

APPLICATION OF DOMINION ENERGY

Docket No. 19-057-02

PHASE I HEARING

December 17, 2019

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1 BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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3)
4)Docket No. 19-057-02

5 In re: Application of)
6 Dominion Energy Utah to)
7 Increase Distribution Rates)
8 and Charges and Make Tariff)
9 Provisions.)

10 PHASE I HEARING

11 Taken on Tuesday, December 17, 2019

12 at 9:00 A.M.

13
14
15 At The Public Service Commission of Utah

16 160 East 300 South

17 4th Floor

18 Salt Lake City, Utah 84111

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22 Reported by: Kellie Peterson, RPR, CSR

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I N D E X

WITNESS	EXAMINATION BY	PAGE NO.
KELLY MENDENHALL		
	Direct Examination by Ms. Clark	8
	Cross-Examination by Mr. Jetter	19
	Cross-Examination by Mr. Mecham	21
	Cross-Examination by Mr. Russell	24
	Recross Examination by Mr. Mecham	28
	Examination by Commissioner Clark	29
ROBERT HEVERT		
	Direct Examination by Mr. Sabin	32
	Cross-Examination Mr. Jetter	43
	Cross-Examination by Mr. Moore	71
	Cross-Examination by Major Kirk	84
	Cross-Examination by Mr. Mecham	88
	Cross-Examination by Mr. Russell	122
	Redirect Examination by Mr. Sabin	125
	Recross Examination by Mr. Jetter	144
	Recross Examination by Mr. Moore	147
	Recross Examination by Mr. Mecham	148
	Examination by Commissioner LeVar	150
	Examination by Commissioner Clark	152
	Examination by Commissioner White	157
ALAN FELSENTHAL		
	Direct Examination by Mr. Sabin	162
	Cross-Examination by Mr. Russell	171
	Cross-Examination by Mr. Moore	188
	Redirect Examination by Mr. Sabin	197
	Recross Examination by Mr. Moore	208
	Recross Examination by Mr. Russell	213
	Further Redirect Examination by Mr. Sabin	216
	Further Recross Examination by Mr. Moore	218
	Examination by Commissioner White	219
	Examination by Commissioner Clark	222
	Examination by Commissioner LeVar	224
JORDAN STEPHENSON		
	Direct Examination by Ms. Clark	227
	Cross-Examination by Mr. Jetter	249

1	Cross-Examination by Mr. Snarr	251
	Cross-Examination by Major Kirk	265
2	Cross-Examination by Mr. Mecham	270
	Cross-Examination by Mr. Russell	273

E X H I B I T S

Ex. No.	Description	Page No.	
6	DEU 1.0	Direct Testimony of Kelly Mendenhall, Plus Attachments 1.01 - 1.15	9
7			
8	DEU 1.0R	Rebuttal Testimony of Kelly Mendenhall, Plus Attachments 1.01R - 1.05R	9
9			
10	DEU 2.0	Direct Testimony of Robert Hevert, Plus Attachments 2.01 - 2.11	35
11			
12	DEU 2.0R	Rebuttal Testimony of Robert Hevert, Plus Attachments 2.01R - 2.24R	35
13	DPU 1.0	Rebuttal Testimony of Michael Platt,	68
14	DPU 2.0	9/12/19 Investor Meetings	69
15	OCS H1	Rate & Regulatory, 7/1 -- 9/30/19	74
16	OCS H2	Moody's Investors Service, 1/30/19	148
17	DEU 6.0R	Rebuttal Testimony of Alan Felsenthal, Plus Attachments 6.01R - 6.03R	164
18			
19	OCS F1	Hearing Proceedings, Docket No. 16-057-01	193
20	OCS F2	Rebuttal Testimony of David Curtis	194
21	DEU 3.0	Direct Testimony of Jordan Stephenson, Plus Attachments 3.01 - 3.32	228
22			
23	DEU 3.0R	Rebuttal Testimony of Jordan Stephenson Plus Attachments 3.01R - 3.09R	228
24	DEU 7	Matrix (Exhibit was identified, not Admitted)	229
25			

1 December 17, 2019 9:00 A.M.

P R O C E E D I N G S

2

3 COMMISSIONER LEVAR: Okay. Good morning. I
4 think we will start. We are here for Public Service
5 Commission Hearing in Docket 19-57-2 of the application
6 of Dominion Energy Utah to increase distribution rates
7 and charges and make tariff modifications.

8 This is a Phase I Hearing. We also have a
9 public witness hearing today starting at 6:00 P.M.

10 Are there any preliminary matters before
11 going to appearances? I'm not seeing any indication, so
12 why don't we start with appearances for the utility.

13 MS. CLARK: Thank you. My name is Jenniffer
14 Nelson Clark. I'm counsel for Dominion Energy Utah.
15 Mr. Cameron Sabin is also here as counsel for the
16 company.

17 We have Alan Felsenthal, Robert Hevert, Kelly
18 Mendenhall and Jordan Stephenson here as witnesses for
19 the company and all have filed pre-filed testimony.

20 COMMISSIONER LEVAR: Thank for. The Division
21 of Public Utilities?

22 MR. JETTER: Good morning. I'm Justin Jetter
23 with the Utah Attorney General's Office. I'm here today
24 representing the Utah Division of Public Utilities. The
25 Division intends to present five witnesses at this

1 hearing: Douglas Wheelwright, David Thomson, Jeff
2 Einfeldt, Eric Orton and Casey Coleman.

3 COMMISSIONER LEVAR: Okay. Thank you.

4 Mr. Moore or Mr. Snarr?

5 MR. MOORE: Robert Moore, the AG's Office,
6 representing the Office of Consumer Services.

7 MR. SNARR: And Steven Snarr with the AG's
8 Office, also representing the Office of Consumer
9 Services.

10 We have three witnesses today: Alyson
11 Anderson of the office, Donna Ramas and Daniel Lawton.

12 COMMISSIONER LEVAR: Okay. Thank you.

13 Mr. Mecham?

14 MR. MECHAM: Steve Mecham, representing the
15 American National Gas Council, and I have Mr. Bruce
16 Oliver as our witness who will testify in this hearing.

17 COMMISSIONER LEVAR: Okay. Thank you.

18 Major Kirk?

19 MAJOR KIRK: Good morning, Major Scott Kirk
20 of the U.S. Air Force on behalf of Federal Executive
21 Agencies. Today we will have one witness, Michael
22 Gorman.

23 COMMISSIONER LEVAR: Thank you.

24 Mr. Russell?

25 MR. RUSSELL: Phillip Russell on behalf of

1 Utah Association of Energy Users. We will have one
2 witness, Mr. Kevin Higgins.

3 COMMISSIONER LEVAR: Okay. Thank you. We
4 have two interveners who did not file testimony in Phase
5 I: Nucor Steel and US Magnesium. Is anyone in the room
6 planning to participate in any way for those two
7 interveners? I'm not seeing any indication.

8 Okay. With that, we will go to Dominion
9 Energy of Utah for your first witness.

10 MS. CLARK: Thank you. The company calls
11 Kelly B. Mendenhall.

12 COMMISSIONER LEVAR: Good morning, Mr.
13 Mendenhall.

14 DIRECT EXAMINATION

15 KELLY MENDENHALL,

16 called as a witness, having been first duly sworn,
17 was examined and testified as follows:

18 BY MS. CLARK:

19 **Q. Good morning.**

20 **A. Good morning.**

21 **Q. Could you please state your name and business**
22 **address for the record, please?**

23 **A. My name is Kelly B. Mendenhall. My business**
24 **address is 333 South State Street, Salt Lake City, Utah.**

25 **Q. And what position do you hold with the**

1 **company?**

2 A. I'm the director of regulatory and pricing
3 for Dominion Energy Utah.

4 **Q. Mr. Mendenhall, did you file direct testimony**
5 **in this docket labeled as DEU Exhibit 1.0, with**
6 **accompanying exhibits DEU Exhibit 1.01 through 1.15?**

7 A. Yes.

8 **Q. And did you also file pre-filed rebuttal**
9 **testimony marked as DEU Exhibit 1.0R, with accompanying**
10 **exhibits 1.01R through 1.05R?**

11 A. Yes.

12 **Q. Do you adopt those documents as your**
13 **testimony today?**

14 A. I do.

15 MS. CLARK: The company would move for the
16 admission of DEU Exhibit 1.0, with accompanying exhibits
17 DEU Exhibits 1.01 through 1.15, as well as DEU Exhibit
18 1.0R, with attached exhibits 1.01R through 1.05R.

19 COMMISSIONER LEVAR: Okay. If any party has
20 any objection to that motion, please indicate to me?

21 I'm not seeing any objection, so the motion
22 is granted.

23 (Hearing Exhibits DEU 1.0 and 1.0R, plus
24 attachments, were marked for identification.)

25 COMMISSIONER LEVAR: I did forget to mention,

1 we do have some confidential exhibits in this docket, not
2 much confidential testimony but some confidential
3 exhibits. So, again, like usual, I think we are going to
4 rely primarily on the counsel in the room to inform us if
5 a witness starts to go somewhere on cross -- on direct,
6 you should know, but if they start to go in a certain
7 direction on cross-examination, please try to keep us
8 apprised of that as we move forward. Thank you.

9 BY MS. CLARK:

10 **Q. Mr. Mendenhall, can you summarize your**
11 **testimony in this docket?**

12 A. Certainly. So in my testimony, I discuss
13 three issues. I discuss the merger commitments, the
14 infrastructure tracker mechanism and the level of equity
15 that the company is proposing.

16 In my direct testimony, with respect to the
17 merger commitments, I provide evidence that the company
18 has complied with all the merger commitments in
19 Docket 16-057-01.

20 And in my rebuttal testimony, I provided
21 evidence, in response to concerns raised by the Division,
22 that the company is meeting all of its customer service
23 goals, with the exception of two goals that are related
24 to the transponder replacement program. And a
25 remediation plan for those two goals was approved and put

1 in place in Docket 19-057-25, and the company expects
2 those two metrics will be in compliance by September of
3 next year.

4 With respect to the infrastructure tracker, I
5 made three proposals to that program. First, I proposed
6 to change the filing date of the master list from April
7 30th to June 30th, and that was to allow our mapping
8 department to have extra time to compile the data to make
9 that report. No parties commented on that proposal.

10 The second proposal was, I proposed to change
11 the way overspent amounts are handled from year to year,
12 and parties seem to be generally in agreement with that
13 proposal.

14 And the third proposal I made was to increase
15 the infrastructure tracker amount from 72 million to \$80
16 million, and that was -- I provided evidence showing that
17 the construction costs of the program are outpacing the
18 GDP deflator rate that is used as an inflation rate in
19 that program. And as a result the company needs to
20 increase that level of spending to \$80 million to
21 continue to make approved amount of investment.

22 The OCS, DPU and UEA objected to that
23 proposal. Their arguments were mainly based around the
24 fact that they determined that the company should just be
25 able to shoulder those additional costs in between the

1 general rate case. And I provided evidence in my
2 rebuttal testimony that the company is currently already
3 incurring capital expenditures of about \$90 million per
4 year outside of a tracker and is shouldering those costs
5 in the general rate case. And so to add an additional
6 \$10 million to that just seems unreasonable.

7 Additionally, I added -- I provided some
8 additional evidence related to inflation rates. I
9 compared an additional six of inflation factors from
10 Global Insight that are based on main line construction,
11 with the GDP deflator, and showed that on average over
12 the last nine years, those inflation rates are outpacing
13 the GDP deflator rate by 2 to 300 percent.

14 With regards to equity, in my rebuttal
15 testimony, I address the proposals by Mr. Gorman and
16 Mr. Oliver to reduce the proposed level of equity that
17 the company is asking for, which is 55 percent. And I
18 think it's important to take a step back here and look at
19 why we are at 55 percent.

20 And so I want to direct your attention to a
21 few of my exhibits. If we can start in my rebuttal
22 exhibit, DEU Exhibit 1.02R is actually a rating action
23 that Moody's submitted in January of 2018, and the rating
24 action title is, "Moody's changes outlook on 25 U.S.
25 regulated utilities primarily impacted by tax reform."

1 COMMISSIONER LEVAR: 1.02R?

2 THE WITNESS: 1.02R, yes.

3 COMMISSIONER LEVAR: To your direct?

4 THE WITNESS: To my rebuttal. So Exhibit
5 1.02 in my rebuttal testimony.

6 COMMISSIONER LEVAR: Okay.

7 THE WITNESS: So if we just start at the
8 beginning of the report, the first sentence, it says,
9 "Moody's Investors Services has changed the rating
10 outlooks to negative from stable for 24 regulated
11 utilities and utility holding companies."

12 Then if we go down to the section right below
13 it called "Ratings rationale," and read the first
14 sentence, it says, "Today's action primarily applies to
15 companies that already had limited cushion in their
16 rating for deterioration in financial performance, will
17 be incrementally impacted by change in the tax law, and
18 where we now expect key credit metrics to be lower for
19 longer."

20 And then if we move down to the next
21 paragraph, the beginning of that paragraph says, "Tax
22 reform is credit negative for U.S. regulated utilities
23 because the lower 21 percent statutory tax rate reduces
24 cash collected from customers, while the loss of bonus
25 depreciation reduces tax deferrals, all else being equal.

1 Moody's calculates the recent changes in tax laws will
2 dilute a utility's ratio of cash flow before changes in
3 working capital to debt by approximately 150 to 250 basis
4 points on average, depending to some degree on the size
5 of the company's capital expenditure programs."

6 I will point out that Dominion Energy Utah
7 has one of the highest gross rates in the country. We
8 also, as I mentioned earlier, are replacing a fair amount
9 of pipe on our system, and so we have high capital
10 expenditures. And the elimination of that bonus
11 depreciation definitely puts strain on our credit
12 metrics.

13 If you turn to the next page, page 2, Moody's
14 lists the 24 companies that are -- that it's concerned
15 about. And if you go down two-thirds of the way of the
16 page, it is actually the 11th utility, you can see
17 "Issuer: Questar Gas Company; outlook, changed to
18 negative from stable."

19 And Questar Gas Company is actually the legal
20 name of Dominion Energy Utah. So that occurred in
21 January 2018.

22 So I would like to turn next to my exhibit in
23 my direct testimony, which is DEU 1.05. And DEU 1.05 was
24 a Moody's credit opinion that was issued on January 30th
25 of 2019. And if you go to page 1 of that exhibit,

1 there's a section at the beginning, a section called
2 "Summary." If you go down to the second paragraph, I'm
3 going to read that paragraph.

4 And it reads, "The Questar Gas credit profile
5 is constrained by 1., very weak financial metrics versus
6 peers; 2., a base rate freeze and tax reform impacts that
7 will reduce cash flow metrics through 2020; and 3., a
8 highly levered parent company."

9 So I want to talk about that second point,
10 the base rate freeze and tax reform impacts. While this
11 has been a credit strain to the company, it's been very
12 beneficial for customers. So if we talk about the base
13 rate freeze, as we all know, in 2016, as part of the
14 merger, the company withdraw a \$22 million rate case.

15 And it is hard to see what the result of that
16 rate case would have been, but I think it is safe to say
17 that it mostly would likely would have resulted in some
18 sort of increase for customers. That, combined with the
19 fact that the company agreed to stay out of a rate case
20 until now, until 2019, I think has been beneficial for
21 customers. Although, I will admit, it is difficult to
22 quantify.

23 I think something that's a little easier to
24 quantify is the impact of tax reform on customers.
25 Reducing that tax rate to 21 percent has definitely been

1 a benefit to customers and to the tune of about \$20
2 million per year in reduced rates. The company, when tax
3 reform was passed, willingly came forth, made the
4 appropriate filings to return that money to customers and
5 it's been a benefit to customers.

6 If you look at the other side of the
7 equation -- if we turn to page 3 of that document, DEU
8 1.05, and the second section on that page is called,
9 "Weakened cash flow will persist over the next 18 months,
10 but managing financial policies should help improve
11 metrics."

12 And if you go to the second paragraph in that
13 section, and it's the last sentence in that section, I'm
14 going to read it, it reads, "In January 2019, Questar Gas
15 received Commission approval to exceed the 55 percent
16 equity layer of capitalization that was ordered in the
17 2016 merger approval. This should help stave off the
18 pace of increasing debt during the cash flow stagnation
19 and keep CFO pre-WC to debt and CFO pre-WC less dividends
20 to debt, between 16 to 18 percent."

21 So we were able to depreciate the work of the
22 other parties, in this particular instance, to allow the
23 company to go over 55 percent level of equity. So
24 currently, we're at about 60 percent. We are projecting
25 about 60 percent. And the difference between 55 percent

1 and 60 percent is about \$8 million. And so we're asking
2 right now shareholders to fund that, to shoulder that
3 cost. And so now if you look at \$20 million of tax
4 benefits to customers, asking shareholders to shoulder \$8
5 million of equity, I think it's unreasonable for the
6 company to not be allowed its 55 percent level of equity.

7 So I would like to turn finally to -- in my
8 rebuttal testimony, DEU Exhibit 1.01R. DEU Exhibit 1.01R
9 is a credit opinion that was issued by Moody's on August
10 19, 2019. And the title of this report is, "Questar Gas
11 Company update following downgrade to A3."

12 And so in this report, Moody's downgrades the
13 company from A2 to A3, which is still investment grade,
14 but I would like to direct your attention to page 2 of
15 that report, where it lists, "Credit challenges. Base
16 rate freeze through 2020 and tax reform impacts will
17 weaken financial metrics." So the two things I mentioned
18 earlier in January are still a concern to Moody's.

19 "Elevated capital spend over the next three years." And
20 "Highly levered parent that carries higher credit risk."

21 And if you move down to the section that
22 says, "Factors that can lead to a downgrade," there are
23 two items. "Cash flow to debt metrics below 16 percent
24 on a sustained basis," and "If regulatory support or the
25 ability to recover costs were to decline."

1 So I think the proposal by Mr. Gorman and
2 Mr. Oliver, to allow the company a 50 percent level of
3 equity or 52 percent level of equity is below the level
4 of equity that the company's actually incurring would
5 fall in that category. The ability to recover costs. If
6 that were to be approved, we would not be able to recover
7 those costs.

8 One last item I would like to draw your
9 attention to on page 4. The first section there is
10 called, "Supportive regulatory environments with key cost
11 recovery features." If you go down to the fourth
12 paragraph of that section, it states, "In July, Questar
13 Gas filed for its first general rate case increase since
14 2014 with the PSCU. The filing requests just over a \$19
15 million annual revenue increase, based on a \$1.8 billion
16 rate base with 10.5 percent allowed ROE on an equity
17 level of 55 percent.

18 "The filing also requests a continuation of
19 the infrastructure rider and the recovery cap be raised
20 to \$80 million per year. The latter would be credit
21 positive, since it would maintain an important element of
22 predictable cost recovery."

23 So where disallowing those equity costs would
24 be a credit negative, it can lead to a downgrade, they
25 point out that approval of the track record of 80 million

1 will actually be a credit positive.

