Resources Services, Inc. ("DRS"), a subsidiary of Dominion.

Q. What are your qualifications to testify in this proceeding?

A. I have listed my qualifications in Joint Notice and Application Exhibit 8.1R attached to my rebuttal testimony.

Q. Have you previously filed testimony in this case?

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my 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.

In my rebuttal testimony, I will respond to portions of the testimony of the Office of Consumer Services ("Office"), regarding accounting related issues pertaining to affiliate transactions, and accounting issues pertaining to the tracking of transaction and transition costs associated with the Merger. More specifically, my testimony will address (i) the process by which the financial books and records of Dominion and its subsidiaries are maintained; and (ii) the process by which DRS allocates corporate and shared services costs among affiliates, including verifiability of these costs.

II. OVERVIEW

Q. Generally, what issues did the witnesses raise with regard to accounting?

A. The witnesses wanted assurances that there would be an audit trail with regard to affiliate transactions and that transaction and transition costs associated with the Merger would be recorded in separate accounts and readily identifiable and reviewable. They also wanted information on accounting for and allocation of shared services and expressed concerns that Dominion Questar Gas' shared services costs might increase as a result of the Merger.

Q. Can you provide these assurances and the requested information?

A. Yes. As I will explain in more detail below, Dominion's financial reporting system and bookkeeping process will record the details of all transactions and can readily provide any information needed to audit them. Dominion has accounting controls to assure that transactions are properly recorded. Joint Applicant Witness Fred G. Wood, III addresses the Joint Applicants' commitment with regard to capping operating costs.

III. DOMINION'S FINANCIAL REPORTING SYSTEM

Q. Please explain Dominion's financial reporting and bookkeeping process to verify its own costs, separate from those of its affiliates.

A. Dominion and its subsidiaries utilize a software system known as Systems, Applications, and Products in Data Processing ("SAP"). SAP is an enterprise resource planning system commonly used by public utilities that integrates key business functions and automates financial transactions, which allows for more efficient processing and availability of real-time data. SAP is the "book of record" housing all underlying financial transactions for each legal entity within Dominion. Dominion utilizes SAP's Business Planning and Consolidation software for external reporting of individual legal entity and consolidated financial results.

Q. What system does Questar Corp. use to maintain its financial reporting and book-keeping process in order to verify its own costs, separate from those of its affiliates?

A. Currently, Questar Corp. and its affiliates, including Questar Gas, but excluding Wexpro, utilize PeopleSoft as their source financial system and "book of record." Wexpro companies utilize Excalibur software that is tailored for the oil and gas industry.

Q. If the Merger is approved, will Questar Corp.'s "book of record" transition from PeopleSoft to SAP? If so, please explain the process.

A. With the exception of Wexpro, the Questar entities, including Dominion Questar Gas, will continue to use PeopleSoft as their source financial system and "book of record" until the transition to SAP takes place, which is currently planned to occur effective January 1, 2018. Access to PeopleSoft historical and transactional data will be maintained. Wexpro will not be transitioned to SAP and will retain Excalibur as its source financial system.

Upon transitioning to SAP, a complete and separate set of books containing all the underlying financial transactions and certain linked source documentation (e.g., invoices) for the Questar entities, including Dominion Questar Gas, will be maintained in SAP with easy accessibility by authorized users in any location. The costs of Dominion Questar Gas' investments, assets and liabilities, as well as transactions associated with other Dominion subsidiaries, such as DRS, will be separately recorded and identified on Dominion Questar Gas' books.

Q. What process will Dominion use to control and review affiliate transactions with the Questar entities?

A. The controls for the Questar entities will be the same as for other affiliates and subsidiaries of Dominion. These controls include:

(1) transactions that Questar entities, including Dominion Questar Gas, enter into with Dominion subsidiaries will require agreements to be executed and signed by authorized representatives prior to establishing the proper inter-company accounts and billing elements in the SAP system;

(2) affiliate transactions pertaining to the sale or purchase of commodities, investments, or other assets that are material in amount will be reviewed for proper accounting and recordation on each of the subsidiaries' books; and

(3) affiliate transactions will be recorded in the SAP system on the books of Questar entities, including Dominion Questar Gas, in general ledger accounts that specifically identify the affiliate and the nature of the transaction. These transactions are reconciled monthly to ensure that both sides of the transaction are properly recorded and eliminated in consolidation to avoid an omission or double-counting of transactions. Additionally, there are various general accounting controls in place to ensure proper recordation of transactions on the books of all Dominion affiliates. These include performing account reconciliations, reviewing open invoices for proper coding and accrual, maintaining proper supporting documentation for all manual journal entries, performing variance analysis and authorizing access to critical system roles that generate accounting transactions.

