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 JAMES R. CHAPMAN

FOR JOINT APPLICANTS

July 28, 2016

Joint Notice and Application Exhibit 7.0R

TABLE OF CONTENTS

I. INTRODUCTION 1
II. EXECUTIVE SUMMARY 2
III. FINANCING, CREDIT RATING, AND COST OF DEBT ISSUES 5
IV. WEXPRO AND QUESTAR PIPELINE 20
V. CAPITAL STRUCTURE 21
VI. PROTECTIONS FROM AFFILIATE OPERATIONS AND ACTIVITIES 24
VII. PROTECTIVE FINANCIAL PROVISIONS 28

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is James R. Chapman. My business address is 120 Tredegar Street, Richmond,
4 Virginia 23219.

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

6 A. I am employed by Dominion Resources, Inc. ("Dominion") as Senior Vice President-
7 Mergers & Acquisitions and Treasurer.

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

9 A. In my capacity of Treasurer, I am responsible for the structuring and execution of all capital
10 market and other fund-raising transactions for all Dominion entities (which aggregate to
11 some $75+ billion of market value at present). I am also responsible for leading
12 Dominion's credit rating agency and bank/financial institutional relationships, and I am
13 integrally involved in the company's investor relations activities, in particular those
14 involving fixed income or credit investors. I have listed my qualifications in more detail
15 in Joint Notice and Application Exhibit 7.1R.

16 **Q. Have you previously filed testimony in this case?**

17 A. No.

18 **Q. Are you sponsoring any exhibits?**

19 A. I am sponsoring Joint Notice and Application Exhibits 7.1R through 7.9R.

20 **Q. What is the purpose of your rebuttal testimony?**

21 A. The purpose of my rebuttal testimony is to support the approval of the proposed merger
22 ("Merger") between Dominion and Questar Corporation ("Questar Corp."), including
23 Questar Gas Company ("Questar Gas"). After the Merger is effective ("Effective Time"),
24 Questar Corp. will become a wholly-owned subsidiary of Dominion that will continue to

25 exist as a separate legal entity (herein referred to as "Dominion Questar"), and Questar Gas
26 (herein referred to as "Dominion Questar Gas") will remain a direct, wholly-owned
27 subsidiary of Dominion Questar and will continue to exist as a separate legal entity with
28 its own complete set of books and records.

29 In my rebuttal testimony, I will respond to the concerns expressed by the Division of Public
30 Utilities ("Division") and the Office of Consumer Services ("Office"). Specifically, I will
31 respond to certain portions of the testimony from Division Witnesses Douglas D.
32 Wheelwright ("Wheelwright"), Charles E. Peterson ("Peterson"), and Kathleen Kelly
33 ("Kelly") and from Office Witnesses Gavin Mangelson ("Mangelson"), Lane Kollen
34 ("Kollen"), and Richard A. Baudino ("Baudino"). First, I will address concerns raised
35 about credit ratings, the cost of capital, and Merger transaction financing. Second, I will
36 address financing concerns relating to Wexpro Company ("Wexpro") and Questar Pipeline
37 Company ("Questar Pipeline"). Third, I will address concerns regarding capital structure
38 for Dominion and Dominion Questar Gas. Fourth, I will address protections from the
39 potential financial implications of affiliate operations and activities. Finally, I will address
40 additional protective financial provisions Division and Office witnesses recommend.

41 **II. EXECUTIVE SUMMARY**

42 **Q. Mr. Chapman do you have any general rebuttal comments?**

43 A. Yes. In this proceeding, various witnesses have articulated concerns with respect to the
44 financial integrity of Dominion Questar Gas following the Merger. These concerns and
45 associated recommendations can be boiled down into two broad questions: 1) will there
46 be any adverse impact to Dominion Questar Gas' access to capital and cost of capital
47 because of the Merger?; and 2) will Dominion Questar Gas be sufficiently and properly
48 insulated from other Dominion affiliates in order to protect its financial integrity?

49 To address such concerns, the Joint Applicants initially proposed a robust package of
50 commitments addressing both of these issues, and have added significantly to these
51 commitments in connection with this rebuttal testimony, as I will discuss. With these
52 commitments, along with the nature of this transaction, which involves entities that are
53 uniformly committed to the prudent and cost-effective management of financial resources
54 for the benefit of their public utility customers, there will not be an adverse impact to
55 Dominion Questar Gas' access to capital and cost of capital and Dominion Questar Gas
56 will be sufficiently and properly insulated from other Dominion affiliates to protect its
57 financial integrity. My rebuttal testimony will explain why further conditions are
58 unnecessary and not in the best interests of Dominion Questar Gas' customers.

59 First, Dominion is committed to preserving the strong credit quality of Questar Gas, just
60 as it has with its other regulated operating subsidiaries. Dominion Questar Gas will
61 continue to maintain separate, rated long-term debt. Planned debt offerings by Dominion
62 Questar Gas in the near term are limited, and there is no reason to believe that debt
63 financing costs – long-term or short-term – will be adversely impacted by the Merger. Post-
64 Merger, Dominion will provide equity funding as needed to Dominion Questar Gas to
65 preserve current ranges of equity vs. debt in the capital structure. To date, neither the
66 bondholders of Dominion nor of Questar Corp. entities have expressed or demonstrated
67 any negative reaction to the Merger announcement. While one of the three ratings agencies
68 did adjust its rating for the Dominion consolidated family, it notably did not reduce its
69 independent "a" anchor rating for Questar Gas.

70 In short, the credit quality of all Dominion entities is a high priority, and the Commission
71 should be comfortable that Dominion is committed to avoiding any adverse impact to
72 Dominion Questar Gas' credit quality, liquidity or financing costs resulting from the
73 Merger. To substantiate this, the Joint Applicants are committing that, for the first four
74 years following the Effective Time, in any rate proceeding where Dominion Questar Gas'
75 rate of return is established or the utility seeks to reset the previously authorized rate of

76 return on rate base, Dominion Questar Gas will demonstrate that its cost of debt proposed
77 for recovery in rates is not greater than it would have been absent the Merger.

78 Second, many of the Division's and Office's recommendations revolve around concerns
79 that affiliation with other Dominion entities introduces new or incremental risks to
80 Dominion Questar Gas' customers. Properly structured, Dominion Questar Gas' risk
81 profile will in fact be enhanced in important ways by this Merger with a larger, stable and
82 diversified entity. The question before the Commission is: what is the optimal level of
83 financial separation and protection among the affiliates that will protect customers, on the
84 one hand, but not impose extraordinary burdens or inhibit potential customer benefits of
85 the Merger on the other hand.

86 The Joint Applicants firmly believe that their commitment package strikes the appropriate
87 legal and functional balance. In fact, it is equal to or stronger in all material respects to the
88 protections surrounding Dominion's other regulated affiliates and standards for similarly
89 situated market participants. Dominion Questar Gas will be a separate legal and operating
90 entity from other Dominion affiliates, with its own management structure and independent
91 access to the debt markets, stand-alone credit ratings and unique books, records, and
92 financial statements. The Joint Applicants commit that Dominion Questar Gas will not
93 transfer material assets or assume liabilities of Dominion or any other subsidiary without
94 Commission approval. Nor will it transfer debt or lend funds to other Dominion entities
95 absent such approval.

96 The Division points out other Dominion affiliates own and operate several nuclear
97 generation facilities, which carry an attendant set of risks that are not part of Questar Gas'
98 current basket of risks. However, the risks are appropriately mitigated by legal separation,
99 regulatory oversight, operational experience, federal legislative protection, nuclear
100 decommissioning trusts, and insurance coverage with excess coverage exceeding several

101 billion dollars, among other mechanisms. The Joint Applicants are proposing to establish
102 and maintain ample protections for Dominion Questar Gas as part of the merged entity.