2 The last thing I discuss in my rebuttal
3 testimony related to the 55 percent is, I talked about
4 Commission precedence. And in the '90s, when rate cases
5 were litigated, the Commission ordered that the companies
6 actual capital structure should be used. Since 2000,
7 most of the cases have been settled, but those
8 settlements have been based on equity levels that were at
9 the company's actual capital structure.

10 So I think the Commission precedence also
11 points to the approval of 55 percent level of equity.
12 And so that concludes my summary.

13 MS. CLARK: Mr. Mendenhall is available for
14 cross-examination and Commission questions.

15 COMMISSIONER LEVAR: Thank you.

16 Mr. Jetter, do you have any question for
17 Mr. Mendenhall?

18 MR. JETTER: I do.

19 CROSS-EXAMINATION

20 BY MR. JETTER:

21 **Q. Good morning.**

22 A. Good morning, Mr. Jetter.

23 **Q. You stated in your testimony that the company**
24 **committed to maintaining safe, reliable service and**
25 **taking whatever steps were necessary to do that; is that**

1 accurate?

2 A. Correct.

3 Q. And you have also stated that the proposal
4 should replace additional high pressure pipe outside of
5 the tracker would be unreasonable?

6 A. Correct.

7 Q. Did you replace pipelines, including high
8 pressure pipelines, that may have been at risk before the
9 tracker existed?

10 A. Yes, we did.

11 Q. And was that unreasonable?

12 A. No, it was not.

13 Q. If the tracker didn't exist, would you
14 continue to replace those pipelines?

15 A. Yes. And the result would be, we would most
16 likely be in for rate cases more often. I think all of
17 the parties that have testified in this case is that the
18 tracker program should continue because it's a good
19 balance between cost recovery for the company and
20 customer -- keeping customer rates stable.

21 Q. Thank you. And so over the past six years
22 since the last rate case, the company's been replacing
23 additional pipe outside of the tracker; is that correct?

24 A. Correct.

25 Q. And during that period, has the company been

1 **significantly underearning as a result?**

2 A. They have been underearning, yes. And I
3 think also if you review these credit agency documents
4 that I talked about, I think it's also put pressure on
5 our credit metrics.

6 Q. **And so would you then intend to stop any of**
7 **those additional necessary pipe replacements if the**
8 **tracker was retained at its current level?**

9 A. No, but as I mentioned, it could cause us to
10 be filing rate cases more frequently, which adds
11 additional administrative burdens and costs to everybody.

12 Q. **Thank you. Those are the only questions that**
13 **I have.**

14 A. Thank you.

15 COMMISSIONER LEVAR: Okay. Thank you.

16 Mr. Moore or Mr. Snarr?

17 MR. SNARR: We have no cross-examination of
18 Mr. Mendenhall.

19 COMMISSIONER LEVAR: Thank you.

20 Major Kirk?

21 MAJOR KIRK: No questions.

22 COMMISSIONER LEVAR: Mr. Mecham?

23 MR. MECHAM: Just a couple, thank you.

24 CROSS-EXAMINATION

25 BY MR. MECHAM:

1 Q. Mr. Mendenhall, you mentioned in this Moody's
2 report of January 2019, one of the considerations was
3 that the parent company was higher leveled. How is it
4 leveraged today? Is it different? Is it higher? Is it
5 lower? What is it?

6 A. I actually am not sure. But one of the nice
7 things, if you read the entire report, is Moody's also
8 cites all of the ring fencing provisions that the company
9 has, that resulted from the merger that helped protect it
10 against the -- or from its parents' potential leverage.

11 Q. So they're not as concerned about that; is
12 that what you are saying? By the ring fencing?

13 A. I think the ring fencing helps to offset that
14 concern.

15 Q. But it was a concern in January of 2019?

16 A. Right. Why don't we turn to the report and I
17 can walk you through it?

18 Q. No, I don't -- I don't need that.

19 A. Okay.

20 Q. Then you referred to 1.01, I think it was?

21 A. 1.01R, the downgrade?

22 Q. Your detailed credit considerations support
23 of regulatory environment with key cost features. Page
24 4, I think it was, you referred to.

25 A. Yes.

1 Q. 101R.

2 A. Yes.

3 COMMISSIONER LEVAR: I'm not sure your
4 microphone is on, Mr. Mecham.

5 MR. MECHAM: I think it is just not close
6 enough.

7 BY MR. MECHAM:

8 Q. Under the paragraph entitled, "Despite
9 current rate case, financial metrics expected to remain
10 lower than historical levels."

11 A. Correct.

12 Q. Do you see that?

13 A. Yup.

14 Q. And then the second part of that paragraph,
15 it says, "However, we also think it likely that the
16 ultimate order of this Commission," I put that in
17 parentheses, "will authorize an allowed ROE and equity
18 layer that is less than the company's request of 10.5
19 percent allowed ROE and 55 percent equity layer, since
20 these levels are high for what the Commission has allowed
21 for ratemaking purposes."

22 A. Correct. And if you read the first sentence,
23 it says, "We assume that the Utah rate case will boost
24 Questar Gas' rate base, net income and cash flow since
25 the company has not received a base rate increase since

1 2014."

2 And none of the parties in this, case other
3 than the company, are proposing an increase in net income
4 or revenue.

5 Q. But you see that, clearly, considering what
6 this Commission will do, and, apparently, they are
7 expecting something lower than what you are asking?

8 A. Yes.

9 Q. Okay. Thank you. I think that's all I have.

10 COMMISSIONER LEVAR: Thank you.

11 Mr. Russell?

12 MR. RUSSELL: Thank you.

13 CROSS-EXAMINATION

14 BY MR. RUSSELL:

15 Q. Just a couple quick question about the
16 infrastructure factor spending cap.

17 A. Sure.

18 Q. I think it may be useful to turn to page 21
19 of your direct testimony.

20 A. Sure. Page 21?

21 Q. Yes.

22 A. Yes.

23 Q. All I would like to do at this point is just
24 walk through the history of that spending cap. My
25 understanding is the spending cap was initially set when

1 the infrastructure tracker pilot program was approved in
2 the '09 docket and that spending cap was initially set at
3 \$55 million annually, plus inflation; is that right?

4 A. Correct.

5 Q. And that was from -- did that run through the
6 2013 year?

7 A. Yes, it did.

8 Q. I ask that because of your Footnote 4 at the
9 bottom seems to indicate that it did but it wasn't clear
10 to me.

11 A. It did, yeah.

12 Q. And in the 2013 rate case, the infrastructure
13 tracker spending cap was increased, I gather, to \$65
14 million, plus inflation?

15 A. Right. And that was to include IHP mains as
16 part of the program, whereas before, it was just a basket
17 of high pressure pipes.

18 Q. Sure. And then you have this table that runs
19 from the bottom of page 21 onto page 22.

20 A. Right.

21 Q. The column that says "Budget," does that
22 budget -- is that the spending cap for that year?

23 A. Yes, it is.

24 Q. Okay. So it shows a budget of \$59 million in
25 2013. 2014, we hit that \$65 million mark. Right?

1 A. Right. And the reason why the budget was
2 high in 2013, I mean, it looks like the budget was 59 and
3 we spent 54.9, is because when the program was originally
4 approved in 2009, we actually weren't using a GDP
5 deflator. We were using the Steel Index, which was a
6 much higher inflation rate.

7 And so as a result, we were seeing higher
8 increases in that cap. In the 2013 case, through
9 settlement, it was determined that that -- in Steel,
10 inflation rates should be replaced with the lower GDP
11 deflator rate.

12 **Q. Okay. Thank you. And we can see, for each**
13 **year following that 2014 year, what the budget was. And**
14 **the variance in those numbers, is that just up to**
15 **inflation for that year, in those budget numbers?**

16 A. I'd have to go back and look, but my guess is
17 that it probably had to do with scheduling of projects,
18 and sometimes there may be cost overruns or there may be
19 a city that wants you out of their streets quicker.

20 And so that was one of the reasons why I
21 proposed some flexibility in the way overages are
22 handled, was to give our engineering group more
23 flexibility so they could keep their customers happy,
24 which is the cities.

25 **Q. Sorry, the question I asked was not the one I**

1 intended to ask. I used the word "variance" --

2 A. Okay.

3 Q. -- which was not intended to refer to that
4 last column there. I was actually just referring to the
5 changes in the budget from one year to the next.

6 A. Sorry. So will you ask me the question?

7 Q. You're fine. I will ask it again.

8 The changes in the budget from, you know,
9 2014 to 2015 to 2016, I'm trying to understand whether
10 that's just because of inflation in any -- you know,
11 inflation changes from one year to the next or if there
12 is some other --

13 A. Honestly, I don't know. It probably -- it
14 could be inflation. It could be cost overruns. It could
15 be -- we had a project that had to be accelerated, and so
16 we moved it up one year and then spent less the next
17 year. It could be a variety of things.

18 Q. Okay. Fair enough. And then do you know
19 what the number in that "Budget" column would be for
20 2019? I know we are not quite done with it yet, but --

21 A. I think it is around 70 million.

22 Q. Okay. And then finally, the increase that
23 you are requesting in this docket is to move that budget
24 number to 80 million?

25 A. Correct. Well, so if everything were kept

1 as-is, the 2020 budget number would be 72 million. So
2 yes, I am proposing to increase it from about 72 to 80
3 million.

4 **Q. Okay. Thank you. That is all I have.**

5 MR. MECHAM: Mr. Chairman, may I ask one more
6 question?

7 COMMISSIONER LEVAR: Sure.

8 RE-CROSS-EXAMINATION

9 BY MR. MECHAM:

10 **Q. Mr. Mendenhall, you noted in your testimony**
11 **that Dominion was downgraded from A2 to A3. Did I**
12 **understand that correctly?**

13 A. That's correct.

14 **Q. Now if there happened to be a downgrade from**
15 **there as a result of this case or something else, one**
16 **step down, have you calculated what that cost would be?**

17 A. You mean on the cost of debt?

18 **Q. Yes.**

19 A. I haven't. But I do think it is important to
20 point out that -- more important, I would say, than the
21 cost of debt is that credit rating. Particularly, we're
22 enjoying economic -- great economic times right now, but
23 if we ever get in a situation where there is a downturn
24 or recession, that credit rating becomes extremely
25 important.

1 As we try to place debt into the public
2 market and try to meet our customers' needs, we have to
3 be able to -- there is a flight to quality because during
4 downtimes, there's not as much as capital available as
5 needed. And so that credit rating becomes extremely
6 valuable during those times.

7 **Q. But did I understand the difference between**
8 **55 percent and 60 percent equity ratio was about an \$8**
9 **million value?**

10 A. Correct.

11 **Q. So you know the 5 percent difference is an \$8**
12 **million value but a downgrade would be something far less**
13 **than that, would it not?**

14 A. I don't know. I have not calculated that.

15 **Q. Thank you.**

16 COMMISSIONER LEVAR: Thank you. Any
17 redirect?

18 MS. CLARK: No redirect. Thank you.

19 COMMISSIONER LEVAR: Okay. Commissioner
20 White, do you have any questions for Mr. Mendenhall.

21 COMMISSIONER WHITE: No questions. Thank
22 you.

23 COMMISSIONER LEVAR: Commissioner Clark?

24 EXAMINATION

25 BY COMMISSIONER CLARK:

1 Q. Good morning.

2 A. Morning.

3 Q. Regarding the reference to the parent company
4 and its being highly leveled --

5 A. Right.

6 Q. -- and that being a constraint on Questar
7 Gas' credit profile, the first reference I think in the
8 Moody's reports, that I'm seeing, was in a report dated
9 22, December 2017. And I'm --

10 A. Okay.

11 Q. I note that for you, just to assist maybe
12 with the point of my question.

13 A. Sure.

14 Q. Which is: Has the leveraged status of your
15 parent company changed since the merger in any material
16 way?

17 A. Yeah, I might be able to direct you to a
18 paragraph, if you give me one moment. I was reviewing
19 this last night. Yes, if you turn to 1.05 -- DEU Exhibit
20 1.05, and this is, once again, a January 2019 credit
21 opinion, credit update. And this is talking about
22 exactly your question.

23 So if you turn to page 4 of that report,
24 there's a section that says, "Parent contagion risk
25 reduced by utility ring-fencing type provisions and

1 de-risking events in 2018."

2 So I think everyone is familiar with the ring
3 fencing provisions that were set in the merger, but if
4 you go to the second paragraph of that section, it says,
5 "Moreover, Dominion Energy made significant progress
6 toward lowering its business and financial risk in 2018.
7 Some of the key features include the reduction of holding
8 company debt by around \$8 billion, 5 billion on a
9 consolidated basis, by way of selling three merchant
10 power generation plants and its 50 percent interest in
11 Blue Racer, Bal stable, midstream gas business with
12 higher risk operations.

13 "Furthermore, the acquisition of SCANNA
14 Corp., Bal positive, added over \$800 hundred of rate
15 regulated utility cash flow to the consolidated
16 operations and provides more geographic and regulatory
17 diversity going forward."

18 So I think the answer to your question,
19 there's been some improvements.

20 **Q. So it is less levered today --**

21 A. Yes.

22 **Q. -- than when the merger took place?**

23 A. Yes.

24 **Q. Thank you. That's concludes my questions.**

25 A. Thank you.

1 COMMISSIONER LEVAR: I don't have anything.

2 THE WITNESS: Great.

3 COMMISSIONER LEVAR: Thank you for your
4 testimony this morning.

5 THE WITNESS: Thank you.

6 COMMISSIONER LEVAR: If you can call your
7 next witness.

8 MR. SABIN: Sure. I didn't want to presume.
9 Dominion Energy Utah calls Mr. Hevert to the
10 stand.

11 DIRECT EXAMINATION

12 ROBERT HEVERT,

13 called as a witness, having been first duly sworn,
14 was examined and testified as follows:

15 COMMISSIONER LEVAR: I think someone may have
16 a cell phone too close to the microphone. We are getting
17 a little feedback.

18 BY MR. SABIN:

19 Q. Good morning, Mr. Hevert.

20 A. Good morning.

21 Q. Would you please state your full name for the
22 record?

23 A. My name is Robert Hevert, last name is
24 spelled H-E V, as in Victor, E-R-T.

25 Q. I don't think your mic is on.

1 A. How is that?

2 Q. That is better.

3 A. There we go. Robert Hevert, last name is
4 spelled H-E V, as in Victor, E-R-T.

5 Q. And Mr. Hevert, would you please provide the
6 Commission with a sketch of your background, education
7 and your professional experience, please?

8 A. Yes. My educational background includes a
9 bachelor's degree with a double major in business and
10 economics, with a concentration in finance. I also hold
11 an MBA, likewise, with a concentration in finance. And I
12 hold a chartered financial analyst designation.

13 In terms of my work history, I have about 30
14 years of experience in regulated industries, starting
15 first as a revenue requirements analyst at a
16 telecommunications utility.

17 And then spending about ten years at a
18 publicly traded natural gas utility. There, I was
19 responsible for much of the company's treasury
20 operations. So I managed its day-to-day cash flow, was
21 responsible for issuing all long-term securities, common
22 equity, referred equity, long-term debt. And as part of
23 my role as the planning function as well, I was
24 responsible for the company's financial and strategic
25 planning. I advised the company and had responsibilities

1 for the allocation of that capital that was raised.

2 As a consultant, I have been involved in many
3 transactions as well, advising companies on both the buy
4 and the sale side of asset-based and corporate
5 transactions, and I would say -- if I considered the
6 securities I issued in the treasuring function the
7 transactions I advised on as a consultant, it's been many
8 billions of dollars worth of transactions.

9 I also, as a consultant, have advised boards
10 of directors on strategic issues on dividend policy, and
11 I have testified over 250 times on a number of issues,
12 regulatory policy issues, transaction related, but I
13 would say principally regarding the cost of equity.

14 **Q. Thank you, Mr. Hevert. Have you submitted a**
15 **direct and rebuttal testimony in this matter?**

16 A. Yes, I have.

17 **Q. I have your direct testimony as being Exhibit**
18 **2. -- DEU Exhibit 2.0, with Exhibits 2.01 through 2.11,**
19 **and your rebuttal testimony is Exhibit DEU 2.0R, with**
20 **exhibits 2.01R to 2.24R; is that correct?**

21 A. Yes, that is correct.

22 MR. SABIN: The company would move to admit
23 that testimony into the record.

24 COMMISSIONER LEVAR: If anyone objects to
25 that motion, please indicate to me.

1 I'm not seeing any objection in the room, so
2 the motion is granted.

3 (Hearing Exhibit DEU 2.0 and 2.0R, plus
4 attachments, were marked for identification.)

5 BY MR. SABIN:

6 **Q. Mr. Hevert, do you have any correction to**
7 **either your direct or rebuttal testimony?**

8 A. I do have a handful of typographical errors I
9 would like to correct in my rebuttal testimony.

10 **Q. Okay. Please go ahead and do that now.**

11 A. Thank you. The first is at page 53 and it is
12 on line 992.

13 COMMISSIONER LEVAR: Is this your direct?

14 THE WITNESS: Rebuttal, sir, I'm sorry.

15 So page 53, line 992, Equation 6 should be
16 Equation 7.

17 On page 54, line 1,000, the same correction
18 should be made: what is labeled as Equation 6 should be
19 Equation 7. The same goes for line 1,008 also at the
20 left-hand margin: Equation 6 should be Equation 7.

21 Going to page 57 --

22 BY MR. SABIN:

23 **Q. Is this your rebuttal or direct?**

24 A. I am sorry, this is my direct. You would
25 think I would know that.

1 **Q. That's okay. Let's start over. Just**
2 **identify, in your direct testimony, those same lines and**
3 **we will make the correction.**

4 A. Yes, I apologize.

5 **Q. That is okay.**

6 A. So my direct testimony, page 53, line 992,
7 Equation 6 should be Equation 7.

8 COMMISSIONER LEVAR: Say the line number
9 again?

10 THE WITNESS: 992.

11 COMMISSIONER LEVAR: 992?

12 THE WITNESS: Yes, 992.

13 COMMISSIONER LEVAR: I'm looking at a
14 different page number, I'm sorry.

15 THE WITNESS: That's okay. I led you astray,
16 I apologize.

17 Next, the page 54 line 1,000, left-hand
18 margin, Equation 6 should be Equation 7. Also on page
19 54, line 1,008, Equation 6 should be Equation 7.

20 Page 57, line 1,070, again, toward the
21 left-hand margin, Equation 7 should be Equation 8.

22 And lastly, on page 58, line 1,084, Equation
23 8 should be Equation 9.

24 And you will be happy to know I have no
25 changes to my rebuttal.

1 BY MR. SABIN:

2 Q. With those changes, Mr. Hevert, do you adopt
3 your direct and your rebuttal testimony as your testimony
4 in this proceeding?

5 A. Yes, I do.

6 Q. Have you prepared for the Commission a
7 summary of your direct and rebuttal testimonies?

8 A. I have.

9 Q. Would you please go ahead and provide that to
10 the Commission now?

11 A. Yes, thank you. Good morning, gentlemen and
12 members of the Commission. My testimony addresses two
13 principal issues: the cost of equity, which we often
14 refer to as the return on equity, and the capital
15 structure that should be used for ratemaking purposes.