IV. ALLOCATION OF CORPORATE SERVICE COSTS

Q. How does Dominion provide shared services to its newly-formed subsidiaries?

A. Shared services are provided to newly-formed subsidiaries upon execution of a service agreement with DRS. Typically, a DRS services agreement is executed that covers both the parent or holding company and all its subsidiaries. If regulated entities are involved, a separate services agreement with the regulated entity may be executed, in order to facilitate a more direct billing and transparency of service company expenses on that regulated entity's books.

Q. How does DRS allocate costs of providing services to its affiliates?

A. DRS will charge the costs of providing services in accordance with the DRS services agreement. These costs include labor, benefits, incentives, payroll taxes, overheads, facilities, infrastructure, enterprise software/hardware costs and interest costs.

Incremental, out-of-pocket expenses that DRS incurs for the direct benefit and convenience of an affiliate, are not included in its cost of providing service, but are recorded directly on the affiliate's books and paid for by that affiliate.

DRS utilizes a work order system that is structured to support the DRS services agreement framework. Departments, referred to as "cost centers" are aligned by service category and capture all costs of doing business for that department. Projects commonly referred to as work breakdown structures ("WBS elements") capture the labor costs and expenses charged by employees of a department. The costs in WBS elements are billed out monthly to affiliates.

Employees record their labor costs and expenses to either a "direct" or "allocation" WBS element. Employee time charging is the primary basis for billing affiliates. Time entry is required on a weekly basis, but is encouraged to be entered daily. Management reviews and systematically approves time entered by the employee for the month.

Direct WBS elements contain costs that have been directly assigned to a specific affiliate, based upon hours charged per an employee's time record and applicable bill rate. Direct WBS elements contain unique coding referencing the type of service and affiliate receiving the service.

Allocation WBS elements contain costs that are also based on an employee's time record and applicable bill rate, but instead of being directly assigned and billed to a specific affiliate, these costs are allocated and billed to a group of affiliates in accordance with pre-defined allocation factors that distribute costs in a cost-causative manner for that particular service. For example, maintenance fees associated with the SAP system license are allocated on the basis of users across all Dominion entities. To the extent practicable, allocation methodologies for each service department are aligned with that department's primary cost driver. A general allocation method, based on operating and maintenance ("O&M") expenses is used when all affiliates benefit, but a cost-causative link is not readily determinable. For example, monthly financial closing activities performed by Accounting benefit all Dominion entities and are allocated based on the general O&M allocation factor. Allocation methods are documented and allocation factors are updated at least annually or more frequently as necessary to reflect fair and equitable distributions to all affiliates that benefit from the service provided.

Q. Is there a means to trace those costs and verify they were properly billed or allocated?

A. Yes. I stated earlier in my rebuttal testimony there are various controls and levels of review, but let me provide some more detail.

The cost of labor and expenses charged by DRS employees and accumulated in WBS elements are billed out monthly to each affiliate. DRS bills are generated through a systematic program that simultaneously posts inter-company billing entries on both DRS' and affiliates' books.

DRS bills are readily identifiable as service company expenses on the books of each affiliate, and can be verified back to the source transactions and supporting documentation on DRS' books and records. Specifically, the SAP system provides a link or connection back to the costs accumulated in the WBS elements that correspond with the DRS bills posted on the affiliates' books. For costs that are directly assigned, a systematic link exists to verify time charges and other expenses charged directly by DRS employees to the affiliate. For example, vendor invoice documents are imaged and attached with the transaction on DRS' books. Time records and documentation to support the hours charged by employees are also available. For costs that are allocated, a systematic link exists to verify the entirety of hours charged by employees and the expenses, as well as the percent that was allocated to that affiliate.

Upon request, accounting documents and other information, appropriate to support amounts billed by DRS, will be made available, including personnel necessary to explain the requested information.

Q. Are there any safeguards to prevent subsidization of shared services?

A. Yes. Various accounting and cost allocation safeguards are in place to prevent subsidization of shared services costs between regulated and non-regulated affiliates:

1) only a limited number of users can post inter-company journal entries between DRS and affiliates;

2) restrictions in SAP prevent systematic transactions between DRS and affiliates without proper authorization;

3) allocation factors utilized by DRS to allocate costs among affiliates are updated at least annually;

4) third party invoices paid by DRS that are greater than an established threshold are evaluated for proper coding;

5) variance analysis of DRS department costs is conducted monthly with DRS management;

6) variance analysis of DRS bills is conducted prior to billing affiliates;

7) all significant manual journal entries that are posted on DRS books require review and approval; and

8) benchmarking studies of DRS cost allocations to other regulated Dominion subsidiaries are routinely performed on a biennial basis, and the Joint Applicants intend to conduct similar, biennial benchmarking studies for Dominion Questar so they are available when Dominion Questar Gas files its next general rate case.