103 Other "ring-fencing" measures proposed by the Division, including certain bankruptcy-
104 related recommendations such as the creation of a special purpose entity, independent
105 bankruptcy director or non-consolidation opinion that the entity is bankruptcy remote, are
106 not warranted, cost-effective or net beneficial to customers. There are more than 100
107 regulated electric and gas utilities in the United States, and these types of measures are the
108 exception and not the rule. The exceptional circumstances would be a foreign parent
109 company; a significantly weaker parent company credit profile; or a parent company with
110 differing industry or operating experience from its subsidiary (e.g., a private equity fund
111 owner). None of those exceptional circumstances exist here.

112 My rebuttal also responds to the suggestion of an independent board of directors for
113 Dominion Questar Gas with a designated percentage of independent directors. As my
114 testimony will show, this suggestion would not provide a net benefit, particularly given the
115 commitment to a continued strong local management structure for Dominion Questar Gas
116 with operational autonomy.

117 **III. FINANCING, CREDIT RATING, AND COST OF DEBT ISSUES**

118 **Credit Rating and Cost of Debt Issues**

119 **Q. Please describe the reaction of the credit agencies to the announcement of the**
120 **Merger and related transaction financing.**

121 A. As is the norm for transactions of this nature, Dominion held confidential discussions with
122 each of the major credit rating agencies immediately prior to the announcement of the
123 proposed Merger. Therefore, publications of reports by the agencies on the day of the
124 Merger announcement were based on a detailed understanding of Dominion's plans,
125 including the proposed plan for the financing of the Merger.

126 The specific relevant actions taken on the Merger announcement date by each of the major
127 credit rating agencies are summarized below:

128 • Moody's affirmed its "Baa2/stable" long-term rating of Dominion and affirmed its
129 "A2/stable" long-term rating of Questar Gas.

130 • Fitch affirmed its "BBB+/stable" rating of Dominion. Fitch does not currently
131 rate Questar Gas.

132 • Standard & Poor's ("S&P") made no change to the standalone "anchor" rating of
133 Questar Gas, which is "a". S&P downgraded the long-term Issuer Rating of the
134 consolidated Dominion credit family to "BBB+" from "A-" and revised the rating
135 Outlook upwards to "Stable" from "Negative." Given S&P's consolidated rating
136 methodology, it placed Questar Gas on "CreditWatch Negative" and suggested that
137 the Questar Gas rating would be modified to the Dominion consolidated rating upon
138 closing of the Merger.

139 To put the S&P action relating to Dominion in proper context, the BBB+ rating has
140 been the long-standing publicly disclosed parent company ratings target of
141 Dominion. Exhibit 7.2R shows Dominion's publicly stated ratings targets as of
142 April 2016.

143 To summarize, set out below is a table of the relevant credit ratings and the manner in
144 which they have (or have not) changed since the announcement of the Merger.

	Prior Rating & Outlook				Expected Rating & Outlook upon close			
	Moody's	Fitch	S&P Issuer	S&P Anchor	Moody's	Fitch	S&P issuer[1]	S&P anchor
Dominion	Baa2/Stable	BBB+/Stable		a-	No Change	No Change		No Change
Questar Gas	A2/Stable	N/A		a	No Change	N/A		No Change

[1] S&P downgraded DRI issuer rating on 2/1/2016; Similar issuer rating downgrade expected for Questar Gas, currently rated A/Credit Watch Negative.
* Shading indicates only areas of change

145

146 **Q. Please discuss your understanding of the difference in S&P's Issuer Rating and its**
147 **standalone "anchor" rating.**
148 A. S&P uses a strict "consolidated" rating methodology for Issuer Rating. S&P assesses the
149 credit health of an entire corporate family and then places one consolidated maximum
150 Issuer Rating on the parent company and on all rated subsidiaries, regardless of the varying
151 credit characteristics of each individual entity. Given this approach—by definition—the
152 Issuer Rating for Questar Gas following the completion of the proposed transaction will be
153 adjusted to match the Issuer Rating of Dominion (BBB+). However, this action by S&P
154 would not be an indicator to the capital markets of the credit strength of Questar Gas;
155 instead, it would summarize the credit picture of the entire Dominion corporate family after
156 the proposed Merger. I would also not expect that action to impact the cost of long-term
157 debt of Questar Gas.

158 Because of the widely recognized limitations of the consolidated rating methodology as it
159 relates to standalone subsidiaries, S&P itself publishes in its credit reports an indicator of
160 the nature of an entity's credit quality before "consolidated" or "family" considerations are
161 incorporated into the ratings process. This indicator, which S&P calls the "anchor," was
162 at the "a" level for Questar Gas both prior to the announcement of the proposed Merger
163 and as published in the S&P release following its announcement (the anchor ratings are
164 based on the same "AAA+/-" to "BBB+/-" scale, but are denoted with lower case letters to
165 distinguish them from overall credit ratings). Again, given that no changes are expected
166 to Questar Gas' profile as a result of the proposed Merger, Dominion would not expect,
167 following the Merger closing, any change to the standalone "anchor" credit profile, which
168 is the rating most closely representative of the standalone financial rating of Dominion
169 Questar Gas.

170 In my experience, investors are very familiar with this "consolidated" nuance of S&P's
171 methodology. As such, for an opinion of the entity-level credit quality of Dominion
172 Questar Gas, the Joint Applicants expect that investors will rely primarily upon Moody's

173 entity-level rating, S&P's "anchor" rating, and of course their own credit analysis, and less
174 upon the S&P Issuer Rating.

175 Based on the unchanged S&P standalone "anchor" rating, unchanged Moody's "A2" for
176 Questar Gas, and widespread appreciation in the debt markets for the limitations of the
177 S&P consolidated methodology, I do not believe that there is any reason to expect that this
178 one nominal, and expected, credit rating change in relation to the Merger announcement
179 will adversely impact Questar Gas.

180 **Q. Dominion's operating subsidiary, Virginia Electric and Power Company**
181 **("VEPCO"), experienced a change in its S&P Issuer Rating at the time of the Merger**
182 **announcement based on the S&P consolidated methodology. You suggest that a**
183 **similar Issuer Rating change is likely at Dominion Questar Gas following completion**
184 **of the Merger. Is it possible to derive any conclusions about the potential effect of**
185 **this rating change at Dominion Questar Gas from the bond market's reaction to**
186 **VEPCO's similar rating change? You have also suggested that Dominion Questar**
187 **Gas' S&P "anchor" rating will not change as a result of the Merger. Did VEPCO's**
188 **anchor rating change at the time of its S&P Issuer Rating change?**
189 A. As I explained above, with S&P's consolidated credit rating change, our regulated electric
190 utility subsidiary, VEPCO, also became "BBB+" S&P rated. Yet, neither S&P's "anchor"
191 rating nor Moody's "A2" rating for VEPCO changed. In that respect, this is highly
192 analogous to the expected pro forma ratings of Questar Gas for the Merger.

193 VEPCO's debt, which is primarily in bond format and therefore trades actively on a market
194 with fully disclosed pricing information, provides us with a transparent and unbiased
195 illustration of how debt investors would likely view the same fact pattern at Questar Gas
196 (*i.e.*, an unchanged Moody's rating of "A2" and an adjustment to the consolidated group
197 rating to Dominion's "BBB+" but no change to the S&P standalone "anchor" rating).