16 There are theoretical aspects of both, but
17 there are very practical aspects also that we should
18 consider. Principally, we have to consider that
19 utilities must compete for capital in an increasingly
20 complex market environment. And because of their
21 obligation to serve, utilities must be able to access
22 that capital efficiently at reasonable costs and terms
23 regardless of market conditions.

24 And as a consequences, both investors and
25 customers have an interest in a financially strong

1 utility. And the return on equity and capital structure
2 set in this proceeding will have a direct bearing on that
3 financial strength.

4 If we turn first to the cost of equity, the
5 cost of equity is simply the return an investor requires
6 to commit his capital to the equity of a firm. It is
7 unlike debt, the cost of debt, in several ways. One of
8 which is we cannot observe the cost of equity. We can
9 observe the cost of debt and interest rates, but we have
10 to estimate the cost of equity by applying financial
11 models to market data.

12 Each of those models is meant to capture a
13 different aspect of investor behavior, and investor
14 behavior changes over time and with market conditions.
15 As a consequence, no one model best captures investor
16 behavior at all times under all market conditions, and
17 that is why analysts, in regulatory proceedings, and
18 analysts and investors, in practice, tend to use multiple
19 models.

20 And that is also why we look at the cost of
21 equity, typically, as a range. Yes, there is a point
22 estimate provided, but, frequently, the cost of equity is
23 considered within a range.

24 Now my recommendation is within a range of
25 9.9 percent to 10.75 percent, and I provided a point

1 estimate of 10.5 percent. My range is within 5 basis
2 points of the company's currently authorized 9.85 percent
3 return on equity.

4 The opposing witnesses' report cost of equity
5 estimates in the range of 8.09 percent to 9.68 percent,
6 and their recommendations range from 9 percent to 9.5
7 percent.

8 Now at the upper end, the 9.5 percent is
9 Mr. Oliver's recommendation, and while I do not want to
10 speak for Mr. Oliver, my understanding is that he views 9
11 percent, which is the midpoint of his estimated range, to
12 be a reasonable estimate of the company's actual cost of
13 equity. He recommends 9.5 percent for the sake of
14 gradualism, moving gradually from the currently
15 authorized 9.85 percent to what he may consider to be the
16 cost of capital now.

17 In my view, the role of rate of return
18 witnesses in these proceedings is to provide the
19 Commission our estimates of the return investors require.
20 That is what I've done.

21 In my view, it is the Commission's difficult
22 task to apply gradualism in the context of ratemaking. I
23 view the cost of equity as what we are meant to provide
24 you in this case. So whereas my recommendation, my cost
25 of equity estimate suggests the cost of equity has

1 slightly increased, if we look at the lower end of my
2 range, since 2013, 2014. The opposing witnesses suggest
3 it has fallen, perhaps in the range of 60 to 85 basis
4 points, or if we were to take Mr. Oliver's
5 recommendation, by 35 basis points.

6 But the question is: Is it more likely that
7 the cost of equity has increased or decreased since 2013,
8 2014? And in my view, there are good reasons to think it
9 has increased.

10 First, all the witnesses in this proceeding,
11 I think, agree that authorized returns from other
12 jurisdictions are at least a reasonable benchmark to
13 consider. And if we look back through 2013, the
14 authorized return has remained very stable at about 9.7
15 percent.

16 So to me, the question is: Has the cost of
17 equity now increased or decreased from 9.7 percent, and I
18 think it is more likely to have increased. If we think
19 about what happened in 2013, the Federal Reserve injected
20 about \$1 trillion of capital into the equity markets,
21 with the stated intention of bringing down interest rates
22 and dampening market volatility. It is no longer in the
23 business of injecting capital in the capital markets.

24 Over that period, utilities' stocks have
25 become more volatile relative to the overall market. Tax

1 reform has put downward pressure on utilities' cash
2 flows, and it made utilities less attractive to other
3 sectors that could take advantage of tax reform in ways
4 utilities could not.

5 And we heard Mr. Mendenhall this morning talk
6 about the company's downgrade due largely to cash flow
7 concerns. Unbalance, when I think about those factors,
8 it occurs to me, it appears to me, that it is more likely
9 that the cost of equity has increased from 9.7
10 percent -- I'm sorry, from 9.85 percent than it has
11 decreased. And so when I look at my range, the lower end
12 being 9.9 percent, I think that is entirely reasonable.

13 When we consider the methods the witnesses in
14 this proceeding used, we all, generally, use the same
15 approaches or at least forms of the same approaches: the
16 discounted cash flow model, the capital asset pricing
17 model, some form of expected earnings, some form of a
18 risk premium method. And while we have different
19 approaches -- again, when I look at how I've applied the
20 models when I look at the results they produce, when I
21 consider what has happened in the capital market, when I
22 think about the company's recent downgrade, it does seem
23 to me that my conclusion that the cost of equity has
24 increased is reasonable in the context of those results.

25 Turning now to the company's capital

1 structure, we know the company recommends 55 percent,
2 which is below its 60 percent actual capital structure.
3 I mentioned earlier, I spent some time managing the
4 balance sheet for a publicly traded utility, and I've
5 learned during that period that managing a balance sheet
6 for utility is complex. You are subject to many
7 constraints, you are trying to satisfy many objectives,
8 all of them change over time.

9 And although no two utilities are identical,
10 utilities seem to face the same type of constraints and
11 tend to try to satisfy the same types of objectives, and
12 that is why I think that industry practice is a
13 reasonable benchmark to consider. When we look at
14 industry practice, especially at the operating company
15 level, 55 percent is entirely reasonable.

16 And when we think about the credit rating
17 process and we understand that it is often based on
18 qualitative assessments, and it is based on
19 forward-looking assessments of metrics, I do not think we
20 can draw conclusions based on one or two pro forma
21 calculations as Mr. Lawton and Mr. Gorman have done. I
22 think 55 percent is a very appropriate target in this
23 case.

24 And lastly, what I would say is because 55
25 percent is an appropriate equity ratio target, I do not

1 BY MR. JETTER:

2 Q. Good morning, Mr. Hevert.

3 A. Good morning.

4 Q. Well, let's jump around a little bit here.

5 Is it an accurate summary of your CAPM model or the way
6 that you have calculated it, that you apply an adjustment
7 factor to the betas because your belief that betas of
8 companies trend toward 1 over time?

9 A. I am going to quibble with your word "a
10 little bit." The beta that I use are adjusted. I do not
11 make those adjustments.

12 Q. Okay.

13 A. Value Line and Bloomberg, both services that
14 are widely relied upon, not only in regulatory
15 proceedings but in practice, apply those adjustments as
16 their default practice.

17 Q. Okay. And the reason that that adjustment is
18 made is because of a perceived trend towards 1?

19 A. It's two reasons: The original proposition
20 was that that was based on Marshall Bloom study in the
21 mid '70s. Since then, it has become apparent that the
22 adjustment process is -- has more predictive power. If
23 you were to look at beta coefficients, they're
24 calculated, typically, on historical data, either two or
25 five years. But the beta coefficient, like every other

1 elements of cost of equity models, is meant to be forward
2 looking.

3 When we look at the adjustment that both
4 Bloomberg and Value Line create -- or excuse me, apply,
5 the adjustment is more likely to be a forward-looking
6 view of expected risk for investors.

7 **Q. And have you reviewed the historical betas of**
8 **Dominion Energy, Inc., the holding company?**

9 A. No, I have no reason to in this case. It
10 really has no relevance to me.

11 **Q. Have you reviewed historical beta of**
12 **utilities in general?**

13 A. I have been doing this work for a little
14 while, so yes, I am familiar with them.

15 **Q. Okay. When was the last time that you saw a**
16 **beta for a natural gas utility that approached 1?**

17 A. Just bear with me for a moment, if you would.

18 **Q. I will clarify that question then, unadjusted**
19 **beta.**

20 A. Thank you for that clarification. I cannot
21 tell you. I have not really looked at unadjusted betas
22 over time, so I couldn't really tell you.

23 **Q. Okay. And so you couldn't tell me if**
24 **unadjusted betas do, in fact, trend toward 1?**

25 A. I can tell you betas move around quite a bit.

1 And I can tell you, for example, in my direct testimony
2 on page 59, Chart 9, we look at the components of beta
3 coefficients and we see how they change over time. You
4 have to remember, beta coefficients are a function of two
5 parameters: relative volatility and correlations.

6 As I talked about a little bit earlier today,
7 relative volatility has gone up but correlations have
8 fallen. They've fallen, in large measure, coincided with
9 the Federal Reserve's quantitative easing initiative and,
10 subsequently, with the tax act.

11 So they will move over time, raw betas will,
12 but they will change, and when the change, I think it is
13 very important to understand why they have changed.

14 **Q. And so is that answer a "no" then, or is that**
15 **a "yes"?**

16 A. To what question?

17 **Q. Have you observed a historical trend of betas**
18 **of natural gas utilities to 1?**

19 A. Toward 1, I can't say. I can say unadjusted
20 beta coefficients move around. The other thing I'll say
21 is, it depends on how you calculate them. If you
22 calculate beta coefficients based on a 1-day or a 30-day
23 holding period, it will have a difference in the movement
24 of betas over time. So I really couldn't say, based on
25 your question, what the trends would be.

1 **Q. Okay. But you applied a method based on a**
2 **trend that assumes that that occurs?**

3 A. As I said earlier, I applied a method that is
4 widely used in practice, it is widely used in regulatory
5 proceedings, and it has the benefit of being a
6 forward-looking view of systematic risk for investors.

7 So in my view, the question is: What
8 principles do investors apply? And when I
9 realized -- when you think about the fact that the
10 default for Value Line and Bloomberg is to apply adjusted
11 betas, then I think that is the proper approach.

12 **Q. Can I ask you, maybe, just a background**
13 **question then? If you apply a method more often, does**
14 **that make it more accurate?**

15 A. I am sorry, when you say "you," who is "you"?

16 **Q. Anyone in the investment industry. If they**
17 **applied a method generally for the entire financial**
18 **market, does that make it accurate for a segment of the**
19 **market?**

20 A. It makes it -- that is an interesting
21 question. If the investors adopt that method, then it
22 makes an accurate view. It's an accurate measure of
23 investors' views, and that's what we're after here.

24 **Q. Okay. And so then we would expect -- if they**
25 **are applying that method, then we would expect betas of**

1 natural gas utilities to trend toward 1?

2 A. I didn't say that, no.

3 Q. No? So you don't know that that's the case
4 or not?

5 A. Don't know what's the case?

6 Q. Whether natural gas utilities' betas trend
7 toward 1.

8 A. As I said, I do not, but what we do know is
9 that it is the practice to use adjusted beta
10 coefficients. And I'm sorry, when I say "the practice,"
11 I should be more clear. It is the practice among
12 investors and in the regulatory proceedings, with which
13 I'm familiar.

14 Q. I'm going to jump around a little bit here to
15 a few different areas.

16 A. Okay.

17 Q. So is it your understanding -- I would like
18 to turn -- this is in your rebuttal testimony, and I'm
19 looking at line -- beginning on line 147 to 149.

20 A. Yes, I'm there.

21 Q. Okay. And that states that -- tell me if I
22 read this correctly, that "Moody's Investors Services,
23 for example, notes that 32.5 percent of the weight it
24 gives to various factors considered in its ratings
25 determinations are focused on cash flow."

1 **Is that correct?**

2 A. It is.

3 **Q. Okay. And the cash flow that results from a**
4 **determination on return on rate base cost of**
5 **capital -- the cash flow is calculated as a result of the**
6 **weighted average cost of capital; is that correct? It's**
7 **weighted average cost of capital multiplied by the rate**
8 **base?**

9 A. I think there is a more direct way of doing
10 it. If we just take the broad view that cash flow would
11 be net income plus certain noncash items, principally
12 depreciation, it would be net income plus depreciation.
13 So net income would be the product of return on equity
14 and the equity portion of the capital structure. Doing
15 it your way, you would have to take out the effect of
16 interest.

17 **Q. Okay. So where I'm going here is: You could**
18 **have multiple different ROEs with the same cash flow,**
19 **depending on the capital structure; is that correct?**

20 A. So is your question, on an absolute basis,
21 could there be different combinations of rate base equity
22 ratio ROEs that would give you the same cash flow?

23 **Q. Yes, that's correct.**

24 A. Yes, but the important point here is that
25 when the companies -- excuse me, when the rating agencies

1 look at cash flow, it is always relative to something.
2 So here it's cash flow relative to debt. It's cash flow
3 relative to interest. It's cash flow relative to capital
4 investments.

5 So absolute cash flow, sure, I agree with
6 you. There could be, boy, probably an infinite number of
7 combinations. But what matters is cash flow relative to
8 some other metric.

9 Q. Okay. And from a customer's perspective who
10 is paying this cash flow who is providing that revenue, a
11 customer would be effectively indifferent to a -- for
12 example, the current authorized 9.85 ROE with a 52
13 percent equity ratio, that would be roughly equivalent in
14 the customer's bill to a 9.55 ROE with a 55 percent
15 equity; is that accurate?

16 A. I'm sorry. So your question is: Would there
17 be a combination of equity ratios and ROE applied to a
18 constant rate base that would create the same level of
19 cash flow?

20 Q. Well, what I'm asking about specifically is
21 for customers of the utility in Utah, at a 55 percent
22 equity rate, equity percentage in the capital structure,
23 a baseline ROE of 9.55 would be equivalent to utility
24 customers of what they are currently paying at a rate of
25 9.85 ROE and 52 percent?

1 A. I see your question, I'm sorry. That may be
2 true mathematically, but I think we have to get back to
3 the issues we just talked about a minute ago, which is as
4 you reduce the equity portion of the capital structure,
5 as you increase the financial leverage, you are going to
6 start to create additional risks for the company. And as
7 you increase that financial leverage, you are going to
8 increase the interest the company has to pay.

9 So while they may provide the same Alta break
10 result, they do not provide the same -- I would say the
11 same financial result.

12 **Q. Have you calculated the estimated cost of a**
13 **capital structure? Have you calculated what the debt of**
14 **increased costs would be to increase the debt ratio to 48**
15 **percent?**

16 A. So if your question is: Do I know what the
17 increase cost of debt would be for a 1 or 2 notch
18 downgrade --

19 **Q. Yes.**

20 A. -- relative -- I don't know that offhand, but
21 what I would say is, that is what we refer to in finance
22 as "partial analysis." You cannot begin and end the
23 analysis there. You have to consider all the other
24 effects of that type of change on the company's risk
25 profile.

1 **Q. Okay. But haven't you done that now because**
2 **you are estimating a 55 percent equity ratio when, in**
3 **fact, it's currently around 60 percent?**

4 A. Well, that was my point earlier. The company
5 has a 55 percent equity ratio. The actual -- excuse me,
6 is proposing 55 percent. The actual is 60 percent. It
7 is more leverage. The company's proposed equity ratio
8 buys more leverage than the actually.

9 My point there was that if we are going to
10 make an adjustment of the rate of return to reflect the
11 financial risk, it should be an upward adjustment.

12 **Q. Did you make a downward adjustment in light**
13 **of the 55 percent versus 60 percent actual?**

14 A. Did I make a downward adjustment in my rate
15 of return?

16 **Q. Yes.**

17 A. I made no adjustment, but as I said a minute
18 ago, if there were to be an adjustment, it could be an
19 upward adjustment.

20 **Q. You have testified -- I'm going to move to**
21 **another section of your testimony here, and this is in**
22 **your rebuttal testimony at line 130.**

23 A. Yes, I'm there.

24 **Q. Okay. And is this an accurate reading, that**
25 **you testified that "In my view, investors would not be**

1 satisfied with an unduly low ROE (9.25 percent) simply
2 because it would have been lower but for gradualism"?

3 A. Yes, that's correct.

4 Q. And if the Commission authorized a return of
5 equity of 9.25 percent, the consequence of that, is that
6 a fair assumption -- would it be your testimony -- what
7 is your testimony? What would happen if the Commission
8 authorized a 9.25 percent?

9 A. Well, we have a real near-time example of
10 what would happen. In late November, the Texas Utility
11 Commission deliberated and determined it would authorize
12 an ROE of 9.25 percent for CenterPoint Energy, Houston
13 Electric. It would decrease the company's proposed
14 equity ratio, and it would enforce some ring fencing
15 provisions.

16 Once that happened, the market reacted and
17 reacted quite strongly. CenterPoint lost about 16
18 percent of its value at that time in connection with that
19 deliberation. Now subsequently, the Commission decided
20 that the parties should negotiate a settlement, and the
21 market understood that the Commission would look to a
22 negotiated settlement, would not necessarily enforce that
23 9.25 percent in other provisions. The company recovered
24 about 6 percent of that 16 percent loss.

25 So we know -- we have a near realtime example

1 of how the market reacts to returns to a regulatory
2 decision it considers to be negative.

3 **Q. Are you aware of that instance of that**
4 **utility having a difficult time raising capital? Were**
5 **they able to raise capital to -- are you aware of any**
6 **instance where they were not able to raise capital to**
7 **complete any of their projects?**

8 A. Well, this happened in late November, and my
9 recollection is that Goldman Sachs, for example, came out
10 and said, "Boy. As a result of this deliberation, the
11 company is going to have to return a considerable amount
12 of equity -- it's going to have to dividend it up to the
13 parent company."

14 Which means it would have to go out to the
15 capital markets, find that equity, but it would have to
16 get that equity at a depressed valuation as a result of
17 the decision. And then if the company were to have to go
18 out to enter the debt markets, I don't know what would
19 happen, to be honest with you. But I can imagine, again,
20 based on my experience, that debt investors, likewise,
21 would have reacted.

22 So go back to a point that Mr. Mendenhall
23 made. With utilities, the issue is not often: Can you
24 raise capital. You can often raise capital. The
25 question is: At what terms? Here, the company would

1 have to raise a lot of money at the depressed valuations,
2 which in the end would be expensive to customers.

3 **Q. And so did I accurately understand your**
4 **answer, that the answer is no, that you are not aware of**
5 **them having a difficult time raising capital?**

6 A. That is not my answer. My answer is:
7 Utilities can, typically, raise capital, often even in
8 distressed markets.

9 **Q. Okay.**

10 A. The issue, though, is the term at which they
11 have to raise that capital. We saw companies in 2008
12 going out and issuing long-term debt, simply to have cash
13 available because their lenders would not let them
14 drawdown revolving credit agreements. They felt the
15 change in the market was a material adverse change and
16 restricted drawdowns. So companies actually had to
17 borrow long, simply for the purpose of having cash.

18 They could do it. They were able to borrow
19 long, but they is an extraordinarily expensive source of
20 cash.

21 **Q. And are you familiar with a Virginia decision**
22 **on November 21st this year?**

23 A. I am.

24 **Q. And you testified in that docket?**

25 A. I did.

1 Q. Is that right? And you viewed another
2 subsidiary of Dominion Energy, Inc., as a higher risk
3 than Dominion Energy Utah; is that correct?

4 A. I am sorry, can you repeat the question?

5 Q. You recommended a higher ROE in that case,
6 did you not?

7 A. I did, yes.

8 Q. And the commission in that case, in Virginia,
9 set the ROE at 9.2 percent; is that correct?

10 A. It did. And we should understand that that
11 case, the structure of that case is entirely and
12 fundamentally different from what we are doing here.