Q. On page 27 of his testimony, Office Witness Kollen expresses concern that Dominion has not sufficiently committed that any accounting changes that are required to conform the Questar entities' accounting to Dominion's will be excluded from Dominion Questar Gas' cost of service for ratemaking purposes. Accordingly, he recommends that the changes be recorded in subaccounts so that they can be readily excluded for ratemaking purposes. Please respond.

A. Dominion is still evaluating the accounting policies of the Questar entities to determine whether there are significant differences that are necessary to conform the Questar entities to Dominion's accounting policies. Dominion would not expect significant changes to Dominion Questar Gas' accounting policies, as those accounting policies have been reviewed by the Commission in setting rates and establishing regulatory accounting. If there are any differences in accounting policies that must be conformed on Dominion Questar Gas' Generally Accepted Accounting Principle ("GAAP") books and records, Dominion will establish the appropriate cost tracking mechanisms necessary to readily identify these amounts.

Q. On page 14, Office Witness Kollen has expressed concerns that the Applicants do not have a process for separately identifying and recording transaction and transition costs. Please respond.

A. Joint Applicant Witness Wood will address the Joint Applicants' view on the definitions of transaction and transition costs. As transaction and transition costs are incurred, they will be recorded in specific projects and accounts and separately tracked on the applicable books of the Dominion entities incurring such costs. To the extent that costs must be pushed down to Questar entities, including Dominion Questar Gas, in accordance with "GAAP," the costs will be recorded on the books of Questar entities, including Dominion Questar Gas, in sufficient accounting detail as described above to readily identify them for ratemaking purposes.

Q. On pages 14-15 of his testimony, Office Witness Kollen asserts that there is a risk of increased costs through affiliate transactions. Mr. Kollen expresses concerns that initially following the Merger, Dominion Questar Gas will be charged for shared or common services by both Questar Corp. and DRS, which will provide some or all of these services in the future. Please respond.

A. Initially, from the Effective Time through the date that Questar entities are migrated into Dominion's SAP system and processes (i.e., transition period), costs billed by DRS will be limited to those services that DRS employees perform that directly benefit and support the functions and operations of Questar entities, including Dominion Questar Gas, and that are not duplicative of those performed by Questar employees. Controls and processes will be in place to prevent duplicative services from being billed to Questar entities. For example, the functions of each DRS service department will be evaluated to identify eligible activities billable to Questar entities during the transition period. Only the applicable billing WBS elements and accounts will be created and released for charging by applicable DRS employees. DRS will bill these costs to Dominion Questar, who will then allocate them to the Questar entities, including Dominion Questar Gas, on the basis of Distrigas percentages. Additionally, executive time and expenses for the management and oversight of Questar employees will also be billed by DRS to Dominion Questar, using DRS' pre-defined method of allocation for that service.

Q. On page 14 of his testimony, Office Witness Kollen also has concerns that initially there is a risk of increased shared or common services that will be billed through affiliate charges for natural gas from Wexpro, and for transportation services from Questar Pipeline.

A. The process and controls described above will prevent duplicative shared or common costs from being billed by DRS to all Questar entities, including Wexpro and Questar Pipeline.

Q. On page 43 of his testimony, Mr. Kollen questions whether differences in allocation methodologies for services between Questar Corp. and DRS could result in increased costs to Dominion Questar Gas.

A. DRS and Questar Corp. are similar in nature in that both are service organizations that assign the cost of services they provide to their affiliates in a cost causative manner using direct charge or allocation methodologies. Costs benefitting a specific affiliate are charged directly to that affiliate and costs benefitting multiple affiliates are allocated to those affiliates based on a pre-defined method. For example, employee headcount is used by both companies to allocate certain employee-related costs.

Prior to January 1, 2018, Joint Applicants will present and review with the Office and the Division of Public Utilities ("Division") methodologies for allocating corporate and shared services costs, as described in the DRS Cost Allocation Manual. Dominion will work diligently to resolve any issues or concerns that arise during this review process, prior to fully integrating the Questar entities, including Dominion Questar Gas, into SAP, effective January 1, 2018. Ultimately, all costs, including allocated service company costs, are subject to review and approval for rate recovery by the Commission in rate proceedings.

Therefore, customers are protected from Mr. Kollen's concern by regulatory review and oversight.

In addition, Dominion Questar Gas will work with the Division and Office on a collaborative basis to develop affiliate transactions reporting requirements and will file such information beginning July 1, 2018 for the 12 months ending 2017 and thereafter annually.

Q. Does this conclude your testimony?

A. Yes.

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

I, Maria E. Jones, 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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Maria E. Jones

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

____
Notary Public