198 More specifically, Exhibit 7.3R shows an analysis of the trading activity of one actively
199 traded VEPCO bond before and after the downgrade in the consolidated rating. There was
200 no discernible impact on the trading levels (and therefore, cost of debt) due to the
201 announcement of the Merger and the related rating agency commentary. Given the similar
202 fact pattern between VEPCO and Questar Gas, it would be reasonable to expect Questar
203 Gas' trading activity to parallel VEPCO's and therefore, I would expect there to be no
204 discernible impact on the cost of debt for Questar Gas.

205 **Q. On page 9 of his testimony, Division Witness Peterson asserts that Dominion's**
206 **commitment to maintain strong investment grade credit ratings is ambiguous because**
207 **an investment grade rating can be as low as an S&P rating of BBB-. Do you have a**
208 **response to that statement?**

209 A. Our stated intention is to "maintain credit metrics which are supportive of <u>strong</u>
210 investment grade ratings." While there is no well-defined delineation between "strong"
211 and "other" investment grade ratings that I am aware of, a reasonable interpretation would
212 be that "strong" applies to an "A" range of rating and above, as opposed to BBB range.

213 Exhibit 7.2R shows the investing public Dominion's target rating for its various entities
214 with ratings from the credit rating agencies. This information is available on Dominion's
215 website and used in investor meetings (including meetings with fixed income investors),
216 and demonstrates that the target is notably "A" range for Dominion's operating companies,
217 which would include Dominion Questar Gas following the Merger, and "high BBB" range
218 for Dominion.

219 **Q. Division Witness Kelly (at 22) and Office Witness Baudino (at 7) both raise concerns**
220 **that following the proposed Merger financing costs for Questar Gas can materially**
221 **increase and negatively impact customer rates. Do you think these concerns are**
222 **warranted?**

223 A. I do not think it is likely that financing costs will increase as a result of the Merger or cause
224 harm to customers. In fact, the Joint Applicants commit to hold customers harmless against
225 any Merger-related increases in cost of debt, as I discuss above.

226 Additionally, the total amount of long-term debt outstanding at Questar Gas as of June 30,
227 2016, was approximately $535 million, all of which is in the form of fixed-rate bonds.
228 Thus, regardless of the market-perceived credit quality of Questar Gas in the coming years
229 and regardless of credit market conditions or interest rates, the interest expense borne by
230 Questar on its existing long-term debt will not change as a result of the Merger. Until those
231 existing bonds mature, there will be no change to their interest rates, up or down.

232 Therefore, any change in long-term debt cost experienced by Questar Gas in the coming
233 years will only come when there are new issuances of long-term debt, which are expected
234 to be modest in size and frequency. For example, in the next 2.5 years, the following are
235 the currently planned (subject to change) issuances for Questar Gas:

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239 Accordingly, potential changes in interest rates at Questar Gas are not likely to have any
240 material impact to customer rates.

241 For context, one may assume that due to the Merger the borrowing cost of Questar Gas
242 changes by 5 basis points (or 0.05%) or 10 basis points (or 0.10%), up or down, although
243 I am aware of no reason to expect any such change. Current credit spreads for Questar Gas
244 on a 10-year basis are in the 115 basis point range. The table below reflects the change in
245 borrowing costs based on different potential changes in credit spreads. For this
246 hypothetical case, the right-hand column indicates the amount that would, through future
247 rate proceedings, be borne (or avoided) by all customers, in all states, that Questar Gas

248 serves.

249 Dominion, like Questar Gas, takes the procurement of low-cost debt at its regulated utility
250 entities very seriously, regardless of magnitude. Most importantly, even if there were an
251 increase in financing costs as a result of the Merger, Dominion has committed to hold
252 customers harmless against any Merger-related increases in cost of debt.

253 **Q. How do you respond to Mr. Baudino's assertion on pages 7-8 that because a credit**
254 **downgrade by S&P would require a higher return on equity, which would negatively**
255 **impact customer rates, "Questar's return on equity should be based on a comparison**
256 **group of A-rated gas utilities"?**

257 A. As noted above, I don't believe that the move of the Questar Gas credit rating to the
258 consolidated issuer rating of Dominion by S&P will impact the cost of borrowing of
259 Questar Gas. Regardless, the Joint Applicants believe that the factors used to determine
260 Dominion to Questar Gas' return on equity should be reviewed in a general rate case, not
261 in the Merger docket.

262 **Q. Division and Office testimony suggests that the announcement of the Merger and**
263 **credit rating downgrade translate into higher cost of debt for Dominion and Questar**
264 **Gas. How do you respond?**

265 A. We have examined investor trading activity, investor communications, and actual
266 borrowing costs associated with Questar Gas' recent long-term financings, and based on

267 my evaluation of this data, there is no evidence that Questar Gas' cost of debt has increased
268 since the Merger announcement, nor do we expect it to increase in the future due to the
269 Merger.

270 Investor Trading History

271 We can assess market activity surrounding Questar Gas bond trading to understand investor
272 reaction to the announced Merger plans and rating agencies statements related to that
273 announcement as an indicator of potential impacts to Questar Gas' debt. Questar Gas has,
274 over the years, issued bonds that are available for trading at any time. When a bond trades,
275 the data regarding each trade must be publicly disclosed through information services such
276 as Bloomberg. Thus, when announcements are made regarding actions or plans which
277 investors view as credit-negative, they fear that the value of their investment in those bonds
278 will go down and they will react. In other words, if professional investors, who have
279 hundreds of millions of dollars invested in Questar Gas bonds, thought that the announced
280 Merger and the related credit implications were negative for Questar Gas, the first thing
281 they would be expected to do is to sell (or at least offer to sell) their holdings, immediately.

282 We reviewed all the data regarding these sales and offers to sell. Since the first trading day
283 of this year up until the week preceding the filing of my testimony, *not a single* Questar
284 Gas bond has traded hands based on all available public data. In fact, we could find no
285 evidence of bonds for Questar Gas even being offered for sale. *See* Exhibit 7.4R.

286 So, while I understand the concerns expressed by the Division and the Office witnesses,
287 there is no evidence that the debt investors who stand to be immediately and directly
288 impacted by any increase in Questar Gas' borrowing costs (which would drive prices of
289 the bonds they hold downwards) share those concerns, at least as is reflected in trading
290 activities on Questar Gas' existing bonds.

291 Investor Feedback

292 Companies such as Dominion and Questar Corp. have very active dialog with their debt
293 and equity investors through the normal investor relations process. Typically, when
294 something happens—an event or an announcement of a planned event (such as a merger)—
295 which is perceived to negatively impact the value of an investor's holdings, the norm is for
296 that investor to quickly and directly communicate its negative perception to the company
297 through company management and its investor relations team.

298 If the debt investors who have purchased and hold some $535 million of Questar Gas bonds
299 expect that the announced Merger will cause its debt costs to increase (which would drive
300 the value of existing bonds downwards), we expect that they would communicate that to
301 Questar Gas or Questar Corp.

302 But, to date I understand that the investor relations and management team at Questar have
303 received no such communications from existing bondholders of Questar Gas nor have the
304 investor relations and management team at Dominion.

305 Actual Borrowing Costs

306 Unrelated to the Merger itself, Questar Gas is in the process of launching a long-term
307 financing. Given that potential investors and bond underwriters (*i.e.*, global investment
308 banks) are certainly aware of the pending Merger and the expected credit rating action(s),
309 and have their own informed views of true impact of those pending actions on the
310 appropriate borrowing costs of Questar Gas, it provides us an opportunity to compare the
311 cost of Questar Gas in recent long-term financings both before and after the announcement
312 of the Merger.

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323 As the credit spreads (ignoring movements in treasuries) have potentially decreased since
324 the time of these pre-Merger announcement transactions, it seems reasonable to assume
325 that the announcement of the Merger and the related credit rating agency commentary has
326 not led to increased borrowing costs for Questar Gas.