13 Q. Well --

14 A. The purpose of that case was to set the
15 return for two reasons. One, is as the base return upon
16 which the Commission would have what it refers to as an
17 enhanced return for the purpose of adjustment clauses.
18 Those adjustment clauses are specifically related to
19 certain types of investments in generating transmission
20 assets. It is not a base rate proceeding.

21 The second purpose is to establish the return
22 against which the company's earnings would be measured in
23 its first triannual review, which would occur in 2021.
24 Those earnings are measured by a reference to the base
25 9.2 percent plus 7 basis points, so, effectively, 9.9

1 percent.

2 Under the legislation, the most the
3 Commission could do at that point is reduce the company's
4 revenues by \$50 million, and it could not authorize an
5 increase in revenue. So it is fundamentally
6 different -- fundamentally different proceeding.

7 **Q. And so based on what you just testified, your**
8 **recommendation in that case would have been adjusted to**
9 **11.45 percent ROE?**

10 A. So for the purpose of the earnings test, the
11 earnings test -- that's right, the earnings test would
12 have been 10.75 percent plus 70 basis points. That would
13 have been the threshold for the earnings test.

14 **Q. Okay. And in your testimony, did you apply**
15 **the same models as you applied in this case?**

16 A. For the most part, yes.

17 **Q. And do you use those same models to calculate**
18 **a 10.75 percent?**

19 A. Again, for the most part.

20 **Q. And based on the same review of those models**
21 **or based on a review of those models, that commission,**
22 **along with other testimony, resulted in a 9.2; is that**
23 **correct?**

24 A. That's correct.

25 **Q. And that is significantly lower than what you**

1 are asking Utah customers to pay?

2 A. I'm sorry, 9.2 percent --

3 Q. Yes.

4 A. -- is less than 9.9 to 10.75, yes, I agree
5 with that math.

6 Q. Is there a reason that Utah customers should
7 pay more?

8 A. Pay more than what?

9 Q. Pay more than 9.2 or even a 9.7?

10 A. Well, let's go back. The purpose of that
11 Virginia order was two reasons: One, for the earnings
12 test, which will happen in 2021, but currently, it is for
13 the rate adjustment clauses. And the enhanced return on
14 those rate adjustment clauses ranges from 100 to 200
15 basis points. So the return there would be 10.2 to 11.2
16 percent.

17 Q. Thank you. I'm going to move to a little bit
18 different portion of your testimony.

19 A. Okay.

20 Q. And this is your analysis of the
21 electrification risk. It is your view that -- is this
22 accurate representation that your testimony is that
23 investors are recognizing a risk of electrification and,
24 therefore, should be -- are entitled to a higher rate of
25 return because of that risk?

1 A. That's a very good question. I think here,
2 when we think about electrification, this is one of those
3 risks that it is extraordinarily difficult to quantify.
4 And we know it is a concern for investors. We can see
5 what is happening in terms of the pushback against
6 natural gas, admittedly, along the coasts.

7 But when you look at it from an investor's
8 perspective, the question becomes: Is there a risk out
9 there that, admittedly, is difficult to quantify,
10 admittedly is difficult to time, but nonetheless,
11 proposes a risk to customers? It would be what people
12 sometimes refer to as a tail risk. It's, right now, a
13 low probability but a high-impact risk.

14 So I think it is something that investors
15 consider, but if your question is, you know, can I put
16 bounds around it? I can't.

17 **Q. And so the follow-up question so that is, is**
18 **that something that should be considered then when**
19 **reviewing capital expansion plans, such as those proposed**
20 **by this company?**

21 A. Well, I think that is something for the
22 Commission to consider. I think the Commission would
23 consider all sorts of requirements in its -- in the
24 company's resource planning process, but as I said, this
25 is a long-term issue, difficult to quantify, difficult to

1 time.

2 **Q. And is it your testimony that recognition of**
3 **that risk in rates and rate of return for investors is,**
4 **effectively, compensating investors for bearing the**
5 **burden of that risk, for taking responsibility for the**
6 **results of that?**

7 A. I think it's a -- it's a consideration right
8 now on the minds of investors, and your question as to
9 compensation for that risk -- I guess I'd look at it as,
10 is this something that is on their minds? Is this
11 something that would cause an investor to consider
12 allocating their capital in one sector or another to one
13 company or another?

14 I think it is. I just don't know how much at
15 this point.

16 **Q. So do you think that investors believe that**
17 **they will bear that risk?**

18 A. I am sorry, that what?

19 **Q. Investors will bear the risk of**
20 **electrification as opposed to the customers of the**
21 **utility?**

22 A. I think it's a consideration, yes. We don't
23 know how the policy implications will work out, but that
24 uncertainty is out there. But it should go either way, I
25 agree with you.

1 Q. And if an adjustment was made for that -- if
2 customers are paying more in equity for shareholders to
3 bear that risk, would you agree with me then that it
4 would be unfair for ratepayers to also bear the risk of
5 stranded assets as a rebuttal of that?

6 A. I don't think we can answer that question
7 yet. I think it is just all too uncertain.

8 Q. So maybe they pay for some of it but they get
9 no benefit; is that --

10 A. I'm sorry, who pays?

11 Q. Customers pay for higher ROE?

12 A. Again, I think it is just too uncertain at
13 this point to say how it will lay out.

14 Q. Are you aware of any significant rate
15 reduction measures that Dominion Energy Utah has taken or
16 is taking in the near future that would significantly
17 reduce their risk?

18 A. I'm sorry, can you tell me what you mean by
19 "rate reduction measures"?

20 Q. Risk reduction measures. If I misspoke, I
21 apologize.

22 A. No, no, that's okay. So can you ask your
23 question one more time? I'm sorry.

24 Q. Sure. Are you aware of -- you discussed
25 electrification as a risk enhancement, effectively

1 something that increases risk. Are you aware of any
2 actions by Dominion Energy Utah or proposed capital
3 projects that will significantly reduce its risk?

4 A. I cannot speak to capital projects. I can
5 say that the company -- 60 percent equity ratio certainly
6 is something that, from an investor's point of view,
7 would mitigate risk.

8 Q. If you were aware of a capital project that
9 was approved by the Commission that would reduce risk by
10 a company-calculated value of \$140 million per year,
11 would that significantly change your evaluation?

12 A. I can't answer the question. I don't know.
13 What do you mean by "reduce the risk"? I just can't
14 answer the question.

15 MR. JETTER: May I approach the witness? I
16 have a cross exhibit.

17 COMMISSIONER LEVAR: Yes.

18 MR. JETTER: And for the record, I would like
19 to mark this as DPU Cross Exhibit 1.

20 BY MR. JETTER:

21 Q. Could you please identify the cover of this
22 document what this is?

23 A. Yes it is the rebuttal testimony of Michael
24 L. Platt for Dominion Energy Utah, in Docket No.
25 19-057-13.

1 Q. Thank you. And would you turn to -- this is
2 page 2. And would you please read -- let's see, let's
3 start with reading line 28 to the end of the first
4 sentence on line 30.

5 A. I'm sorry, read it or read it out loud?

6 Q. If you wouldn't mind, just reading that into
7 the record.

8 A. Sure. "Further, the Kem C. Gardner Policy
9 Institute determined that this loss of service would
10 result in negative monetary loss between \$1.4 and \$2.4
11 billion on Gross State Product (GSP). That means the
12 annual risk to GSP alone of this specific scenario is
13 between \$70 million and \$120 million, based on the fact
14 that there is a 5 percent annual probability that a
15 Design Day will occur."

16 Q. Thank you. And I'd like to jump down to save
17 a little bit of time. Beginning on line -- I will read
18 this and you can tell me if I'm reading this correctly.
19 On line 47, near the end, I will represent that this is a
20 summary of the risk calculation done by Mr. Platt. And
21 it says, "A shortfall cost about \$157 million at
22 temperatures between 1 degree F and 3 degrees F, which
23 are slightly less probable at 0.31 percent annually, adds
24 about \$500,000, for a total risk of approximately
25 \$141,500,000.

1 "Continuing to add risk of lower probability
2 or lower consequence events does not significant increase
3 the amount of risk that will be alleviated with the
4 addition of the LNG facility."

5 Recognizing that Dominion Energy may not be
6 responsible for all of that \$1.4 to \$2.4 billion in Gross
7 State Product of a 5 percent risk annual event, that's a
8 significant risk reduction by the addition of the LNG
9 facility, is it not?

10 A. I am sorry, but I simply can't comment on
11 this. This is an analysis I haven't seen. It is a
12 project with which I'm not familiar. I don't know the
13 calculation. I don't know the assessment. I don't know
14 what risk is being measured. I don't know how it is
15 being measured.

16 I'm sorry, but I simply can't give you any
17 insights here.

18 Q. Okay. Let's make it a hypothetical then.
19 Hypothetically, if the company was accurate in its
20 calculation of these risks, would you apply a downward
21 adjustment from previous rate of returns based on a
22 significant reduction in risk?

23 A. I don't even know -- when you say, "these
24 risks," I don't even know what these risks are.

25 Q. A risk of a gas supply shortfall and the

1 **costs calculated by the company.**

2 A. I am sorry, I just can't -- I just can't
3 comment on it. In my view, it is too complex an analysis
4 for me to sit here, look at this testimony, try to
5 understand the analysis, the basis of the analysis, the
6 assumptions, the results and provide you with a
7 meaningful comment. I'm sorry.

8 Q. **Let me change it to just a hypothetical. It**
9 **might be a little easier. If utility customers spend a**
10 **significant amount of money to purchase an insurance**
11 **policy that would cover a risk that was calculated to be**
12 **\$141 million with a 5 percent -- an annual average risk**
13 **value of \$141 million, and that insurance policy was in**
14 **effect, would you consider that a risk-reduction measure**
15 **that would be relevant in your analysis of ROE?**

16 A. I can't say, and I can't say for this reason:
17 The cost of equity is a comparative exercise. We have to
18 look at the risks taken on alternative investments. If
19 we all go back and understand the principle of
20 opportunity costs, it is -- the cost of equity is based
21 on the return and risk associated with the next
22 alternative, the next comparable alternative. If the
23 risks you are talking about are insurable and are
24 insurable across the industry and other companies,
25 likewise, have similar insurance policies in place, then

1 I cannot see how it would affect the cost of equity.

2 **Q. Well, how would you assume it would affect**
3 **the cost of equity in a situation where one utility has**
4 **this insurance policy and one does not?**

5 A. I -- again, it is just too -- it's too
6 hypothetical of a question to answer, and based on the
7 analysis you have given me, too complex for me to sit
8 here and render an opinion.

9 Does providing insurance reduce the risk to
10 people? I don't know. I will tell you in my, again,
11 practical experience, going back to working at a utility,
12 typically, you buy insurance because you have incremental
13 risk. And if insurance brings your incremental risk down
14 to the risk faced by other utilities, then no, it would
15 have no effect. But that's a very general assumption.

16 **Q. So if investors, in fact, purchased a utility**
17 **with this known risk and then added this incrementally,**
18 **wouldn't you expect that that reduction in risk would be**
19 **valued by shareholders?**

20 A. So if your hypothetical is if -- if investors
21 bought a utility at a risk they knew to be higher than
22 others, then, of course, that would have shown up in the
23 price. And you are saying that there would be some sort
24 of adjustment to the return, again, it's hard to imagine
25 how that would not already have been figured into the

1 return. So I just don't follow your hypothetical that
2 way.

3 **Q. My hypothetical is if investors purchase any**
4 **investment at a given time, you would assume -- is it a**
5 **fair assumption that they view the return they expect on**
6 **that investment is they purchase it to be equal to or**
7 **greater to the investment they are making?**

8 A. Let me try to recast your question to be sure
9 I understand it. Is your question, when investors invest
10 in an asset or equity, do they assume there is a level of
11 risk that, in the end, will be the level of risk?

12 **Q. No. So what I'm saying is, if investors**
13 **purchase a natural gas utility with a known risk that's**
14 **significant and unknown ability to mitigate that risk,**
15 **they would value that differently than a utility, the**
16 **same gas utility, all else equal, that has mitigated that**
17 **risk?**

18 A. Okay. So if -- I don't mean to be going
19 round and round on this, but if you have a utility, they
20 have an incremental risk. And when I say "incremental,"
21 I mean a risk not faced by any of its peers; is that the
22 gist of the question?

23 **Q. Yes, let's say it's a utility-specific risk.**

24 A. Okay. So it's not faced by anybody else.
25 It's something investors realize, then the return, if

1 unmitigated, would be higher than the return they would
2 require on other investments.

3 **Q. Thank you.**

4 MR. JETTER: I would like to move to enter
5 DPU 1 into the record of the hearing.

6 COMMISSIONER LEVAR: Does any party object to
7 that? Please indicate to me.

8 MR. SABIN: I don't have an objection, other
9 than to say that I don't know that this witness has the
10 ability to say anything about it. You certainly have
11 already seen it, so I don't really care if it is in the
12 record. I just don't think this witness was able to say
13 anything about it or about the content of it, so...

14 COMMISSIONER LEVAR: Okay. I think with
15 that, the motion is granted, and we will enter this as an
16 exhibit.

17 (Hearing Exhibit DPU 1 was
18 marked for identification.)

19 BY MR. JETTER:

20 **Q. I would like to ask you a few questions next**
21 **about your capital asset pricing model.**

22 COMMISSIONER LEVAR: Mr. Jetter, I wonder if
23 this would be an appropriate time a break?

24 MR. JETTER: That seems like a good idea.

25 COMMISSIONER LEVAR: Let's break until 10:40.

1 (Whereupon, a break was taken.)

2 COMMISSIONER LEVAR: Okay. We are back on
3 the record, and we will go back to Mr. Jetter.

4 MR. JETTER: I would like to ask the
5 Commission if I might approach the witness again with
6 another exhibit?

7 COMMISSIONER LEVAR: Yes.

8 MR. JETTER: Is it okay if I proceed?

9 COMMISSIONER LEVAR: Yes.

10 MR. JETTER: Thank you.

11 BY MR. JETTER:

12 **Q. Mr. Hevert I have handed you a copy that I**
13 **will represent is a Dominion Energy investor meetings,**
14 **December 2019, presentation slide deck that has been**
15 **printed. Does that accurately reflect what I've provided**
16 **to you?**

17 A. It does, yes.

18 MR. JETTER: I would like to mark this just
19 for the record as DPU Cross Exhibit 2.

20 (Hearing Exhibit DPU 2 was
21 marked for identification.)

22 BY MR. JETTER:

23 **Q. And I would actually just like to ask a few**
24 **brief questions about this, and specifically -- well,**
25 **let's start out with a little bit of background.**

1 **Have you seen this before?**

2 A. Not this particular version, no.

3 **Q. Okay. Are you familiar with investor**
4 **meetings that utilities would hold?**

5 A. I am, yes.

6 **Q. And the purpose of those meetings is to**
7 **present information on things like financial projections**
8 **to investors; is that correct?**

9 A. Among other things, yes, I agree with that.

10 **Q. Okay. And I would like to have you turn to**
11 **page 6 of this presentation.**

12 A. Yes, I'm there.

13 **Q. And looking at page 6, it states that 2019**
14 **operating earnings per share were \$4.15 to 4.30 per**
15 **share, and EPS growth is 5 percent for next year, 5**
16 **percent plus thereafter; is that correct?**

17 A. Yes.

18 **Q. And 5 percent is lower than the growth rate**
19 **that you applied in your capital asset pricing model; is**
20 **that correct -- or excuse me, I apologize, your**
21 **discounted cash flow earnings per share growth rate?**

22 A. I think there are probably three points. One
23 is, yes, I would say on average that's true. Second,
24 what matters here would be the longer term. It says 5
25 percent plus, so we don't know what the "plus" means.

1 And third, this is for, of course, the consolidated
2 company, and our analyses look at Dominion Energy Utah on
3 a stand-alone basis.

4 **Q. Okay. Do you think that Dominion Energy Utah**
5 **is more or less risky than Dominion Energy, Inc.**

6 A. Well, I think if you -- I think, generally,
7 if you were to look at it from the perspective of, say,
8 Moody's, Moody's will typically reduce the parent company
9 by one notch, due to what's referred to a structural
10 subordination. So there could be reasons why the parent
11 company may be more risky than the operating utility.

12 **Q. Thank you. That's the only questions I have**
13 **about this exhibit.**

14 **I have no further questions. Thank you,**
15 **Mr. Hevert.**

16 A. Thank you.

17 COMMISSIONER LEVAR: Thank you.

18 Mr. Moore or Mr. Snarr?

19 MR. MOORE: Do you want to ask for redirect?

20 COMMISSIONER LEVAR: I think we generally go
21 to cross from all the parties before redirect, but if you
22 want me to go to one of the other parties and then come
23 back to you --

24 MR. MOORE: No, I'm ready. Thank you.

25 CROSS-EXAMINATION

1 BY MR. MOORE:

2 Q. Good morning, Mr. Hevert.

3 A. Good morning.

4 Q. Isn't it true that you believe that applying
5 financial models of -- ROE, one must use reasonable
6 judgment in applying those models when assessing the
7 reasonableness of those results?

8 A. Yes. I agree with that.

9 COMMISSIONER LEVAR: Would you mind pulling
10 the microphone a little bit closer?

11 BY MR. MOORE:

12 Q. Isn't it also true that in this case,
13 assessing the reasonableness of the model results is
14 useful to compare the model results to the average ROE
15 for gas utilities in 2019?

16 A. That's a good point. It is something I
17 mentioned in my direct statement, opening up. I do think
18 that authorized returns over time, how they have changed
19 over time in the current level of authorized returns, are
20 an important benchmark.

21 And the question is, as I mentioned earlier,
22 is it more likely the company's cost of equity is higher
23 than 9.7 percent? I think it is. Is it more likely that
24 it has increased from 9.8 percent -- 9.85 percent? I
25 think it has.

1 **Q. We are going to hand you a document marked**
2 **OCS Exhibit H1.**

3 MR. MOORE: May we approach?

4 COMMISSIONER LEVAR: Yes.

5 BY MR. MOORE:

6 **Q. I will represent this is an American Gas**
7 **Association regulatory update from July 1st to September**
8 **30th.**

9 A. I'm sorry, I have a Moody's Investors Service
10 document.

11 **Q. You can hold on to that. We will use that**
12 **later.**

13 A. Okay. I appreciate the heads-up.

14 (The witness was handed the appropriate
15 exhibit.)

16 THE WITNESS: Okay. I think we are speaking
17 to the same document now.

18 BY MR. MOORE:

19 **Q. All right, this is the American Gas**
20 **Association rate and regulatory update from July 1st**
21 **through September 30, 2019; is that correct?**

22 A. Yes. Yes, I agree.

23 **Q. May I direct your attention to the second**
24 **full sentence of the third line down of the body of the**
25 **document, which is highlighted? It states, "The average**

1 ROE authorized for gas utilities was 9.68 percent in
2 cases decided during the first nine months of 2019, just
3 above the 9.59 percent in full-year 2018."

4 Did I read that correctly?

5 A. You did, and that is consistent with what I
6 said earlier.

7 MR. MOORE: I request to admit Cross Exhibit
8 H1.

9 COMMISSIONER LEVAR: Okay. Does anyone
10 object to that motion? Please indicate to me.

11 I'm not seeing any objection, so it is
12 granted.

13 (Hearing Exhibit OCS H1 was
14 marked for identification.)

15 BY MR. MOORE:

16 Q. Isn't it true that there's an 82 point base
17 difference between your requested ROE of 10.5 and the
18 AGA's required ROE of 9.68?

19 A. I would say two things: First, there is a 22
20 basis point difference between 9.68 percent and 9.9
21 percent, which is the lower end of my recommended range,
22 but nonetheless is part of my recommendation.

23 But as to the difference between 10.5 percent
24 and 9.68 percent, yes, I agree with you.

25 Q. On page 4, line 60 to 63 of your direct

1 testimony, you indicated there are three factors and they
2 affect the risk Dominion Energy faces have not been
3 considered in the models you propose: the risk of
4 electrification, the risk associated with Dominion
5 Energy's planned capital expenditures, and the risk of
6 regulatory environment; is that correct?

7 A. I'm sorry, I see that on page 3, but --

8 Q. I apologize, maybe I made another mistake.

9 A. You heard me this morning. I'm in no
10 position to criticize.

11 Q. Okay. Let's take each factor one at a time.
12 And electrification, when you refer to electrification,
13 you mean the transition away from carbon-based fuel to
14 electricity to meet the demands now serviced by burning
15 gas; isn't that correct?

16 A. It is. And it is what's we were talking
17 about a little bit earlier this morning, the, sort of,
18 long-term unquantifiable but nonetheless not
19 inconsequential uncertainty.

20 Q. We are going to hand out OCS
21 Cross-examination H2, which I believe you have a copy of.

22 A. Okay.

23 (The exhibit was handed out.)

24 THE WITNESS: I had a head start with this
25 one.

1 BY MR. MOORE:

2 Q. This exhibit is a copy of Moody's Investors
3 Service, Questar Gas Company, credit opinion, January 30,
4 2019.

5 May I ask you to turn to page 4 and read the
6 highlighted portion?

7 A. Yes. Page 4, the highlighted portion falls
8 under the subheading of "Low carbon transition risk."
9 And it reads, "Questar Gas has low carbon transition risk
10 within the utility sector because it is a gas LDC and
11 natural gas commodity purchase costs are fully passed
12 through to customers with an effective cost recovery
13 mechanism.

14 "Moreover, the company's decoupling mechanism
15 helps to insulate its financial profile from the
16 potential negative impacts of lower sales volume, should
17 usage decline."

18 Q. Let's turn now to the "Associated risk of
19 capital spending," on page 28, 512 to 513 of your direct
20 testimony -- I will wait until you get there.

21 A. Sorry, what line?

22 Q. Line 512 through line 513.

23 A. Yes, I am there.

24 Q. I believe that you stated that the company's
25 projected capital spending program is nearly 1.10 billion

1 in the Utah territory in 2019 to 2023; isn't that
2 correct?

3 A. Correct.

4 Q. Isn't it true that approximately 30 percent
5 of these planned capital expenditures will be covered
6 through the infrastructure tracker?

7 A. That's my understanding. And I would say
8 that, again, when we talk about the cost of equity being
9 a comparative exercise, the question becomes: Do other
10 companies have infrastructure trackers in place? And
11 they do. They are very, very common within the industry.

12 Every company has different circumstances.
13 Every company faces different replacement requirements.
14 Nonetheless, the prevalence of infrastructure trackers
15 does not mean that if a company has one, it is less risky
16 than its peers.

17 Q. But that reduces the risk of capital
18 expenditures; isn't that correct?

19 A. It increases the timeliness of the recovery,
20 and you bring up a couple important points. It increases
21 the timeliness of recovery and effectively puts the
22 company in the place it would have been if it did not
23 have to make those investments in the first place. That
24 is the basis of infrastructure trackers throughout the
25 industry.

1 It is a credit-supportive mechanism, as you
2 will see throughout this Moody's credit opinion. It
3 refers to being credit supported. It is not credit
4 enhancing. That is to say, these trackers do not make
5 the company's credit profile even better than others. It
6 supports its current credit profile because absent those
7 structures, its credit profile would come under downward
8 pressure.

9 **Q. Isn't it also -- are you finished?**

10 A. I hope so.

11 **Q. Isn't it true that approximately another**
12 **third of these capital expenditures are covered by the**
13 **annual noncash depreciation?**

14 A. So is your question, does depreciation fund a
15 portion of capital expenditures?

16 **Q. Approximately one-third or a little less?**

17 A. I don't know how much depreciation is of the
18 company's revenue requirement. I could not tell you that
19 offhand. But if the question is: Can you trace a dollar
20 of cash flow generated by depreciation to a dollar of
21 capital investments? I'm not sure you can do that.

22 But if your question is: Is depreciation
23 roughly 30 percent of the revenue requirement? I cannot
24 tell you, one way or the other, and I have no reason to
25 disagree with you.

1 Q. With regard to the risk associated with
2 regulatory environment, isn't it true that the company
3 has in place regulatory mechanisms viewed in favor with
4 the investment community and rating agencies, the
5 forecast attached here, the sales and revenue to
6 calculating whether normalization, and as we have been
7 talking about, the infrastructure replacement tracker?

8 A. It does. And all of those things are very
9 helpful to support the company's credit rating. The
10 other point, I think, not to belabor the obvious, is that
11 notwithstanding those mechanisms, the company was still
12 downgraded in August.

13 Q. Could I have you look at Cross Exhibit H1
14 again -- oh, no, sorry, that would be H2, the same one
15 you are looking at.

16 A. So this is AGA summary?

17 Q. No, that's the Moody's.

18 A. The Moody's, okay.

19 Q. Could you read the highlighted portion at the
20 top of page 3?

21 A. Yes. And this falls under the broad category
22 of "Detailed credit considerations" in the subcategory of
23 "Supportive regulatory environments with key cost
24 recovery features."

25 And it reads, "Questar Gas' credit profile is

1 underpinned by its low risk gas distribution operations
2 and very supportive of regulatory environments. The PSCU
3 and PSCW provide Questar Gas with cost-recovery
4 provisions that allows the company to recover prudently
5 incurred costs on a timely basis."

6 And, again, I think what I would say is that
7 is helpful, it is credit supportive, the regulatory
8 environment certainly is credit supportive. And a
9 departure from the credit supportive regulatory
10 environment would be viewed as a credit negative from the
11 perspective of the rating agencies.

12 **Q. Let's turn to the topic of capital structure**
13 **now.**

14 A. Okay.

15 **Q. On page 43 to 44, lines 797 to line 800 of**
16 **your direct testimony --**

17 A. So this would be on line 797, with the
18 sentence beginning "As the percentage"?

19 **Q. Yes. "As the percentage of debt in the**
20 **capital structure increases, so do the fixed obligations**
21 **for the repayment of the debt. Consequently, as the**
22 **degree of the financial leverage increases, the risk of**
23 **financial distress, i.e., financial risk, also**
24 **increases."**

25 **Is that correct?**

1 A. Yes, that's correct.

2 Q. I read that correctly?

3 A. You did.

4 Q. Could I, again, ask you to look at OCS Cross
5 Exhibit H, the AGA rate and regulatory update, and ask
6 you to look at the last paragraph and the full sentence
7 starting at line 3, which is highlighted and states, "The
8 average allowed equity ratio for gas utilities nationwide
9 was 52.52 percent in the first nine months of 2019,
10 compared with 50.09 percent in 2018 and 49.88 percent in
11 2017."

12 Did I read that correctly?

13 A. You did. And, of course, you note there the
14 increasing trend in the authorized equity ratio over
15 time.

16 Q. Dominion Energy is seeking a capital
17 structure of 55 equity and 45 debt, which is less than
18 the average; isn't that correct?

19 A. We have to talk about what we mean by "the
20 average." It is less than what you talked about here,
21 this average authorized equity ratio. When we look at
22 the average equity ratio in place among natural gas
23 operating utilities, 55 percent is not less than the
24 actual capital structures in place.

25 Q. So you just agree -- I'm lost. You disagree

1 **with the sentence that I just read?**

2 A. Oh, no, I don't disagree with that at all.
3 What I'm saying is, if you look at the actual capital
4 structures in place, if you were to look at what the
5 companies actually carry on their balance sheet for
6 common equity in long-term debt at the operating company
7 level, it is higher.

8 In fact, it is the average since the third
9 quarter of 2013, and this is on page 96 of my rebuttal
10 testimony, has been about 57.59 percent. So that average
11 equity ratio in place among operating companies is
12 somewhat higher than the 55 percent equity ratio the
13 company proposes in this case.

14 **Q. But the average authorized capital structure**
15 **is 52.52 percent?**

16 A. Yes, that is what AGA reports. Of course,
17 again, up from 49. 88 percent in 2017, but yes, I agree
18 with that.

19 **Q. Turning to your analytical models, isn't it**
20 **true that your constant growth DCF model includes ROEs as**
21 **high as 28.83 percent?**

22 A. Well, I think we should turn to that exhibit.

23 **Q. That exhibit is DEU Exhibit 2.01, I believe.**

24 A. Right. So this is on my direct testimony.

25 **Q. Yes.**

1 A. And we're looking at page 1 of 3.

2 Q. I was looking at page 37, line 880 to 881.

3 A. Okay.

4 Q. Sorry, that is not your testimony. The DEU
5 exhibit I was referring to was 2.01.

6 A. Yes.

7 Q. And don't you have an upper range in that
8 exhibit of 28.83 percent?

9 A. So the high -- let me talk about how we
10 present these results. We present the results for this
11 discounted cash flow model three ways. One is based on
12 an average growth rate and recall the constant growth
13 discounted cash flow model effectively is dividends yield
14 plus expected growth rate.

15 So we showed three measures of the expected
16 growth rate: the average for the lowest for each
17 company, the average for -- the average for each company,
18 and the average of the high for each company. So the
19 28.83 you are referring to is one of the high growth
20 rates that's reported for one of the companies. But yes,
21 you're correct, that number is there.

22 And the other thing I would say is if you
23 look down to the average and the mean result, you will
24 see the -- I'm sorry, the average and the median, the
25 median is 11.88 percent. The average is 13.52 percent.

1 The upper end of my range is 10.75 percent, so,
2 obviously, these did not weigh heavily in my
3 recommendation.

4 **Q. Is it your opinion that the return of 28.83**
5 **percent is consistent with market conditions facing an**
6 **investment as safe as a gas utility?**

7 A. Well, that goes to my last point. These
8 numbers, 13.52 percent, 11.88 percent, I think, are just
9 too high for a natural gas utility. So they are above my
10 recommended range, so I would not give that number much
11 weight.

12 **Q. Thank you. I have no further questions.**

13 A. Thank you.

14 COMMISSIONER LEVAR: Major Kirk, do you have
15 any questions for this witness?

16 MAJOR KIRK: Yes, sir, I do.

17 CROSS-EXAMINATION

18 BY MAJOR KIRK:

19 **Q. Sir, you said you said that industry average**
20 **rate of return on equity was 9.7 percent?**

21 A. What I have said is that it has been
22 consistently in the 9.7 percent range since about 2013.

23 **Q. And you said there was a good reason to think**
24 **it has increased since then?**

25 A. For the company, yes.

1 **Q. But for other companies, there is examples of**
2 **it being much lower than that; is that correct?**

3 A. I am not -- I'm sorry, are you -- we may be
4 talking about two different things here. If your
5 question is: Have there been authorized returns below
6 9.7 percent? If that is your question, then yes, I would
7 agree with that. There -- obviously, there have been
8 others above 9.7 because 9.7 is the average.

9 **Q. A couple of those below we talked about were**
10 **CenterPoint in Texas at 9.25 percent. That is one case?**

11 A. Well, CenterPoint Texas is an electric
12 distribution case, not a natural gas case. But yes, it
13 was 9.25 percent, and as I mentioned earlier, the market
14 reaction was -- it was notable.

15 **Q. But there hasn't actually been a credit down**
16 **rating since CenterPoint Texas, has there?**

17 A. It's too soon, I think. What we were talking
18 about was a commission deliberation in late November.
19 The commission's decision was supposed to have been
20 rendered on the holiday's Friday the 13th, and that, as I
21 understand, is the day that the commission decided that
22 it would be better for the parties to try to negotiate
23 the settlement.

24 So I think it would be premature for the
25 rating agencies to have a rating action before they

1 understand the likely outcome of those discussions.

2 Q. But they haven't made any announcement yet.
3 Right?

4 A. That is my understanding, yes.

5 Q. Let's talk about 9.2 percent in Virginia.
6 That's another case where it is below the 9.7 average.
7 Right?

8 A. Right. And, again, I won't belabor the
9 point, but it is a fundamentally different case. It is
10 not a base rate proceeding as we have here.

11 Q. And in Colorado, recently Excel Energy of 9.3
12 percent?

13 A. I cannot comment on Excel Energy's case. I
14 was not in that one. I don't know whether that was
15 electric or gas. I cannot tell you.

16 Q. That's okay. Let's look at a very recent gas
17 case settlement last week. The Wyoming Commission
18 approved a settlement in that case with Black Hills
19 Wyoming Gas for 9.4 percent. Are you aware of that?

20 A. No. Thank you for letting me know.

21 Q. Would you say that -- I mean,
22 Dominion-Questar Gas Company does business in Wyoming
23 too, doesn't it?

24 A. It does, yes.

25 Q. And is Black Hills Wyoming Gas also a gas

1 **company?**

2 A. It is. It is one of the -- one of the many
3 companies that have had returns authorized this year
4 that, again, have fallen into the 9.7 percent range. I'm
5 not sure one observation of 9.4 percent would
6 meaningfully change that.

7 **Q. Earlier, you said that you thought 55 percent**
8 **capital structure was entirely reasonable in the industry**
9 **practice.**

10 A. There -- I think there are two points that I
11 made. One is if you look at industry practice by
12 reference to natural gas operating companies, 55 percent
13 is slightly below what we see. Second, if you consider
14 the cash flow issues Mr. Mendenhall spoke about this
15 morning, I do think 55 percent is a reasonable target,
16 yes.

17 **Q. As far as authorized capital structures go,**
18 **the more common industry uproot capital structure is in**
19 **the 51 to 52 percent range. Correct?**

20 A. I am not sure -- 52.5 percent was the average
21 for the -- that the American Gas Association reported. I
22 think when we look at average authorized equity ratios,
23 it is a data point, I agree. But to me, for the purposes
24 of understanding how the company capitalizes itself
25 relative to practice, I tend to look at what is in place

1 at the other operating companies.

2 But yes, 52.5 percent was the 2019 average so
3 far. Again, meaning somewhere above, somewhere below.

4 Q. And last week in that settlement with Black
5 Hills Wyoming Gas, it was approved -- the capital
6 structure approved there was 50.23 percent. Are you
7 aware of that?

8 A. No. But, again, thanks for letting me know,
9 but that does not change my perspective at all.

10 Q. No further questions. Thank you.

11 A. Thank you.

12 COMMISSIONER LEVAR: Thank you.

13 Mr. Mecham?

14 MR. MECHAM: Thank you, Mr. Chairman.

15 CROSS-EXAMINATION

16 BY MR. MECHAM:

17 Q. Mr. Hevert I represent the American National
18 Gas Council, which is a group of small commercial
19 customers that takes transportation service from
20 Questar -- or excuse me, from Dominion Energy, formally
21 Questar Gas.

22 A. Yes.

23 Q. In your rebuttal testimony, on page 4, you
24 summarize all of the recommended rates of return from all
25 of the rate of return witnesses. Correct?

1 A. I do, correct, No. 1.

2 Q. And earlier this morning, you stated that
3 Mr. Oliver, who is appearing for the ANGC party, has
4 recommended 9.5 percent. Correct?

5 A. That's correct.

6 Q. Now you understand that that recommendation
7 was based on an equity ratio of really nothing more than
8 52 percent; did you understand that?

9 A. I do.

10 Q. And you understood from his testimony that
11 were he to go to the 55 percent equity ratio, his
12 recommendation would be 9 percent?

13 A. Yes, and I think that's fundamentally
14 incorrect.

15 Q. Oh, I didn't doubt that.

16 A. Just to be clear.

17 Q. So really, when you consider all of the other
18 witnesses in this proceeding, they are all clustered at
19 the low end of 9; two 9s, one 9.9 and one 9.25, and you
20 at 10.5.

21 A. Two points there. That's true. When we look
22 at those returns -- and I guess if we were to consider
23 Mr. Oliver's 9.5, they range from 9 percent to 9.5
24 percent.

25 Q. Well, that's assuming again -- right? -- the

1 equity ratio at 52 percent, not 55 percent?

2 So go ahead. I'm sorry, I cut you off.

3 A. Well, then tell me what would his
4 recommendation be at 55 percent so we can have the
5 conversation?

6 Q. 9 percent.

7 A. Okay. So he's at 9 percent. The range is 9
8 to 9.25 percent. We've all talked about, for a bit this
9 morning, that the average has long been 9.7 percent. My
10 recommendation -- at the low end of my recommended range
11 is 20 basis point removed from that.

12 So if we were to look at authorized returns,
13 without giving any effect to the company circumstance, I
14 would say my recommendation is far closer to the more
15 relevant benchmark of what is being approved elsewhere.

16 Q. And just for fun, I took the five witnesses
17 appearing on cost of capital and averaged them and came
18 to 9.37, which includes your 10.5. But, obviously, you
19 think that is out of the range?

20 A. I am sorry, you --

21 Q. If you take 9.25, 9.1, two 9s and 10.5, the
22 average of those mixed together is 9.37 percent rate of
23 return.

24 A. Okay. I'm not following the import of that,
25 but I would agree with your math.

1 Q. Okay. Thank you. Perhaps we can get even
2 more fundamental. You agree that the cost of equity
3 financing is generally greater for gas distribution
4 utilities and for its ratepayers than the cost of debt
5 financing?

6 A. Yes, I agree with that.

7 Q. And in this proceeding, are you aware of
8 what the cost of debt is that is being put forward? It's
9 4.37, if that helps.

10 A. Yes. I address that, yes.

11 Q. Okay. And, again, as you have stated more
12 than once, your recommendation is 10.5 percent?

13 A. Within the range of 9.9 to 10.75, correct.

14 Q. Okay. So your proposed cost of equity is
15 roughly 2.4 times Dominion's cost of debt before taking
16 into account the effective income taxes; is that correct?

17 A. Well, let's break that down a little bit. If
18 you're looking at the point estimate, I agree. When you
19 talk about the effective income taxes, we now are looking
20 at revenue requirement effect as opposed to the cost of
21 equity from the investor's perspective. But, again, I
22 would not disagree with your math.

23 Q. Okay. Thank you. And do you accept that
24 when you recommend 10.5 percent, it needs to be grossed
25 up for income taxes?