327 **Q. Even though you have presented proxies and actual data to show there is little risk of**
328 **increased borrowing costs for Questar Gas, how do you propose to protect Dominion**
329 **Questar Gas' customers if this analysis proves to be incorrect?**

330 A. While the Joint Applicants believe that the concerns about potential increases in Dominion
331 Questar Gas' cost of debt are not warranted, this is certainly a legitimate issue for
332 discussion in a merger proceeding such as this one. The Division and Office have raised
333 valid concerns about customer impacts. Responding to these questions and concerns, the
334 Joint Applicants commit as follows: for the first four years following the Effective Time
335 of the Merger, in any rate proceeding where Dominion Questar Gas' rate of return is
336 established or the utility seeks to reset the previously authorized rate of return on rate base,
337 Dominion Questar Gas will demonstrate that its cost of debt proposed for recovery in rates
338 is not greater than would have been incurred absent the Merger.

339 **Q. Data provided at the Technical Conference in this proceeding shows that Dominion's**
340 **borrowing costs overall are lower than Questar Corp.'s. Are there reasons that the**

341 **borrowing costs are lower for a company like Dominion compared to a company like**
342 **Questar Corp.?**
343 A. Yes. The cost of existing debt within the Dominion family is actually currently lower than
344 the cost of debt within the Questar family. Exhibit 7.6R shows (based on Bloomberg
345 function WACC) the current consolidated average debt coupon rates for Dominion,
346 Questar, and a number of peer companies (both large cap utility/infrastructure companies
347 and smaller gas-local distribution companies). This analysis shows Dominion's overall
348 costs of borrowing are significantly lower (by approximately 100 basis points, or 1%) than
349 those of Questar Corp., even when considering Dominion's longer average tenor.

350 There are several reasons that the borrowing costs, as summarized in Exhibit 7.6R, are
351 lower for a company like Dominion versus a company like Questar Corp. First, bond
352 issuances, which are large enough to be "index eligible" (at least $250 million for each
353 tranche), generally achieve superior pricing (*i.e.*, cheaper debt) to those which are not that
354 large. Similarly, issuances that are even larger than that threshold achieve better pricing to
355 the degree investors believe they are large enough to be traded with significant liquidity in
356 the after-market (for example, in the $500-$750 million range). Dominion and several of
357 its major financing subsidiaries are large enough to consistently issue bonds in this larger
358 and more attractive "index-eligible" size range, while Questar is constrained given its size
359 to generally smaller (and often not index-eligible) bond offerings.

360 Second, credit issuers within large "credit families" (like Dominion, for example), can
361 often achieve better pricing than those from smaller, less widely followed and more
362 infrequent issuers like Questar Corp. As an illustration, Dominion is currently covered
363 from a research perspective by about 25 Wall Street and financial institutional research
364 analysts, while Questar Corp. is covered by approximately 7. In general, more analyst
365 coverage results in greater informational transparency to the market and better capital
366 market execution.

367 **Q. Do you have any comments on Division Witness Kelly's assertion that the Joint**
368 **Applicants have not provided any quantifiable analysis that Dominion, as a larger**
369 **company, has improved access to capital markets that will benefit Questar Gas**
370 **customers?**
371 A. I disagree with Ms. Kelly's assertion. First, I am aware of no direct linkage between credit
372 ratings and size based on net property, plant, and equipment as Ms. Kelly suggests. Credit
373 ratings are based on a wide variety of qualitative (e.g., management quality, degree of
374 supportive regulatory framework) and quantitative (e.g. credit metrics, primarily focused
375 on cash coverage type metrics) factors. I am also not aware that any submission by
376 Dominion in this proceeding has suggested such a relationship between size and credit
377 rating.

378 However, as noted above, within generally similar credit rating categories, larger corporate
379 families tend to attract capital on an advantageous basis for several reasons. They have
380 larger levels of debt and other securities outstanding. They are more frequent issuers and
381 are well understood in the capital markets. And, they are covered by larger number of
382 research analysts.

383 Dominion has provided two analyses in support of this assertion. The first is found on
384 Exhibit 7.6R, as I just described above. The second analysis relates to a more direct
385 comparison of long-term financing costs of similarly rated utility issuers within the
386 Dominion and the Questar families. The table below, also shown on page 23 of Exhibit
387 1.19 attached to the First Supplement to Joint Notice and Application, is a summary of
388 2013 debt issuances by Questar Gas, and Dominion subsidiaries VEPCO and Dominion
389 Gas Holdings ("DGH").[1] Despite slightly lower S&P ratings at VEPCO and DGH, the
390 Dominion subsidiary bond offerings in 2013 priced on average 20 basis points lower than

[1] While these issuances were on different days, it does demonstrate credit costs on the same tenor basis (all of the below are 30 year tenors) in the same year.

391 Questar Gas' offering that year.

Date	Issuer	Moody's rating	S&P rating	Size ($ million)	Spread (basis points)	Comparison to Questar Gas
1/3/2013	VEPCO	A3	A-	$500	+93.0	27 bps lower
12/20/13	Questar Gas	A3	A	$90	+120.0	—
8/12/2013	VEPCO	A3	A-	$585	+95.0	25 bps lower
10/17/2013	DGH	A3	A-	$400	+112.0	8 bps lower
Average						**20 bps lower**

392 **Q. Much of your testimony focuses on Questar Gas' long-term debt costs. Would any**
393 **potential impacts of the Merger on Questar Gas' short-term borrowing costs affect**
394 **Questar Gas' rates?**

395 A. No. The costs of short-term debt are excluded from the cost of debt used to determine
396 Questar's revenue requirement; therefore, the costs of short-term debt do not impact
397 Questar Gas customer rates.

398 Questar Gas currently borrows short-term from its parent (and in the future will borrow
399 primarily directly from the commercial paper market) to fund seasonal working capital. It
400 does not borrow short-term to fund the investment in rate base assets or otherwise to
401 permanently support the regulated capital structure of the entity. As a result, I understand
402 that short-term borrowings are not included in the capital structure used for setting of rates
403 of Questar Gas in rate proceedings.

404 Similarly, I understand that the actual cost of servicing short-term debt is not accounted for
405 in the "regulatory accounts" which are used to determine actual and appropriate returns in

406 rate proceedings.[2] Therefore, I do not believe that any changes to the short-term borrowing
407 costs (upwards or downwards) have any material impact on rates or customers.

408 **Q. On page 17 of his testimony, Division Witness Wheelwright compares the short-term**
409 **interest rate for Questar Gas of 0.39% to the short-term interest rate for Dominion**
410 **and Dominion East Ohio of 0.58%. With Dominion's higher short-term interest rate,**
411 **Mr. Wheelwright and Ms. Kelly (at pages 19-20) believe this could impact Dominion**
412 **Questar Gas customers. How do you respond?**

413 A. First, as I indicated above, Questar Gas' customers are not impacted by short-term debt
414 financing.

415 Second, to provide a much simpler and more meaningful indication of the short-term
416 borrowing costs of Questar Gas and Dominion, we set out below the rates offered
417 specifically for 1 month tenors of commercial paper ("CP") by the CP dealer banks of each
418 firm. This data reflects offered rates as of July 18, 2016, and on each side includes issuance
419 costs/dealer fees. Note that CP costs vary day to day, and as is shown in the below data
420 even different dealers have different pricing on the same day.

1 month Commercial Paper Dealer Quotes - July 18, 2016

	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Average
Dominion Resources	0.76%	0.85%	0.77%	0.78%	0.80%	0.85%	N/A	**0.79%**
Questar Corp	N/A	N/A	0.80%	0.80%	0.78%	N/A	0.83%	**0.80%**

421

[2] I would note, however, that in some specific situations there could be a very slight impact of short-term debt costs in the Allowance for Funds Used During Construction ("AFUDC") rate, which does include the cost of short-term debt. Given the current and expected Construction Work in Progress balances to which this blended AFUDC rate is applied, any impact of variations in the short-term cost of debt for Questar Gas debt, up or down, would be expected to be immaterial.