1 A. Yes, I understand that.

2 Q. And the effect of that is 13.95 percent gross
3 up?

4 A. I understand that.

5 Q. You agree?

6 A. Yes, I have done that math. I agree.

7 Q. Okay. Thank you. And you have already
8 stated that you agree that the Commission needs to look
9 at the effect on ratepayers and to assess the
10 reasonableness of Dominion Energy's overall cost of
11 capital and its consistency with sound financial
12 management in utility operations. Correct?

13 A. I think -- yes, I think the Commission, this
14 Commission -- all commissions have the difficult task of
15 balancing the interest of investors and ratepayers.

16 Now when we talk about things like
17 differences in recommended returns, you can talk about
18 the difference in the revenue requirement, but, of
19 course, the difference on net income is a multiple of the
20 difference in the revenue requirement. If there was a
21 change in the revenue requirement of 3 percent, the
22 difference of net income -- a reduction of 3 percent of
23 the revenue requirement, the reduction and net income
24 would be a multiple of that, possibly 10 percent. So I
25 do think those are all things we have to consider.

1 **Q. Okay. Have you presented any evidence in**
2 **your testimony that demonstrates that Dominion's utility**
3 **operations can't be operated on a financially sound basis**
4 **with a capital structure for approximately 50 percent?**

5 A. Let me tell you what I have presented. Your
6 question is one that I'll go back to earlier, one of
7 industry practice. When I look at practice, it is about
8 57 percent. Given the company's cash flow concerns,
9 given the company's cash flow considerations, given
10 Moody's observations about the company's weak credit
11 metrics relative to its peers, if the company were to
12 have an authorized equity ratio of 50 percent, it clearly
13 would put downward pressure on the company's already weak
14 credit metrics.

15 Could the company operate? I'm sure it
16 could. How difficult would it be for it to raise the
17 capital it needs? How difficult would it be for it to
18 maintain its credit profile to be able to access the
19 long-term capital, the day-to-day liquidity it needs? I
20 think that is far more difficult.

21 **Q. Well, Mr. Mendenhall testified that the**
22 **company was downgraded from A2 to A3. Did you hear that**
23 **this morning?**

24 A. Yes, I am aware of that.

25 **Q. Have you calculated what the cost of that was**

1 or is?

2 A. Well, I think we talked about that a little
3 bit this morning. You can talk about the effect of the
4 incremental credit spread of losing one notch. That is
5 just one part of the analysis, and it is a very small
6 part of the analysis.

7 When we look at the fact that Moody's still
8 considers the company's cash flow-related credit metrics
9 to be weak, when we consider the fact that the company
10 was among few that were identified for downgrade and
11 among few that actually were downgraded, as I understand
12 it, that means an incremental level of risk to equity
13 investors.

14 So you can certainly try to calculate the
15 incremental effect of losing one credit notch and the
16 higher credit spread associated with that, but that is
17 only part of the analysis and that should not be the
18 basis of a determination that 50 percent is a proper
19 equity ratio.

20 **Q. If there were a downgrade, or in this case**
21 **when there was a downgrade, isn't the effect on the cost**
22 **of debt on the incremental amount that the company would**
23 **have to go out and get?**

24 A. Yes, I agree with that. It is on the
25 incremental amount. The debt that's already existing

1 would be there. Now --

2 **Q. It would not have any effect on that existing**
3 **debt. Correct?**

4 A. Let me finish.

5 **Q. Okay.**

6 A. It would not have any effect on the embedded
7 cost of debt. It would have an effect on the incremental
8 debt.

9 Now, my understanding is the company's debt
10 is all privately placed. It is not placed in the public
11 market. It is not of sufficient size, for example, to be
12 what is considered index eligible. Meaning, it can be
13 put in an index and it would be very liquid.

14 Again, based on my practical experience, when
15 you are dealing with private placements, it is a less
16 liquid market, and a downgrade not only affects the cost
17 of debt but it also affects your ability to place the
18 debt when you need to.

19 **Q. And then you heard Mr. Mendenhall, if I**
20 **understand him correctly, testify that the difference**
21 **between 60 percent equity ratio and 55 equity ratio was**
22 **about \$8 million?**

23 A. I do, but I don't -- I also have to
24 wonder -- for example, we talked a little bit this
25 morning about the situation with CenterPoint. If the

1 company were to have to move to a 55 percent equity ratio
2 from 60 percent, it had meant to align its actual capital
3 structure with the ratemaking capital structure, that
4 means it would have to somehow return, dividend up,
5 equity.

6 Given its cash flow situation, I just don't
7 know where that cash would come from. I don't know how
8 that would happen.

9 So it's true, you could move it down and the
10 effect would be \$8 million a year, but, again, from my
11 perspective, the analysis does not end there.

12 **Q. Do you know what the monetary value is of the**
13 **difference between 55 percent and 50? Is it the same as**
14 **55 to 60? In other words, is it \$8 million or so or did**
15 **you make that calculation?**

16 A. I -- no, I could not tell you, but what I
17 would say -- you talk about the monetary value. What I
18 would say is that if the company's actual capital
19 structure is 60 percent, and its proposed is 55 and you
20 are moving it down now to 50, from the equity investor's
21 perspective, that is a significant increase in financial
22 risk.

23 And as I said earlier this morning, any
24 adjustment you would have to make to the cost of equity
25 in connection with that change would be a positive

1 adjustment.

2 Q. But you agree that the cost of equity
3 financing is significantly higher than the cost of debt
4 financing?

5 A. Well, that's just an intercapital market.

6 Q. So we will use Mr. Mendenhall's \$8 million
7 figure from 55 to 60. How does that compare to the
8 incremental increase on debt financing that may occur or
9 if there happens to be a downgrade?

10 A. As I said, I cannot tell you. I have not
11 done that math nor would I end the analysis there. I
12 think if we were going to move the equity ratio down from
13 the current level of 60 percent to 50 percent, the
14 analysis comes far more complicated at that point.

15 Q. Okay. So at your 55 percent, you didn't take
16 into account what the impact would be on the ratepayer or
17 did you?

18 A. Impact relative to what?

19 Q. The cost of equity. The difference in cost
20 of equity between 50 percent equity ratio and 55 percent
21 equity ratio, you didn't consider the impact of that on
22 ratepayers?

23 A. In my testimony, no, because I don't think
24 you can do that without making an upward adjustment to
25 the cost of equity, which I have not done.

1 Q. Okay. Thank you. Let's look at your
2 rebuttal testimony, Table 10.

3 A. What page is that? I'm sorry.

4 Q. It is page 96 of 105.

5 A. Okay. Yes, I'm there.

6 Q. So am I to understand that the operating
7 companies for which you show common equity ratios in this
8 table are subsidiaries of your chosen proxy group
9 investors -- excuse me, proxy group companies?

10 A. Yes, they are subsidiaries, or in the case
11 where ONE Gas -- where the company operates is a single
12 division, really.

13 Q. Which one is that?

14 A. ONE Gas.

15 Q. Oh, I'm sorry.

16 A. I didn't mean "one gas." The company's name
17 is ONE Gas.

18 Q. And is it your position that Table 10 is a
19 representative sample of all distribution utilities in
20 the country?

21 A. I think Table 10 is the best representation
22 we have of the operating company within the natural gas
23 proxy group.

24 Q. And the numbers that are reflected in Table
25 10, the equity ratio numbers, are those actual common

1 **equity numbers?**

2 A. Yes.

3 **Q. None of them have been approved by**
4 **regulators?**

5 A. I'm sorry, you say, "none of them have been
6 approved by regulators"?

7 **Q. Is it true that none of them have been**
8 **approved? Is this just an actual common equity ratio**
9 **outcome for each of those companies?**

10 A. I think -- well, let me back up. When I was
11 in charge of managing the company's balance sheet, we had
12 to seek approval for debt issuances. And so our capital
13 structure necessarily was subject to regulation because
14 we needed to seek approval for the issuance of
15 securities.

16 To the extent any of these companies, and I
17 cannot tell you the -- whether they go through a similar
18 process, but to the extent any of them need to get
19 approval for the issuance of securities, then I would say
20 yes, they are subject to regulation.

21 **Q. Have they been before a public service**
22 **commission and been approved at those levels?**

23 A. That -- I think I just answered your
24 question. As in my experience --

25 **Q. I wasn't sure which regulators you were**

1 **speaking. You have Securities and Exchange or PSC.**

2 A. Oh, I was following your question. I assumed
3 you were talking about regulatory commissions.

4 **Q. I am.**

5 A. And that is my answer, that in my experience,
6 companies often need to get the approval of their state
7 regulatory commissions to issue securities.

8 **Q. But let me just, as an example --**

9 A. Sure.

10 **Q. So North Jersey Natural Gas Company Quarter**
11 **2, 2019, shows 61.04 percent. Is that an actual common**
12 **equity ratio number for that company?**

13 A. It is. And thank you for pointing something
14 out. That should be New Jersey Natural Gas Company. I'm
15 actually from North Jersey, so that was probably a slip
16 on my end.

17 **Q. And did they go before their public service**
18 **commission and get an equity ratio approved at 61.04**
19 **percent?**

20 A. I am going to go back to my prior answer. To
21 the extent any of these companies -- and I cannot tell
22 you what the regulatory requirements are in each of these
23 states. I can just tell you what my experience was. To
24 the extent they need approval to issue securities, then
25 the equity ratio would be an outcome of the approval to

1 issue securities.

2 Q. But as an example, in this proceeding, we're
3 not here to issue securities. You're arguing for a 55
4 percent common equity ratio.

5 Did New Jersey Natural Gas go before the New
6 Jersey Commission and seek a 61 percent common equity
7 ratio?

8 A. I don't know, but that's not the point of
9 this analysis. The point of the analysis is to see how
10 the companies are actually capitalizing their balance
11 sheets.

12 And, again, you look at what's happening
13 here. The company is actually capitalizing its balance
14 sheet with 60 percent equity, different than the 55
15 percent equity ratio it is proposing here.

16 Q. And on this table, you see a variety of
17 equity ratios ranging, perhaps, from 48 percent to 71
18 percent or so; is that correct?

19 A. Yes, I agree with that.

20 Q. Why do some gas distribution utilities
21 operate with substantially higher equity ratios than
22 others?

23 A. It depends on each company's circumstance.
24 As I said in my opening statement, companies are similar
25 in terms of the objectives and constraints they face but

1 they are not identical. No two companies are the same,
2 and therefore, you would not expect their capital
3 structures to be identical either. I cannot tell you why
4 one is higher than another.

5 But what we can do is look at these
6 companies, and we see that the average is about 57.5
7 percent, when I think about the company's situation, when
8 we think about its cash flow circumstances, 55 percent,
9 which is, again, less than its actual 60 percent equity
10 ratio, seems to me to be consistent with practice and
11 reasonable.

12 **Q. Now Northwest Natural Gas and Southwest Gas**
13 **Corporation are at the low end of the range; is that**
14 **correct?**

15 A. They are.

16 **Q. Do you know how their credit ratings are in**
17 **comparison to Dominion's distribution utilities?**

18 A. I would say probably within a notch or two.

19 **Q. So they are very much the same?**

20 A. They may be. What I cannot tell you is
21 whether Moody's made the same observation. I cannot -- I
22 do not know that either of those two companies were
23 downgraded in August, and I cannot tell you whether
24 Moody's has said their cash flow metrics are weak
25 relative to their peers, as Moody's has said in the case

1 of the company.

2 **Q. So do you provide any evidence in your**
3 **testimony that the 55-45 capital structure will minimize**
4 **the cost of capital that Dominion ratepayers are asked to**
5 **bear while maintaining the company's ability to raise the**
6 **capital on reasonable terms?**

7 A. You bring up a point I made in my opening
8 statement, which is that capital structure optimization
9 is highly, highly complex. And there's a difference
10 between what people often refer to is minimizing the
11 weighted average cost of capital and optimizing the
12 capital structure.

13 I said earlier that utilities face common
14 constraints and have common objectives, and in my
15 experience, a common objective for a utility is to
16 minimize its overall cost of capital. But it does so
17 subject to constraints. It does so subject to the
18 constraint that it must maintain access, it must maintain
19 its credit profile. It has to have the financial
20 community's support.

21 So the calculation of an optimal capital
22 structure is highly complex, but if your trying to equate
23 it with minimizing the weighted cost of capital, they are
24 not always the same thing.

25 **Q. Do you know what the common equity ratios**

1 were that were last approved for ratemaking purposes for
2 each of the gas operating companies in Table 10?

3 A. I cannot tell you as I sit here, no.

4 Q. Do you know any of them off the top of your
5 head?

6 A. Not off the top of my head, no. And, again,
7 for the purpose of this analysis and this assessment, I
8 did not need to know.

9 Q. Let's turn to page 15 of your direct
10 testimony.

11 A. Okay.

12 Q. Around line 286, the issue is proxy group
13 screening criteria.

14 A. Yes, I'm there.

15 Q. At lines 300, 301, the last screening
16 criteria you present is "Significant events."

17 Did you use that criteria in other
18 proceedings?

19 A. I do, yes.

20 Q. Okay. So then if you turn to Exhibit DEU
21 2.01 --

22 A. Okay. I'm there.

23 Q. -- do Columns 5, 6 and 7, on page 1 of that
24 exhibit, present the earnings growth estimates on which
25 you relied to compute your DCF returns?

1 A. So 5, 6, 7 and 8? So I'm sorry, is your
2 question the earnings growth forecast?

3 Q. Yes.

4 A. Okay. Then I'm sorry, you're correct.

5 Q. On 5, 6 and 7?

6 A. Yes, I am sorry.

7 Q. Then in Column 7 of that table, the line for
8 Northwest Natural Holding Company, there is an entry of
9 25.50 percent. Now, I'm assuming you would agree that
10 none of the earnings growth estimate for your proxy group
11 company from Zacks and First Call are greater than 7.2
12 percent that is in Column 5 and 6 of that exhibit?

13 A. Yes, I agree with that.

14 Q. And am I correct that with the exception of
15 the Value Line's earnings growth estimate for New Jersey
16 Natural Resources Corporation, Value Line's earnings
17 growth estimate are all, at least, 100 basis points
18 greater than the estimate from Zacks and First Call for
19 the same companies?

20 A. Yes, it is an interesting question. For
21 example, if you were to look at Spire, you see the First
22 Call estimate is 2.82 percent. Now if we think about a
23 long-term expected rate of inflation of 2 percent, that
24 would suggest real growth of slightly less than 0.8
25 percent, that strikes me as unreasonably low growth rate

1 but nonetheless I left it in.

2 So yes, I agree 5.5 percent is greater than
3 2.82 percent, but I think 2.82 percent is a pretty low
4 number. But, again, based on my convention, I left it
5 in.

6 **Q. So with that 25.50 percent earnings growth**
7 **estimate for the Northwest Natural Holding Company, it's**
8 **2.5 times the highest Value Line earnings growth estimate**
9 **for any of the other proxy companies, is it not?**

10 A. Sure. But if we are going to start going
11 down the road of taking out growth rates, we'd have to
12 take out high growth rates, we'd have to take out low
13 growth rates, we'd wind up in a cycle then, determining
14 what's an outlier and what's not.

15 That's why it's long been my convention to
16 present the growth rates and to show both the mean and
17 the median result, the median being the result that
18 mitigates the effect of outliers.

19 **Q. But it screws the average up, does it not?**

20 A. Which is why I show the median as well.

21 **Q. You think that 25.5 percent growth rate**
22 **sustainable over the long-term?**

23 A. No, nor do I think 2.82 percent is
24 sustainable in the long-term. The question is: When we
25 look at these companies in aggregate, when we calculate

1 the aggregate discounted cash flow result and we look at
2 the mean or the median, is that number reasonable?

3 And just going through these, let's say we
4 were to remove Northwest Natural Gas but then we were
5 also to remove Spire, Inc., which is the low. The median
6 does not change. It remains 9.75 percent. That's why, I
7 believe, looking at the median, including all the growth
8 rates, is a proper approach.

9 **Q. Wasn't there a significant event at Northwest**
10 **Natural Holding Company?**

11 A. There was an impairment that was taken on a
12 storage facility, and that was two years ago.

13 **Q. So about a \$200 million loss; is that what I**
14 **understood is correct?**

15 A. It was about that, yeah. That's about right.

16 **Q. So that then affected the numbers going**
17 **forward that we're talking about now?**

18 A. Right. But if you look at the fact as you
19 talked about earlier, the earnings growth rate from Zacks
20 and First Call for Northwest Natural, if anything, are
21 below the others. So to the extent we look at the
22 perspectives of a variety of analysts, I don't think it
23 is proper to exclude the company on that basis.

24 **Q. You cite Spire as a low, but did they have a**
25 **significant event like Northwest did?**

1 A. When you say, "like Northwest did," did Spire
2 take an impairment charge? I don't think Spire took an
3 impairment charge, not that I'm aware of.

4 **Q. But my point is: One suffered a significant**
5 **event and as far as we know, the other did not; is that**
6 **correct?**

7 A. It --

8 **Q. Okay. Go ahead, sorry.**

9 A. Thank you. Northwest Natural took an
10 impairment charge. It sounds like you are familiar with
11 the timing. That was probably about two years ago.
12 Looking forward, how does that affect the financial
13 community's views of the company's prospects?

14 And, again, if we go back to the fact that
15 Northwest Natural's expected growth rates from Zacks's
16 and First Call are really lower than the other companies,
17 you know, I don't see that the financial community, as a
18 whole, views that event going forward as one that would
19 preclude it from being a proper proxy company.

20 **Q. Let's take a look at Column 8 on 2.01.**

21 A. Okay.

22 **Q. Am I correct that the data in that column**
23 **presents estimates you developed to assess potential**
24 **growth for your proxy group companies?**

25 A. Yes, that's right.

1 Q. And then as stated in your direct testimony
2 at lines 956 to 958, "The retention growth model is a
3 generally recognized and widely taught method for
4 estimating long-term growth."

5 Did I properly represent that?

6 A. So I think what you quoted were on lines 956
7 and 957, and it goes on the says the alternative approach
8 to the use of analyst --

9 Q. Yes, I just quoted that "The retention growth
10 model is a generally recognized and widely taught method
11 for estimating long-term grown."

12 A. Yes, I agree with that.

13 Q. And is it your assessment that the retention
14 growth model generally produces a reasonable estimate of
15 long-term earnings growth?

16 A. It can. It doesn't always but it can.

17 Q. Am I correct that the retention growth
18 estimates shown, in 2.01 for Northwest Holding Company,
19 is 6.42 percent or about one-fourth of the 25.50 earnings
20 of the growth Value Line offered for the same company?

21 A. Yes, that's right.

22 Q. Okay. Now let's take a look at 2.01R again
23 on page 1.

24 A. Okay. I'm there.

25 Q. Thank you. So 2.01R shows -- well, what is

1 the Value Line's earnings growth estimate shown for
2 Northwest Natural Holding Company there?

3 A. That's 27.

4 Q. So it is up from the 25.5?

5 A. Yes, 2 percentage points.

6 Q. And then am I correct that the retention
7 growth estimate for Northwest Natural Gas in that exhibit
8 is 6.19 percent?