422 As this table demonstrates, when viewed on an apples-to-apples basis, the short term
423 borrowing costs of Questar Gas and Dominion are effectively equivalent (on this particular
424 day, the average rate offered to Dominion was lower by one basis point).[3]

425 **Merger Transaction Financing Issues**

426 **Q. Mr. Wheelwright on page 16 of his testimony disputes Dominion's stated financing of**
427 **the Merger purchase price with 67% equity and 33% long-term debt, and instead he**
428 **argues that on the closing date the purchase price will be funded by 11.4% equity and**
429 **88.6% debt. Do you agree with his characterizations of the financing?**

430 A. No, I do not. First, to clarify, there is no financing contemplated at the Questar Gas entity
431 in relation to the Merger, nor will any Merger financing costs at Dominion or other
432 affiliates be allocated to Questar Gas in any way.

433 As shown on Exhibit 7.7R, Dominion divided the total amount of "permanent financing"
434 into debt and equity components, with the debt component consisting of the Dominion
435 Senior Notes ($1.45 billion) and all of the other elements categorized as equity (again, as
436 stated in the Technical Conference presentation, only financing on a "permanent basis").

437 Mr. Wheelwright correctly notes that not all of the "permanent financing" will be in place
438 at the time of closing of the Merger. For example, the Dominion Midstream equity, which
439 is to be issued to repay the $1.2 billion short-term loan that will be funded at closing, will
440 not be completed as of the Merger closing date. Instead, it will be issued and become
441 "permanent" in the months following closing of the Merger, the specific timing of which
442 will depend on market conditions.

[3] The rates reflected in the above table are significantly higher than those set out for historical periods in Witness Wheelwright's and Witness Kelly's testimony due to CP rate fluctuation. CP rates (and certainly 1-month CP rates) move day to day very much in line with 1-month LIBOR. Given 1-month LIBOR has increased significantly over the last year or so (even as more often-quoted long term rates have fallen), there have been dramatic increases in CP costs for Questar Corp., Dominion, and basically every other issuer of CP.

443 Mr. Wheelwright categorizes the proposed Dominion issuance of Mandatory Convertibles
444 as debt, not equity. However, a fundamental component of Mandatory Convertibles is the
445 investor's contractual obligation to purchase Dominion common stock, and consequently
446 it differs from conventional views of being equity from the perspective of:

447 - Investors in new mandatory convertibles, which are equity portfolio
448   managers at equity investment firms, and certainly not fixed income or
449   debt investors;
450 - Holders of existing mandatory convertibles, who absolutely
451   bear equity risk, including on the downside and the upside based on stock
452   price movements, unlike fixed income or debt;
453 - Investment banks and underwriters who handle Mandatory Convertible
454   transactions within their equity divisions and not their fixed income or
455   debt divisions;
456 - Credit rating agencies, which assign equity credit for Mandatory
457   Convertibles given they are not simply debt; and
458 - Public equity research analysts, who upon the issuance of a Mandatory
459   Convertible immediately add the common shares to share counts in
460   future years.

461 Mr. Wheelwright notes that these securities do not become equity for three years.
462 However, by focusing on the date the instruments convert from one type of equity to
463 another as the determinative factor of whether they are debt or equity, ignores the substance
464 of these securities.

465 If the investing community viewed this financing plan as too risky or aggressive, we would
466 expect some form of negative reaction. For example, one may expect to see increases in
467 borrowing costs. But there have been no such increases. Moreover, Moody's concludes

468 that, compared to recent utility acquisitions by The Southern Company and Duke Energy
469 Corp., "Dominion is least exposed to a decline in financial metrics, given the lower
470 premium it will pay for Questar (7.3x Questar's 2015 reported EBITDA) and the more
471 balanced mix of debt and equity that is expected to finance it."[4]

472 Therefore, based on these factors, the financing of the Merger purchase price at the
473 Dominion level is properly recognized as primarily equity (67%, as shown on Exhibit 7.7R)
474 on a "permanent basis."

475 **Q. On page 16 of his testimony, Mr. Wheelwright notes that the transfer of Questar**
476 **Pipeline in exchange for the master limited partnership ("MLP") drop proceeds,**
477 **which represents 27.3% of equity funding to finance the Merger, will take**
478 **approximately one year. Is that correct?**

479 A. No. Dominion has indicated that it has structured acquisition financing that provides the
480 flexibility (through a prepayable one-year term loan which will be funded on the day of
481 Merger closing) to raise the equity and repay that term loan at any time within that one year
482 term. Depending on market conditions, that transaction could be undertaken at any time
483 as soon as practicable following the Merger closing, but not to exceed the one-year term.

484 IV. WEXPRO AND QUESTAR PIPELINE

485 **Q. On pages 17-18, Mr. Wheelwright asserts that it is unclear how Wexpro will be**
486 **financed and that it appears likely Wexpro will participate in Dominion's money pool.**
487 **Is this accurate?**

488 A. No. After considering different options to finance Wexpro, Dominion commits that
489 Wexpro will not be a party to a money pool. To the extent that short-term working capital
490 is required at Wexpro, it will be provided under the terms of a one-way intercompany note
491 at the actual cost of that short-term debt at the Dominion level. As described above, this

[4] *See* Moody's Report Number 1016760 published March 21, 2016.

492 would not likely have a perceptible impact on the cost of such short-term debt as compared
493 to the current status quo. Additionally, consistent with the existing Wexpro Agreements,
494 Wexpro will not be financed with long-term debt. Instead, it will be financed in this one-
495 way short-term funding format, when necessary.

496 **Q. Mr. Wheelwright notes that Dominion stated that Wexpro is "MLP eligible." Does**
497 **Dominion plan to transfer Wexpro to Dominion's MLP?**

498 A. No. MLP eligibility (*i.e*. whether the activities of an entity generate qualifying income) is
499 determined by the Internal Revenue Code, not by Dominion. Dominion simply provides
500 its investors a list of all its businesses categorized as MLP-eligible and non-MLP-eligible
501 in its normal course investor relations activities. Dominion does not plan to transfer
502 Wexpro assets to the MLP or include Wexpro in its MLP, and Dominion will not seek to
503 include Wexpro in its MLP without Commission approval to do so.

504 **V. CAPITAL STRUCTURE**

505 **Q. On pages 7-8 of his testimony, Mr. Wheelwright is concerned about different capital**
506 **structures between the holding company and operating entities and states that "[w]ith**
507 **lower equity at the parent company level, the same earnings from the operating**
508 **entities calculates to a higher return on equity at the corporate level." Please address**
509 **his concerns.**

510 A. As is typical, the capital structures for the regulated utility entities within Dominion and
511 within Questar Corp. are being managed to meet their specific capital and financing needs
512 separately, while maintaining their respective targeted credit ratings. This is of course
513 consistent with sector norms, in which regulated entities are very conservatively financed
514 (a relatively equal balance of debt and equity), partly in order to obtain an optimal cost of
515 debt for the utility and its customers, but also in order to ensure an adequate equity "buffer"
516 exists to allow the entity to weather unforeseen market-disrupting events. In this respect,
517 interests are aligned between the utility and its customers.

518 The consolidated capital structure of Dominion reflects a more highly-levered capital
519 structure due to activity related to acquisitions and divestitures, and activity within its non-
520 utility operations. For the non-regulated entities comprising the consolidated Dominion
521 capital structure, management and investors have a different view regarding the tradeoff
522 between leverage, risk, and the market cost of debt.