9 A. It is.

10 Q. So while your retention growth estimate for
11 Northwestern [sic] declined from 6.42 percent, in your
12 direct testimony, to 6.19 percent in rebuttal, the Value
13 Line's estimate of earnings growth for Northwest
14 increased further from 25.5 to 27 percent in the analysis
15 supporting your rebuttal testimony; is that correct?

16 A. Right. So what that shows us is that when we
17 look at retention growth, when we consider it as an
18 alternative, 6.19 generally falls within the range of
19 what we're seeing from Zacks, perhaps First Call.

20 I agree, the Value Line growth rate went up,
21 the retention growth rate went down, moderated the effect
22 a little bit. But, again, if you were to go through the
23 exercise we talked a little bit earlier, which is to
24 eliminate, if we wanted to, Northwest Natural Gas and
25 then the lowest result, which is Spire. The 9.98 percent

1 median result shown on page 1 does not change. It
2 remains 9.98 percent. That is the point of reporting the
3 medians.

4 Q. Okay. Thank you. Now if you turn to page 85
5 of your rebuttal testimony --

6 A. I'm sorry, yes, I am there.

7 Q. -- so at line 1568 and 1569, you indicate
8 that Value Line is widely relied upon by investors.

9 A. I do.

10 Q. Have the investors historically relied on
11 Value Line's timeliness factors to predict short-run
12 stock performance?

13 A. I think the timeliness factor, I think the
14 safety ranking, I think a lot of the parameters shown in
15 Value Line are relied on by, principally, retail
16 investors.

17 Q. Have you presented any evidence of the extent
18 to which investors rely on Value Line's estimates of
19 long-term, say, three to five years' earnings growth
20 estimates or long-term estimates of equity returns?

21 A. Is your question, have I looked at the issue
22 of -- do Value Line's growth rate -- excuse me, earnings
23 growth rates, do earnings growth rate, in particular,
24 affect utility stock valuation levels in other
25 proceedings? Absolutely, I have done that.

1 **Q. And in this proceeding, is there evidence**
2 **that shows that they rely on it for long-term bases?**

3 A. No, it really did not come up that much in
4 this proceeding. In other proceedings, we have long,
5 drawn-out, what I find interesting and perhaps other
6 people find tedious, arguments about the efficacy of
7 different growth rates and then we will present those
8 analyses. But it wasn't so much of an issue here.

9 **Q. Okay. Thank you. Have you provided any**
10 **evidence of the accuracy and reliability of Value Line's**
11 **long-term earnings growth estimate for the record of this**
12 **proceeding?**

13 A. I haven't and there is no need to. The
14 question is not whether ex-post, whether looking
15 backwards the forecast is accurate. The question is:
16 Currently, looking forward, do investors rely on them?
17 And we have no reason to believe investors do not rely on
18 growth rates provided by analysts.

19 **Q. Let's, for just a minute, turn to page 86 of**
20 **your rebuttal testimony at lines 1582 and 1583.**

21 A. Yes.

22 **Q. Are you there?**

23 A. Yes, I am there.

24 **Q. And you state, "Although not a full measure**
25 **of equity risk, credit ratings suggest that the company's**

1 **business risk is not dissimilar to its peers."**

2 **Can you explain what you see as the**
3 **difference between equity risk and business risk, as you**
4 **would use those terms?**

5 A. Well, first off, we have to unpack your
6 question a bit, I think. When we talk about equity risk,
7 equity risk would be the risk to which equity investors
8 are exposed. And it, typically, would fall into two
9 areas: financial risk and business risk. Business risk
10 generally relates to the variability of income, the
11 variability of cash flow. Financial risk generally
12 relates to the incremental risk associated with
13 additional degrees of debt, additional degrees of
14 financial leverage in the capital structure.

15 Now, when we look at credit ratings,
16 typically, they are for the benefit of debt holders.
17 They do not fully measure equity risk. Principally
18 because equity investors are exposed to risks beyond
19 those to which debt investors are exposed. Debt
20 investors have contractual obligations in their favor,
21 and they have a priority position on the claim of cash
22 flows to equity investors.

23 Secondly, debt is finite in life and equity
24 is perpetual in life. So when we look at the issue of
25 equity risk and business risk, business risk is one

1 factor of equity risk.

2 Now in that circumstance, if the company's
3 credit rating at the time is a 3, it's been downgraded
4 relative to the group, that incremental change, as we
5 have been talking about a fair amount today, I think is
6 important to the financial community.

7 **Q. So perhaps in there, you explained what you**
8 **believe a full measure of equity risk -- a full measure**
9 **of equity risk means. Perhaps you could narrow it down**
10 **for me.**

11 A. So let's look at it this way: I think
12 I -- let me try to explain it in a slightly different
13 way. I think we can agree, we talked about a little bit
14 earlier this morning, that the cost of debt is below the
15 cost of equity. That is the case because debt investors
16 are exposed to less risk than equity investors. They
17 have protections not afforded equity investors. They
18 have a priority position in terms of claims of cash flow
19 and they have a finite life.

20 So in that sense, equity risk goes beyond
21 debt risk. Now both debt and equity investors face
22 business and financial risk. The point is that equity
23 investors are exposed to those risks to a greater degree
24 than debt investors

25 Does that help you?

1 **Q. It does. I guess I'm just trying to**
2 **understand what you mean by "full measure."**

3 A. It's not -- it is a -- if we were to look at
4 credit ratings as a measure of equity risk, it may be
5 incomplete because there are additional risks to which
6 equity investors are exposed.

7 Now, we can certainly draw interferences.
8 Again in this situation in particular, where you have a
9 company that was one of 24 subset of the entire sector
10 that was noticed for -- that was put on credit watch with
11 negative implications, and then a company that is one of
12 the few in the sector that actually was downgraded, I
13 think from that, we can draw an inference that that poses
14 an additional risk to equity investors.

15 **Q. Thank you. Let's turn for a minute to**
16 **flotation costs, pages 94 and 95 to your rebuttal.**

17 A. Yes. Yes, I am there.

18 **Q. Have you presented any evidence of actual**
19 **flotation costs incurred by DEU's parent company since**
20 **its acquisition of Questar Gas?**

21 A. Just bear with me one minute, sorry. So on
22 DEU Exhibit 2.09, we have two issuances by Dominion
23 Energy: one in March of 2018 and one in April of 2016.

24 **Q. And when did the acquisition occur?**

25 A. I knew you were going to ask me that

1 question. I can't tell you the exact date off the top of
2 my head. I'm sorry.

3 Q. Unfortunately, I can't remember either.

4 A. I don't feel quite so bad now.

5 Q. I know it was post April of '16.

6 A. Right.

7 Q. I just don't know about March of '18.

8 A. Right.

9 Q. Well, I will ask another --

10 MR. MECHAM: Go ahead.

11 MR. SABIN: I believe it is September of
12 2016, is my --

13 MR. MECHAM: When?

14 MR. SABIN: September of 2016.

15 MR. MECHAM: Okay. Thank you.

16 BY MR. MECHAM:

17 Q. Can Dominion Energy obtain additional equity
18 capital through means such as retention of earnings that
19 don't require the incurrence of equity issuance cost?

20 A. Yes.

21 Q. Okay. Thank you. I'm not sure if you have
22 had a chance to look at DEU 3.31, which is
23 Mr. Stephenson's testimony, but would you accept, subject
24 to check, that in that 3.31 Exhibit, it shows the
25 company's unappropriated retained earnings increasing

1 from 296 million to 660.5 million in the proposed capital
2 structure for this proceeding?

3 A. Yes, that the company has retained equity,
4 has not dividend its equity up to the parent, yes, I
5 believe that's true.

6 Q. And in your rebuttal testimony, on lines 1731
7 to 1734, address Dominion Energy's allocation of net
8 proceeds from equity issuance to its subsidiaries.

9 A. I'm sorry, where are you?

10 Q. Sorry, your rebuttal at lines 1731 to 1734.

11 A. Yes, I'm there.

12 Q. And so it addresses the allocation of the net
13 proceeds from equity issuance to its subsidiaries.

14 Correct?

15 A. Right. So this is in the context of
16 flotation costs. Correct.

17 Q. Right. Yes. And do you know how many
18 subsidiaries Dominion Energy has?

19 A. Oh, a fair number.

20 Q. Would you say over 100?

21 A. Well, if you were to assume -- if you were to
22 look at every limited liability corporation, for example,
23 associated with a given project, that could be.

24 Q. And do I understand that you suggest that
25 those issuance costs incurred by Dominion to raise equity

1 **capital should be allocated among Dominion Energy**
2 **subsidiaries in proportion to Dominion's allocation of**
3 **the proceedings from the equity issuance?**

4 A. Let me back up. What I'm suggesting is that
5 the flotation cost -- well, let me back up one step
6 further. Flotation costs, we calculated to be -- just
7 bear with me one second -- about 5 basis points. So, and
8 it is not in a specific adjustment that I made in my
9 recommendation, but we estimate the effect of flotation
10 costs to be about 5 basis points.

11 So your question, how does that 5 basis point
12 get allocated throughout? It is based on the actual
13 equity in place at the subsidiary company because when
14 the parent issue equity, it incurs flotation costs. The
15 actual proceeds are less than the gross proceeds. Every
16 dollar it issues, it will get maybe 98 cents on a net
17 basis.

18 So the flotation cost adjustment is meant to
19 ensure that there is full recovery of the full amount of
20 equity needed to fund the utility assets.

21 **Q. So it's not evidenced in your testimony how**
22 **those flotation cost are distributed?**

23 A. Well, when you say "distributed," the
24 flotation costs are associated with the equity balance
25 before the company, but the flotation cost adjustment is

1 on the cost of equity itself.

2 The point of this part of the testimony
3 simply is that the fact that equity is issued at the
4 parent company, not at the operating company level, does
5 not negate the need for flotation cost adjustments. A
6 company goes out and issues \$1 of equity but only gets 98
7 cents back, then it invests that 98 cents in its
8 subsidiary, it is still only 98 cents.

9 So whether the subsidiary goes out to the
10 market directly and issues equity and taking the 2
11 percent hit, it only gets 98 percent from the market or
12 whether it gets 98 percent from the parent, it doesn't
13 matter.

14 **Q. And one last question on this flotation cost.**
15 **Do you show any evidence that demonstrates that the**
16 **Questar Gas shareholders weren't fully compensated**
17 **through the merger with Dominion Energy for any equity**
18 **issuance cost that Questar Gas incurred prior to the**
19 **merger?**

20 A. That's -- that is absolutely not the basis
21 for the analysis, so no.

22 **Q. Okay.**

23 A. The question is, generally, when the
24 company -- the company, whether it is the operating
25 subsidiary or the parent, issues equity. Does it issue

1 equity at a discount? The answer is: Yes, it does.

2 Q. And finally, as I understood your testimony,
3 I think it was when you were talking to Mr. Moore, you
4 said that a parent company may be more risky than the
5 operating company?

6 A. Yes.

7 Q. You criticized Mr. Oliver in your rebuttal
8 testimony on page 95, I think it is, because he
9 challenged your proxy companies for being the parent
10 company or holding companies of the operating company; is
11 that correct?

12 A. Well, I disagreed with Mr. Oliver. If that
13 is your point, that is right.

14 Q. Okay. Semantics. Hasn't it been clear, in
15 your experience, that the parent is virtually always more
16 risky because they are involved in so many more
17 activities than the utility?

18 A. To be fair, it is not always the case. You
19 can have a parent that is principally the holding company
20 of operating utilities. It may be 97 percent of the
21 company's total operations as measured by operating
22 income.

23 There may be, for example -- and I will just
24 give an example, and I'm not speaking about a specific
25 company. There may be a situation where part of the

1 nonutility operations may be a project that is secured by
2 a long-term contract with a counterparty that's rated,
3 you know, a strong A. So I think it is just hard to make
4 a general comments like that, to draw general conclusions
5 like that.

6 **Q. You understood Mr. Mendenhall's testimony**
7 **this morning that Moody's expressed concern about the**
8 **parent in this situation being highly levered?**

9 A. I do. And I also recall Mr. Mendenhall
10 speaking about Moody's recognition of ring fencing
11 provisions that are in place. And I also noted in, I
12 think, my discussion, that Moody's also considers the
13 factor of structure subordination, which means that if a
14 parent company has debt and it uses funds from operating
15 companies to pay that debt, it is one step removed from
16 those funds.

17 And so simply as a matter of process, Moody's
18 will, typically, reduce the parent company by one notch
19 by result of structural subordination, not necessarily a
20 result of business risk.

21 But yes, I hear that. I heard that
22 testimony, and I understand the company does have ring
23 fencing provision in place, which Moody's has recognized.

24 **Q. And that was to mitigate the risk that**
25 **Moody's perceived of the parent, does it not?**

1 Exhibit 2.09R.

2 A. Yes, I'm there.

3 Q. Okay. And just so we all understand what
4 this exhibit is, it's a list of gas rate cases in which
5 the Commission -- from 2015 through the end of, I guess,
6 September of 2019; is that right?

7 A. Yes, that's correct.

8 Q. Okay. I want to focus your attention on one
9 entry, and this is a follow-up question from a question
10 that you received from Major Kirk from earlier this
11 morning.

12 A. Okay.

13 Q. He had asked you about a Colorado ruling, the
14 ROE of 9. -- I can't remember whether he said 9.3 or 9.35
15 percent, and your response was you didn't remember
16 whether that was a gas or an electric case.

17 And so I would like to point you to -- I
18 guess if you're looking at the paper copy, you don't have
19 the row number, but there is a Colorado entry with a date
20 of December 21 of 2018 with a 9.35 ROE. Do you see that?

21 A. I do see that, yes.

22 Q. Does that refresh your recollection as to
23 whether the one he was referring to -- or whether there
24 was a Colorado ruling in a natural gas rate case?

25 A. Yes, it does.

1 Q. All right. And just for the sake of it,
2 going to the other side of Utah and Nevada, the two
3 entries below that shows the Southwest Gas court ruling
4 with ROEs of 9.25 percent. Do you see those as well?

5 A. Yes, those were in 2018 as well.

6 Q. Right. But within the last 12 months.
7 Correct?

8 A. Yes. Correct.

9 Q. If only barely?

10 A. If only barely.

11 Q. Okay. And we established that this exhibit
12 identifies rate case rulings from 2015 through the end of
13 September, or near the end of September, of 2019. I want
14 to just make sure I understand how to read this.

15 On the very bottom right-hand side of the
16 last page of this exhibit, you have an average median.
17 That is for that entire period. Correct?

18 A. For the entire period. Correct.

19 Q. So the average period for all of these is
20 9.62 percent. Right?

21 A. Through September 2019. Correct.

22 Q. Yes, for the entries just on this chart. It
23 doesn't include some of the other ones that were
24 mentioned in prior questioning that may have been outside
25 of this period, but the median, at least for this chart,

1 is 9.6 percent ROE; is that correct?

2 A. Over the entire period. Correct. Yes.

3 Q. Yes, for the period that is encompassed in
4 this chart. Right?

5 A. Yes.

6 Q. Okay. That's all I have.

7 A. Okay.

8 COMMISSIONER LEVAR: That's all your
9 questions, Mr. Russell?

10 MR. RUSSELL: It is.

11 COMMISSIONER LEVAR: Okay. Any redirect?

12 MR. SABIN: Yes, please.

13 REDIRECT EXAMINATION

14 BY MR. SABIN:

15 Q. I'll pick up where Mr. Hevert left off -- or
16 sorry, Mr. Russell left off, Mr. Hevert.

17 Do you have an understanding of what the
18 average ROE was from the last rate case in 2013?

19 A. My recollection -- the average authorized ROE
20 in 2013 was 9.68 percent.

21 Q. Okay. What is your understanding of what the
22 average ROE is at present?

23 A. Present, it's about 9.7 percent.

24 Q. Okay. So fairly comparable?

25 A. Quite comparable, yes.

1 Q. Okay. I want to confirm, your understanding
2 is the company'S authorized ROE currently is 9.85
3 percent?

4 A. Correct.

5 Q. I would like to talk about -- you were handed
6 two documents earlier today. If you could pull them out.
7 One is OCS Cross H2 and OCS Cross H1. Would you put
8 those in front of you?

9 A. Yes.

10 Q. Earlier, you were testifying about -- you
11 were asked the question about what has changed for the
12 company between 2013 and 2019. And I'd like, if I could,
13 to have you refer first to OCS Cross Exhibit H2. And if
14 I could, would you read, on page 2 of that document, the
15 paragraph called "Rating outlook"?

16 A. Yes. Under "Rating outlook," it reads, "The
17 negative outlook for Questar Gas reflects the company's
18 financial profile, which has been weak from the ratings
19 since Dominion acquired the company in 2016. Moody's
20 expects Questar Gas to generate a ratio of cash flow to
21 debt in the high teens range over the next few years,
22 primarily, reflecting a decline in cash flow triggered by
23 a general rate freeze, tax reform and increase in debt."

24 Q. Okay. So what do you understand that
25 paragraph to be communicating from Moody's? What are

1 they trying to tell the company relative to why they are
2 writing it the way they are?

3 A. That the company had a negative outlook at
4 that point in time because its credit metrics were weak
5 for its rating. Meaning, it was weak for the guidelines
6 that Moody's had for the company's rating.

7 And looking forward, Moody's expected the
8 company to generate a cash flow to debt in the rate of
9 the high teens, and that too weighed in Moody's
10 determination of the company's credit rating at that
11 time. But the principal point being that the company
12 financial profile was weak for its rating category.

13 Q. And in particular, they appear to be
14 concerned, do they not, with the cash flow that they say
15 was -- the decline in cash flow triggered by a general
16 rate freeze, tax reform and increase in debt?

17 A. Correct. And, again, as we talked about a
18 little bit earlier today, it's cash flow relative to debt
19 at the time.

20 Q. Right. Now if you could go down to the
21 section called "Factors that can lead to a downgrade,"
22 would you please read that section?

23 A. Yes. "Cash flow to debt metrics below 20
24 percent on a sustainable basis."

25 And second, "If regulatory provisions in

1 either Utah or Wyoming were to become less supported."

2 **Q. So let's deal with the first of those items.**
3 **What do you understand the first of the items to mean?**

4 A. It means if the company's ratio of cash flow
5 to debt, which Moody's expected to be in the high teens,
6 if it were to fall below 20 percent on a sustained
7 basis -- so looking forward, based on the company's
8 expected financial condition, if that ratio were to fall
9 below 20 percent on a continuing basis, that would be a
10 factor that would lead Moody's to downgrade the company.

11 **Q. Okay. And then what about .2 there?**

12 A. If regulatory provisions become less
13 supportive -- regulatory provisions can be a broad
14 category. It can refer to regulatory relations. It can
15 refer to the regulatory climate. It can refer to rate
16 mechanisms. But if any of those were to become less
17 supportive, if they did not continue to support the
18 company's current credit profile, then Moody's would
19 consider that a ratings negative and a factor that then
20 could lead to a downgrade.

21 **Q. Okay. Now flip over to the next page, page**
22 **3, about halfway down, there is a highlighted -- or a**
23 **bolded sentence that says, "Weakened cash flow will**
24 **persist over the next 18 months but managing financial**
25 **policies should help improve metrics."**

1 **Could you just read the first sentence there**
2 **of that section?**

3 A. Yes. It reads, "At about 14 percent, Questar
4 Gas' ratio of CFO pre-working capital of the debt,
5 through the last 12 months of the third quarter 2018, is
6 much lower than 82 LDC," LDC meaning local distribution
7 company, "peers that averaged around 23 percent over the
8 same period."