523 Mr. Wheelwright suggests that the "holding company has no ability to generate revenue or
524 retire the debt and the pension liabilities are due to employees at each of the operating
525 entities." However, this is not the case here. Dominion is not just a holding company – it
526 owns and operates a number of assets, including, but not limited to: the Cove Point
527 liquefied natural gas facility; Hope Gas, Inc., a gas retailing business; a large contracted
528 utility-scale solar business with power purchase agreements with electric utilities around
529 the country; and a large baseload non-regulated generation fleet, etc. It is also the owner
530 of the General Partner of Dominion Midstream and owns approximately 63% of the limited
531 partnership units in that entity as well. Additionally, Dominion has the ability to, and
532 frequently does, issue equity, equity linked and other securities into the capital markets. It
533 has ample ability to meet the debt service and other requirements (including pension
534 obligations), in addition to just utilizing dividends received from its regulated utility
535 subsidiaries for those purposes.

536 **Q. On page 14 of his testimony, Mr. Wheelwright suggests that there are some**
537 **discrepancies between the percentages of debt and equity in the generally accepted**
538 **accounting principles ("GAAP") accounts of Dominion versus those represented in**
539 **the Joint Notice and Application. Can you please clarify?**

540 A. Yes. First, "debt to capital" and "equity ratio" are not defined GAAP measures. Therefore,
541 users of Dominion's GAAP financial statements can at times come to varied conclusions
542 regarding the appropriate calculation. For example, including or excluding short-term
543 debt, working capital, or lease obligations could result in different calculations. However,
544 the definition of "total funded debt to capitalization" as is set out in Dominion's revolving

545 credit agreements, which are published in full on Dominion's investor website and for
546 which calculations are referenced in quarterly and annual financial statements provides a
547 precise and standard definition.

548 Second, given the investment grade rating of Dominion and all of its affiliates, within all
549 of the financing agreements and indentures of Dominion, the only financial covenant which
550 exists is the "debt to total capital," as referenced in its revolving credit agreements.
551 Therefore, Dominion considers this calculation to be the most relevant measure for
552 practically any user of its published financial information.

553 Third, Dominion believes that the definition of "total funded debt to capitalization" in its
554 revolving credit agreement accurately reflects the sometimes ambiguous or complex nature
555 of certain securities and agreements, regardless of how they are presented under more rigid
556 GAAP standards. Additionally, 21 of the largest financial institutions in the world, namely
557 those which are parties to the Dominion revolving credit agreement, apparently agree with
558 the appropriateness of this approach.

559 **Q. On page 15 of his testimony, Mr. Wheelwright expresses concerns with the "lower**
560 **equity position" of Dominion as compared to Questar Corp., as it "can impact a**
561 **company's credit rating and borrowing costs." How do you respond?**
562 A. The lower equity position of Dominion as compared to Questar Corp. should not impact
563 the stand alone rating or borrowing costs of Questar Gas.

564 First, there is no proposed change to the equity position or debt of Questar Gas in relation
565 to the Merger. No Merger-related financing is being undertaken at Questar Gas and no
566 liabilities or assets will be transferred into or out of Questar Gas as a result of the Merger.
567 Further, no acquisition financing costs or interest expense will be allocated or "pushed
568 down" to Questar Gas from Dominion or any affiliate entities. Therefore, as explained

569 above, I do not believe that the Merger will negatively impact Questar Gas' borrowing
570 costs.

571 Second, generally speaking, in the analysis of credit strength of regulated utilities, equity
572 position or debt/capital type ratios are generally not primary factors. While they are often
573 quoted by general observers, in my experience they are not an area of significant focus for
574 fixed income investors (who collectively set the cost of borrowing for a utility company)
575 or credit analysts. Instead, credit analysts and investors primarily measure cash coverage
576 by the ratio of funds from operations ("FFO") to total debt ("FFO/Debt"), which assesses
577 a utility's ability to meet its obligations for the timely repayment of principal and interest.
578 As there will be no material impact to Questar Gas' FFO/Debt ratio as a result of the
579 Merger, Questar Gas' credit strength should not be negatively impacted.

580 **VI. PROTECTIONS FROM AFFILIATE OPERATIONS AND ACTIVITIES**

581 **Q. On page 58-59 of Ms. Kelly's testimony, she states that Dominion Questar may need**
582 **to generate increased earnings, profits and cash at the parent level to satisfy**
583 **Dominion's investors based on the "above-market premium" it paid to Questar**
584 **Corp. She is concerned that if sufficient savings or synergies are not produced, then**
585 **customers could be harmed. Please respond.**

586 A. Ms. Kelly is suggesting that Dominion will need to raise customer rates at Questar Gas if
587 adequate synergies are not realized from the Merger. This suggestion ignores the
588 regulatory construct for Questar Gas and the undertakings and commitments already
589 proposed by the Joint Applicants, which would protect customers from such increases.

590 First, it is not reasonable to suggest that customer rates at Questar Gas could be increased
591 simply because Dominion needs additional earnings or cash flow. To raise rates, Questar
592 Gas must file for rate relief and the Commission determines the appropriate rate level based

593 on a thorough review of cost of service and other relevant factors. Thus, the regulatory
594 process and protections would prevent such occurrences.

595 In addition, the Joint Applicants have made commitments to maintain customer service at
596 or better than current levels; to upgrade and maintain facilities for safe reliable operations;
597 and to maintain environmental monitoring and maintenance programs. (*See* Merger
598 commitments "f" – "h" in the Joint Notice and Application) Joint Applicants have also
599 committed not to seek recovery of any acquisition premium cost or transaction costs
600 associated with the Merger from Dominion Questar Gas' customers. (*See* Merger
601 commitment "u") These commitments, taken together, would prevent such harm. Joint
602 Applicant Witnesses Thomas F. Farrell II and Diane Leopold address these and other
603 service quality issues in their direct testimonies, as do Joint Applicant Witnesses David A.
604 Christian and Craig C. Wagstaff in their rebuttal testimony.

605 **Q. On page 15 of his testimony, Office Witness Kollen suggests that there is risk of**
606 **liability from Dominion's non-regulated activities through numerous affiliates that**
607 **have riskier business and financial profiles. Do you agree?**

608 A. No. Dominion is very familiar with and sensitive to the need to ensure that separate legal
609 entities are respected and maintained, and that liabilities and expenses are appropriately
610 allocated and/or isolated to the correct entity within that organizational structure. This is
611 not only of interest to regulators and customers in our utility businesses, but is also of
612 utmost importance to our fixed income/debt investors in various entities within the
613 Dominion family. To that end, Dominion Questar Gas will remain as a separate legal entity
614 following the Merger, and will not be responsible for the obligations of, or adverse
615 consequences that may arise at, other entities within Dominion.

616 Furthermore, the Commission will continue to exercise its regulatory authority over
617 Dominion Questar Gas in the same way it does today, thereby ensuring continued
618 protection of the interests of its customers. Dominion Questar Gas will retain its own
619 capital structure, its own credit ratings, and will be effectively isolated from any credit
620 issues that may arise at Dominion or any of its other subsidiaries. The Joint Applicants
621 have made numerous commitments that will help insulate and protect Dominion Questar
622 Gas' credit quality and customers.

623 I would also note that the professional investor community understands the structure of
624 separate legal entities and related issues, and even though Dominion does own and operate
625 certain assets which are not regulated utilities, this results in an overall cost of borrowing
626 for the Dominion family which is lower than the overall cost of borrowing for Questar
627 Corp. Therefore, I would say that the investor community as a whole does not seem to
628 share Mr. Kollen's view that these affiliate issues are somehow credit issues which could
629 impact the cost of borrowing for Questar Gas.

630 **Q. On page 15 of his testimony, Mr. Kollen specifically expresses concern about risks to**
631 **Questar Gas customers from Dominion's ownership and of operation of nuclear**
632 **facilities. Please comment.**

633 A. To the extent Mr. Kollen is worried about potential liability from Dominion's nuclear
634 electric generation facilities, the Joint Applicants commit that Dominion Questar Gas will
635 remain a separate legal entity and therefore will be shielded from any potential liabilities.
636 In addition, there are protections in place to shield Dominion Questar Gas and other
637 affiliates of Dominion from perceived nuclear risk. For example:

638 • *Operational Experience*. Dominion has a history of effectively managing the risk
639 associated with the nuclear generation fleet consisting of six licensed, active units in
640 Virginia and Connecticut with net summer capacity totaling 5,349 megawatts it owns

641 and operates. Dominion has a long history and track record of safe and reliable
642 operations for its nuclear fleet.

643 • *Regulatory Oversight.* The Dominion nuclear generation fleet is subject to strict
644 regulation and oversight by the Nuclear Regulatory Commission ("NRC"), which
645 oversees all aspects of the operations and maintenance of the company's nuclear
646 stations.

647 • *Separate Legal Entities*. Dominion's nuclear generation stations are owned and
648 operated by legal entities entirely separate from its gas businesses. Dominion has
649 experience operating both regulated and unregulated businesses and is experienced in
650 operating the various businesses separately. Dominion has never pushed nuclear-
651 related liabilities or expenses into other unrelated operating segments or businesses,
652 nor does it intend to prospectively. Dominion Questar Gas customers would not be
653 impacted by any increased liabilities or expenses related to nuclear operations. These
654 charges are solely borne at the Dominion or VEPCO levels as the owners and operators
655 of the nuclear facilities.

656 • *Federal Legislative Liability Protection*. The Price-Anderson Amendments Act of
657 1988 sets out that, in the event of a nuclear incident at any licensed nuclear reactor in
658 the U.S., the owner could be assessed up to a maximum of $127 million for each of
659 their licensed reactors not to exceed $19 million per year per reactor. There is no limit
660 to the number of incidents for which this retrospective premium can be assessed.
661 Dominion and its subsidiary, VEPCO, have purchased $375 million, as the primary
662 layer of coverage from commercial insurance pools, and together with the Price-
663 Anderson Act these provide public liability, bodily injury, and property damage
664 protection, per incident for each reactor site. As previously discussed, Dominion
665 Questar Gas customers will not bear the costs of these insurance premiums.

666 - *Property Insurance*. Dominion's and VEPCO's nuclear property insurance coverage
667 for Millstone, Surry, and North Anna nuclear generating stations exceeds the NRC
668 minimum requirement for nuclear power plant licensees of $1.06 billion per reactor
669 site. The Kewaunee generating station, which is in the process of being
670 decommissioned, meets the NRC minimum requirement of $1.06 billion. Dominion's
671 10K filings with the Securities and Exchange Commission disclose, in greater detail,
672 the parameters of its nuclear property insurance coverages.

673 - *Nuclear Decommissioning Trusts*. In accordance with NRC standards,
674 decommissioning involves the decontamination and removal of radioactive
675 contaminants from a nuclear power station once operations have ceased. In general,
676 amounts collected from electric customers are placed into trusts, which invest the funds
677 to cover the expected future decommissioning costs. As of December 31, 2015,
678 Dominion and VEPCO have approximately $4.183 billion in nuclear decommissioning
679 trusts, and believe that the amounts currently available in the decommissioning trusts
680 and their expected earnings will be sufficient to cover expected decommissioning costs
681 for the nuclear units.

682 Finally, I would again refer to our analysis showing that the current overall cost of debt for
683 the Dominion family (which includes ownership of nuclear generation) is lower than the
684 current overall cost of debt for the Questar family (which does not), which of course implies
685 that the overall investing market does not agree with the concerns put forward by Witness
686 Kollen in this respect.

687 In short, I believe that Mr. Kollen's concern that Dominion's nuclear fleet is a risk for
688 Dominion Questar Gas is not warranted.

689 **VII. PROTECTIVE FINANCIAL PROVISIONS**

690 **Q. Please summarize the protective financial provisions the Joint Applicants have**
691 **proposed to date.**
692 A. The Joint Applicants have committed to robust financial protections for Dominion Questar
693 Gas customers, including some that are greater protection than Questar Gas' customers
694 currently enjoy. These financial protections adequately shield Dominion Questar Gas from
695 liability risks and potential costs arising from other Dominion affiliates' operations and
696 activities. As with all of its regulated operating subsidiaries, Dominion is sensitive to the
697 need to ensure, particularly with respect to regulated utilities like Questar Gas, that separate
698 legal entities are respected and maintained, and that liabilities and expenses are
699 appropriately allocated and/or isolated to the correct entity within that organizational
700 structure. The Joint Applicants' commitments insulate and protect Dominion Questar Gas'
701 credit quality and customers from these risks. The Joint Applicants' commitments,
702 previously made or now made, include:

703 • Dominion Questar Gas will be maintained as a separate legal entity (Joint Notice
704 and Application ¶ 9).

705 • Dominion Questar Gas' corporate headquarters will be maintained in Salt Lake
706 City, Utah (Merger commitment "a").

707 • A member of Questar Corp.'s Board of Directors will be appointed to Dominion's
708 Board of Directors (Merger commitment "c").

709 • Dominion Questar Gas will maintain a complete set of books and records, including
710 accounting records, for Dominion Questar Gas at its corporate office in Salt Lake
711 City, Utah (Merger commitment "n").

712 • Dominion Questar Gas will maintain its current range of debt and equity capital
713 ratios (Merger commitment "w").

714 715 716
- Dominion intends to maintain credit metrics that are supportive of strong investment-grade credit ratings for Dominion Questar Gas (Merger commitment "x," and Exhibit 7.8R).

717 718 719
- Dominion Questar Gas will not transfer material assets to or assume liabilities of Dominion or any other subsidiary of Dominion without Commission approval (Merger commitment "aa").

720 721
- Dominion Questar Gas will not transfer its debt to Dominion without Commission approval (Merger commitment "bb").

722 723
- Dominion Questar Gas will not lend funds to Dominion or other Dominion entities (First Supplement to Joint Notice and Application at 6).

724 725
- Dominion Questar Gas will maintain its status as a standalone issuer of long-term debt (Exhibit 7.8R).

726 727
- Dominion Questar Gas will maintain issuer credit ratings from independent credit-rating agencies (Exhibit 7.8R).

728 729
- Dominion Questar Gas agrees to maintain current Commission oversight of its dividend payments (Exhibit 7.8R).

730 731 732 733 734
- 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.

735 736 737
- Dominion Questar Gas will maintain separate long-term debt with its own long-term-debt rating supplied by at least two of the three or four recognized debt rating agencies, including Moody's and S&P or their successors (Exhibit 7.8R).

738 739
- All of the debt and preferred stock (if any) used to capitalized Dominion Questar Gas will be kept within the regulated utility (Exhibit 7.8R).

740 741 742 743
- The Joint Applicants agree not to assert in any future Utah proceeding that the provisions of the Public Utility Holdings Company Act ("PUHCA"), PUHCA 2005, or the related Ohio Power v. FERC case preempt the Commission's jurisdiction over affiliated interest transactions (Exhibit 7.8R).

744 745 746

- The Joint Applicants agree to continue to provide no less than the same access to short-term debt, commercial paper, and other liquidity that Questar Corp. currently has in place (Exhibit 7.8R).

747 748 **Q. Why have the Joint Applicants not agreed to all of the recommended additional protective financial provisions?**

749 A. The Joint Applicants have proposed and agreed to a number of commitments that they
750 believe are adequate and reflective of market standards. The measures that the Division
751 and Office witnesses have proposed are extraordinary ring-fencing measures that are not
752 warranted by the Merger.

753 There are more than 100 electric and gas regulated utilities in the United States, and only
754 a very small number have – for various specific reasons – incorporated the more stringent
755 ring-fencing measures similar to the ones the Division and Office witnesses propose. The
756 extraordinary ring-fencing measures imposed on this small number of companies such as
757 those noted by the Division and Office witnesses – Enron/Portland General, Scottish
758 Power/MidAmerican/Pacificorp, Constellation/BGE – does not constitute a "market
759 standard" in my view.

760 Furthermore, in all cases where extraordinary ring-fencing has been utilized, there has been
761 a specific reason to impose the additional protections, such as: a significantly weaker parent
762 company credit; foreign parent company; a parent company which is from a different
763 industry and lacks experience or history in the subsidiary area; or the parent's financing
764 structure is simply organized to maximize debt levels at subsidiaries, and having more
765 stringent ring-fencing allows them to achieve that goal whereas in other situations their
766 parent credit profiles would not.

767 None of these factors are present, nor are there other factors reflected, in this Merger that
768 would necessitate the extraordinary ring-fencing beyond the existing commitments by the
769 Joint Applicants.

770 **Q. Could imposition of these additional restrictive financial requirements actually harm**
771 **Dominion Questar Gas and its customers?**
772 A. Yes. In fact, Moody's notes that "to the extent that we see the credit quality of a stronger
773 credit subsidiary isolated within the group, this will result in a weakening of the
774 creditworthiness of the rest of the group, which a rating committee might decide to reflect
775 in notching"[5] (*i.e.*, downgrading). Mr. Peterson also acknowledges some negative
776 consequences of overly restrictive ring-fencing provisions. He states on page 5 of this
777 testimony that "a tight ring-fence could eliminate subsidies or prevent other benefits from
778 flowing to [Dominion Questar Gas] from other affiliates of Dominion. [Dominion Questar
779 Gas] may find that it is not able to participate in economies of scale that the total parent
780 holding company, and non-ring-fenced affiliates, might enjoy resulting from larger
781 purchases; or in having company-wide services such as human resources, legal, and
782 accounting."

783 Imposing numerous restrictive financial provisions, like the more-stringent package
784 Division and Office witnesses propose, can increase direct and indirect costs. Increased
785 direct costs relate to appointing an independent director, and creating and maintaining a
786 special purpose entity. Increased indirect costs could arise if the investing community
787 perceives these numerous financial provisions as signifying a less favorable regulatory
788 environment. Rating Agencies, and investors who rely on rating agency views, base their
789 views of a regulated utility on a number of factors, including financial credit metrics,
790 management track record and competency, access to capital (including access to adequate
791 liquidity), local economic factors and, importantly, quality of regulation. Regulatory
792 conditions or requirements, unrelated to reasonable concerns based on relevant facts and
793 circumstances, could negatively impact these investments to the detriment of Dominion
794 Questar Gas' customers.

[5] *See* Moody's special comment "Covenants and Ring Fencing for Wholly-Owned Subsidiaries" May 2007.

795 The Joint Applicants' commitments reflect an optimal level of ring-fencing protections and
796 achieve an appropriate balance between financial separation and insulation of Dominion
797 Questar Gas from other Dominion affiliates and provide the benefits associated with a
798 properly integrated corporate family – a balance that is in the best interests of Dominion
799 Questar Gas' customers.

800 **Q. Mr. Peterson and Ms. Kelly recommend bankruptcy-related protective provisions.**
801 **Why do you believe the Commission should not adopt these provisions?**
802 A. Mr. Peterson and Mr. Kelly recommend that Dominion Questar Gas be held in a special
803 purpose entity, with an independent director, and provide a non-consolidation opinion that
804 the special purpose entity is bankruptcy-remote. I do not believe the Commission has
805 ordered these bankruptcy protection provisions in previous merger approval proceedings
806 and should not do so in this proceeding because they do not provide necessary incremental
807 protections over and above the full commitments the Joint Applicants have made.

808 Mr. Peterson's and Ms. Kelly's bankruptcy-related recommendations appear to originate
809 from the merger approval process for the MidAmerican Energy Holdings Company
810 ("MEHC") and PacifiCorp merger. In contrast to this proceeding where the Joint
811 Applicants firmly object to these provisions, MEHC and PacifiCorp proposed some of
812 those bankruptcy-related provisions in their joint application and accepted others that were
813 negotiated in the settlement stipulation in another state, which the Commission adopted.[6]

814 These provisions do not provide substantive bankruptcy protections beyond those
815 contained in the commitments the Joint Applicants have made to date. True bankruptcy
816 protection is achieved by creating and preserving financial independence of the regulated

[6] The Commission's first Report and Order issued January 27, 2006 in Docket No. 05-035-54 approving the first stipulation did not explicitly contain the bankruptcy related provisions, but did refer to ring-fencing provisions to be provided by the joint applicants, apparently referring to those proposed in the joint application. It was through the "most favored state" process that the Commission later adopted amendments to the stipulation to incorporate this additional provision negotiated in other jurisdictions.

817 utility to prevent it from being pulled into the bankruptcy proceeding of a non-regulated
818 affiliate. The Joint Applicants have agreed to ensure this financial independence through
819 commitments summarized in this testimony.

820 The Division's recommended bankruptcy-related provisions are overly restrictive given
821 the Commission's significant regulatory oversight, the Joint Applicants' firm commitments
822 to maintain the financial independence and health of Dominion Questar Gas, and
823 Dominion's financial strength.

824 **Q. Are there any other protective financial recommendations you wish to address in**
825 **testimony?**

826 A. Mr. Peterson recommends that Dominion Questar Gas have a separate board, forty percent
827 of which are independent directors having no affiliation with Dominion or any of its
828 affiliated entities. This too is unwarranted.

829 The Joint Applicants have proposed commitments to ensure that Dominion Questar Gas is
830 led, managed, and operated by an outstanding team with extensive public utility experience
831 in Utah. The Joint Applicants assure that Dominion Questar Gas will be managed from an
832 operations standpoint as a separate regional business under Dominion with responsibility
833 for managing operations to achieve the objectives of customer satisfaction, reliable service,
834 customer, public and employee safety, environmental stewardship, and collaborative and
835 productive relationships with customers, regulators, other governmental entities and
836 interested stakeholders.

837 Additionally, in May 2016, Dominion announced the leadership team for Dominion
838 Questar, which comprises current executives of Questar Corp. who will remain in Salt Lake
839 City, Utah. With over 20 years' experience each in the Questar family of companies, these
840 executives will ensure the continuity of excellent operations and customer service and
841 awareness of important local issues. Experienced executives with extensive knowledge of

842 Dominion Questar Gas' operations are better for efficient cost-effective operations and
843 superior service to customers than a separate board with forty percent of outside,
844 independent directors, who may lack the operational and managerial experience specific to
845 Dominion Questar Gas and an understanding of important local issues in its service
846 territory.

847 **Q. Are there additional responses to the various recommendations by the Division and**
848 **Office that you are addressing?**
849 Yes. I have not addressed each of the recommendations made by the Division and Office
850 Witnesses in the body of my testimony, but have limited my comments to overriding issues.
851 To avoid any confusion, the Joint Applicants' responses to each recommendation are
852 included in Exhibit 7.9R.

853 **Q. Does this conclude your testimony?**
854 A. Yes.

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

I, James R. Chapman, 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.

____
James R. Chapman

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

____
Notary Public