9 **Q. Okay. Can you explain what you understand**
10 **that to mean?**

11 A. It means that Moody's looks at the company's
12 cash flow to debt ratio not only on an absolute basis but
13 also relative to the company's peers. And at 14 percent,
14 that ratio is well below the company's peers at about 23
15 percent.

16 **Q. So from an investor's standpoint and based**
17 **upon your professional opinion, how might investors be**
18 **viewing this data or this information about how Questar**
19 **Gas is performing relative to its peers when they**
20 **consider the kind of rate of return they would require to**
21 **invest in this kind of company?**

22 A. Well, we talked a little bit earlier this
23 morning about the fact that the cost of capital is
24 comparative in nature. It is based on the forgone
25 opportunity to invest in another company of equivalent

1 risk.

2 If now you see a company with higher risk
3 than its peers, if you see a company that at the margin
4 is going to have cash flow ratios that are lower than its
5 peers indicating higher levels of risk, that would
6 suggest to an investor, certainly debt investors and
7 equity investors as well, who, again, look at these
8 issues on a relative basis, the company would be
9 comparative more risky, and therefore, you would require
10 a comparatively higher return to invest in it.

11 **Q. Okay. Could I now have you, in your binder**
12 **there, look for Mr. Mendenhall's rebuttal testimony? And**
13 **there is an exhibit attached to it, which is Exhibit DEU**
14 **Exhibit 1.10R.**

15 COMMISSIONER LEVAR: Did you say 1.10R?

16 MR. SABIN: That's correct -- excuse me, I
17 apologize, 1.01R. I apologize, yes, thank you.

18 BY MR. SABIN:

19 **Q. It should be right after the end of the**
20 **testimony there where the exhibits pick up.**

21 MS. CLARK: The very first --

22 BY MR. SABIN:

23 **Q. The very first exhibit following his rebuttal**
24 **testimony.**

25 A. I'm sorry, it's going to take me a minute.

1 Q. At the very top right corner, you will see
2 there are some Exhibit numbers, if you're in the
3 exhibits?

4 A. Exhibit numbers? And I'm sorry, the exhibit
5 was?

6 MS. CLARK: May I approach?

7 THE WITNESS: 1.01R?

8 MR. SABIN: 1.01R.

9 THE WITNESS: After all these years.

10 BY MR. SABIN:

11 Q. There you go. We were just reviewing the
12 prior Moody's Investors Service report that was dated
13 January 30, 2019.

14 I'm now showing you this Exhibit 1.01R that
15 is the update from Moody's as of August 19, 2019. Do you
16 see that?

17 A. I do, yes.

18 Q. I would like to now refer to the same section
19 that we just looked at on the prior exhibit and have you
20 focus in, flip over to page -- well, I guess, first on
21 page 1, this report was issued in the context of a
22 downgrade; is that right?

23 A. It was, yes.

24 Q. Okay. And then on page 2, Moody's addresses
25 part of the reason that there was a downgrade. I would

1 like to focus at first at the top of page 2, where there
2 is the "Credit challenges." Do you see that section?

3 A. I do.

4 Q. In particular, can you describe what you
5 understand Moody's to be highlighting from a credit
6 standpoint? What do you mean by that?

7 A. Credit challenges are generally factors that
8 Moody's will consider that if they move the wrong way, if
9 they create pressure for the company, it could lead to a
10 ratings action. It could be ratings action such, I
11 think, that they put the company on watch or that they
12 actually wind up in a downgrade.

13 Q. Okay. Let's look down at, again, the factors
14 that could lead to a downgrade. Do you see those two
15 points? Would you please read those?

16 A. Yes. The first of the two factors is "Cash
17 flow to debt metrics below 16 percent on a sustained
18 basis."

19 And the second is "If regulatory support or
20 the ability to recover costs were to decline."

21 Q. So on the first bullet point there, the one
22 we just read a moment ago was if cash flow remains below
23 20 percent, now they've moved it down to 16, and
24 indicated if it is below 16 for a sustained period of
25 time, that could lead to a further downgrade.

1 A. Correct.

2 Q. Is that your understanding?

3 A. That's right.

4 Q. And then regulatory support language appears
5 to me to be the same as the prior document; is that your
6 understanding?

7 A. It is.

8 Q. And then lastly, let's look at the "Rating
9 outlook" section just above that. Would you read that,
10 please?

11 A. Yes. "The stable outlook for Questar Gas
12 reflects the company's low business risk and stable cash
13 flow production. The stable outlook also incorporates
14 our view that the current rate case in Utah will yield a
15 higher rate base and net income, helping the company to
16 generate cash flow to debt metrics between 17 and 19
17 percent for the next two years, and that short-term debt
18 and upstream dividends will be increasing."

19 Q. Okay. So now having reviewed those two
20 documents, I would like to discuss some of the questions
21 you were asked by several of the attorneys.

22 There was a discussion about why couldn't you
23 just, if you're DEU, take your 60 percent equity and
24 reduce it down to 50 percent on an operating basis? Why
25 wouldn't you and why couldn't you do that? I would like

1 to probe that for a moment with you.

2 A. Okay.

3 Q. As an initial matter, has the high equity
4 ratio been supportive or non-supportive to maintaining
5 the current credit metrics?

6 A. It has been supportive.

7 Q. What do you mean by that?

8 A. It means that if the company were to have a
9 lower equity ratio, if it were to have more debt in its
10 capital structure, there would have been more pressure on
11 its cash flow metrics, putting downward pressure on its
12 credit rating. So the 60 percent equity ratio has been
13 supportive of the company's profile.

14 Q. So if one were to make the decision
15 internally at Dominion Energy Utah to take and go from 60
16 percent down to 50 percent, what would be required to do
17 that?

18 A. If you were to move down to 50 percent and
19 have your actual capital structure be 50 percent, it
20 would mean taking equity out of the capital structure.
21 You would have to send equity up to the parent in the
22 form of a dividend.

23 Q. Is that what you meant earlier when you said
24 or used the phrase "dividend up"?

25 A. It is, yes.

1 Q. And how does one come up with the cash -- the
2 ability to pay that kind of a dividend to bring your
3 metrics down?

4 A. Well, in this case, you have a company
5 that -- whose cash flows are strained. You certainly
6 could not get more equity because that would be
7 counterproductive to wanting to bring the equity ratio
8 down. That would leave you to go into the debt markets
9 to get cash that then could be sent up to the parent.

10 Q. So let's assume we did that. Let's assume we
11 went out -- and you had a couple of attorneys ask you
12 about, isn't the cost of debt cheaper than the cost of
13 equity. Why don't we just go borrow whatever, you know,
14 \$100 million or \$200 million to dividend up, to make that
15 up, what would we -- what impact would that have on the
16 company's -- on the company's credit metrics, do you
17 think?

18 A. Well, if we remember that the ratio is cash
19 flow to debt, and cash flow is, generally, net income
20 plus noncash elements. Net income is a big part of cash
21 flow. If the equity ratio were to be reduced in this
22 proceeding, the company's net income would fall.

23 If you had to issue debt in order to dividend
24 up equity, then the denominator, the amount of debt in
25 your capital structure would increase. You would face

1 the situation where cash flow is falling, debt is
2 increasing, your ratio of cash flow to debt would be
3 going down further still, putting downward pressure on
4 the metrics that Moody's has identified as an important
5 factor that could lead to a further downgrade.

6 Q. And when you say that, are you referring to
7 the cash flow to debt metrics below 20 -- or 16 percent
8 issued?

9 A. It is.

10 Q. Okay. Now having talked about all of that,
11 you have reviewed information from the rate case in 2013.
12 You reviewed information from -- to prepare your
13 documentation for this proceeding.

14 In your mind, what has changed between the
15 company's position in 2013 versus the company's position
16 in 2019?

17 A. Well, I think we can just look to what
18 Moody's has said. We can see the degradation in the
19 important cash flow metrics. Cash flow to debt, we have
20 seen it fall, and importantly, we have seen Moody's talk
21 about the fact that the company's position is weak
22 relative to its peers.

23 And, again, not to overstate the point, but
24 when we talk about the cost of equity, it is a relative
25 exercise and so we look at it relative to its peers. If

1 the company's becoming weaker relative to its peers, it
2 is becoming more risky and, therefore, investors would
3 require a higher return.

4 Q. Let's emphasize that point at the end. I
5 want to make sure you have an opportunity to clearly
6 understand that. ROE, or the return on equity, is the
7 rate at which investors -- it is the rate at which
8 investor are compensated?

9 A. The equity investors.

10 Q. The equity investors. Correct. And could
11 you please explain that last point, where you said if the
12 risk -- if investors view the company as being higher
13 risk, that that would inevitably require a higher rate of
14 return on equity?

15 A. The basic principle in finance is that risk
16 and return are related. The more risky an investment,
17 the higher the return investors require to commit their
18 capital to it.

19 If we were to look at a group of peer
20 companies whose risk is lower than this company, they may
21 put their money there. The only way they would invest in
22 a higher risk company is if the return is high enough to
23 compensate them for that additional risk.

24 So if the company's risk profile has
25 increased over time relative to its peers, the only way

1 you would be able to reasonably attract capital is to
2 offer a return that compensates investors for that
3 additional risk. So the return would have to be higher
4 than it otherwise would be.

5 Q. So in your estimation, is Dominion Energy a
6 higher risk investment than it was in 2013?

7 A. I think if we review the Moody's documents,
8 we have to come to that conclusion.

9 Q. Okay. Thank you. I want to talk about a
10 couple of other issues. You were shown an exhibit,
11 Exhibit DPU Cross Exhibit 1, which is some rebuttal
12 testimony of Michael L. Platt, from Docket No. 19-057-13.

13 A. Yes.

14 Q. It is probably going to be a loose -- it is
15 going to be a loose exhibit there.

16 And I know you testified you don't know
17 anything about that, so I'm going to ask these in a
18 hypothetical.

19 A. Okay.

20 Q. I want you to assume for the sake of my
21 questions that the facility at issue in this particular
22 proceeding that's in -- Mr. Platt was testifying about is
23 not constructed and will not be completed until 2022.

24 A. Okay.

25 Q. Do you have that in mind?

1 A. I do.

2 Q. I also want you to assume that the aspects of
3 that facility are not included in the revenue requirement
4 in this particular proceeding. Do you have that in mind?

5 A. I do.

6 Q. Given those two -- if those are both true,
7 does anything you have to say here or -- would anything
8 relating to that facility have any bearing on what you're
9 saying for purposes of the rate of return -- return on
10 equity in this case or the capital structure in this
11 case?

12 A. No.

13 Q. Why not?

14 A. It is simply not part of the case we are
15 looking at right now.

16 Q. You recall you were asked a question about an
17 insurance policy.

18 A. Yes.

19 Q. If that insurance policy doesn't yet exist
20 and won't exist until 2022, should you or anybody in your
21 position be factoring that in when you are calculating
22 the return on equity for this case?

23 A. No, I have not. It's beyond the case.

24 Q. Could you turn to line 798 to 800 of your
25 direct testimony, which is on page 43?

1 A. Yes, I'm there.

2 Q. Could you just read the sentence that picks
3 up there, right at the bottom -- excuse me, on 798? It
4 picks up at 798 and goes over the page.

5 A. There's a sentence that goes -- of my direct
6 testimony?

7 Q. Yes.

8 A. Yes. "As the percentage of debt in the
9 capital structure increases, so do the fixed obligations
10 for the repayment of that debt."

11 Q. So what do you mean by that?

12 A. It means that as you add more debt into the
13 capital structure, you have to pay that debt regardless
14 of your revenue. It is a contractual fixed obligation
15 that remains in place regardless of what other elements
16 of your revenue structure, your cash flow, change.

17 Q. So I want to follow up on a question that was
18 asked by another attorney. If you were to go out and
19 increase your debt for any of these operational purposes,
20 whatever they happen to be, what kind of -- how would
21 what you are saying here factor into the company's return
22 on equity?

23 A. Well, to the extent the amount of debt in the
24 capital structure increases in the -- what you consider
25 to be a proper target, when you have more leverage in the

1 capital structure, you increase those fixed obligations,
2 and, therefore, the probability of not meeting those
3 obligations increases.

4 It's a matter of financial risk. It is a
5 matter of leverage. The effect of leverage is it tends
6 to concentrate risk on the equity holders because at the
7 end, it will be the equity holders who are responsible.

8 So as you add amounts of financial leverage,
9 you increase financial risk. And I think we talked about
10 earlier this morning the two general categories of risk
11 are business and financial risk.

12 As financial risk increases, the return
13 required by investors, equity investors, also will
14 increase.

15 **Q. Thank you. Could you now locate OCS Cross**
16 **Exhibit H1? It's the "AGA Rate & regulatory update."**

17 A. Yes, I have that.

18 **Q. First off, what do you understand this**
19 **document to be?**

20 A. It is a document put out by the American Gas
21 Association summarizing rate and regulatory activity by
22 state.

23 **Q. And this is only related to gas cases.**
24 **Right? Rate cases?**

25 A. Correct.

1 **Q. So at the top, there's two boxes. One says,**
2 **"Orders issued," and one says "Average ROE." What do you**
3 **understand the numbers in those boxes to mean?**

4 A. That would be the orders issued for natural
5 gas utilities across the country and the average return
6 on equity associated with those orders from July 1,
7 through September 30, 2019.

8 **Q. Would you read the first sentence that is**
9 **right below those two boxes?**

10 A. Yes. It reads, "The average ROE authorized
11 gas utilities was 9.94 percent in the third quarter of
12 2019 compared to 9.69 percent in the second quarter."

13 **Q. And what do you understand that to mean?**

14 A. That quarter over quarter, the average
15 authorized return increased and in the third most recent
16 quarter, it was 9.94 percent.

17 **Q. Let's go down to the bottom sentence of that**
18 **first paragraph, and if you would read that as well?**

19 A. The bottom sentence reads, "There were only
20 ten gas cases that included an ROE determination in the
21 first three quarters of the first 2019, versus 40 in
22 2018. In the first nine months of 2019, the median
23 authorized ROE for gas utilities was 9.72 percent, versus
24 9.6 percent in 2018."

25 **Q. So if I understand correctly, in 2018, the**

1 median there was 9.6, the first nine months was 9.72, and
2 updated through September 30th is now -- or 9.94 was from
3 July 1st through September 30th?

4 A. Correct.

5 Q. And would you characterize that as an upward
6 trend in ROE, at least according to the AGA?

7 A. At least according to the AGA and those data
8 points, yes.

9 Q. And the 9.94, is that number within your
10 range of reasonable ROEs that you have determined in this
11 proceeding?

12 A. It is. The lower bounds of my range is 9.9
13 percent.

14 Q. And are the ROEs recommended by any of the
15 others who have appeared in this case within the -- are
16 any of the averages over the 18, 19 or 19 revised through
17 September 30th, within the ranges recommended by anybody
18 else in this proceeding?

19 A. No, they are not.

20 Q. In other words, they are all above those
21 ranges recommended by the others?

22 A. The authorized returns are above the ranges
23 recommended by others. Correct.

24 Q. All right. So two other questions. You were
25 asked about the effective -- you know, when you add

1 income taxes after the ROE is determined, you were asked
2 about what that would -- the cumulative number would be.

3 My question for you is: Do we take into
4 account what the income tax portion will be when we
5 determine ROE in a case?

6 A. No. The ROE number is typically looked at on
7 an aftertax basis.

8 Q. And then finally you were asked about a
9 Virginia case. I want to make sure I'm clear, was that a
10 general rate case?

11 A. It was not.

12 Q. So is it your understanding that this is a
13 general rate case?

14 A. It is.

15 Q. Okay. I have no further questions.

16 A. Thank you.

17 COMMISSIONER LEVAR: Thank you.

18 Any recross, Mr. Jetter?

19 MR. JETTER: I do have a bit of recross.

20 Thank you.

21 RE CROSS EXAMINATION

22 BY MR. JETTER:

23 Q. You just testified a moment ago that, I will
24 summarize here, the Commission should ignore known events
25 in the relatively near future in relationship to the

1 **liquid natural gas facility; is that accurate?**

2 A. I testified that it's beyond this case. It
3 is beyond the materials we reviewed in the context of
4 this case. Correct.

5 **Q. Okay. But is the timing of that the basis or**
6 **is it that you have not reviewed that?**

7 A. The large part is the timing, yes.

8 **Q. Okay. And do you expect decarbonization to**
9 **happen in the next three years?**

10 A. Well, that is the point I made earlier. It
11 is a long-term issue, and it is unpredictable in both its
12 effect and timing. I agree with that point.

13 **Q. We should consider that factor but not a very**
14 **specific known factor that will occur in about three**
15 **years?**

16 A. Well, what I said was if you look at what
17 we've seen -- for example, in the investment community,
18 there are concerns related to decarbonization. Now I was
19 quite clear the effect and timing are extraordinarily
20 difficult to quantify.

21 **Q. Okay. But it is your testimony that that**
22 **should be considered?**

23 A. It is my testimony that the investment
24 community has noted that that concern.

25 **Q. Okay. And is it your testimony that the**

1 investment community would not be interested in
2 significant risk reduction in three years' time?

3 A. Again, I will go back to what we talked about
4 earlier. I don't understand the issue of risk reduction
5 in the context of that LNG analysis, so I just can't
6 comment on that.

7 Q. Okay. So you are not sure whether it should
8 be considered or not?

9 A. No. What I said is I don't understand -- I
10 don't know this testimony. I don't know that analysis.
11 I don't know what is meant by risk.

12 Q. Okay. So you don't know whether investors
13 should consider this?

14 A. I told you my view on that. I have told you
15 my view is that I understand investors have noted the
16 risk of decarbonization and electrification, and I have
17 explained to you that I don't know this testimony. I
18 don't know the analysis. I don't know the discussion of
19 risk or even the definition of risk.

20 Q. Okay. So that's a little bit different than
21 a statement that the Commission shouldn't consider it?

22 A. I can only tell you what I can do.

23 Q. Okay. Thank you. I just wanted to clarify
24 something that was stated earlier, I think, just in
25 error. On OCS Cross Exhibit H1, I believe it was stated

1 that the 9.94 was a median. And is it accurate that
2 that's an average?

3 A. If I said "median," I didn't mean to. It
4 does say "average" here.

5 Q. Okay. Thank you. Those are all of my
6 follow-up questions. Thank you.

7 A. Thank you.

8 COMMISSIONER LEVAR: Mr. Moore?

9 RECROSS EXAMINATION

10 BY MR. MOORE:

11 Q. Can I turn your attention to OCS Cross H2?

12 A. Yes, sir, I'm there.

13 Q. The front page?

14 A. Yes.

15 Q. There were some credit strengths posed by
16 Moody's too, weren't there?

17 A. What was your question?

18 Q. The last highlight heading, "Credit
19 strengths" --

20 A. Oh, yes, absolutely.

21 Q. -- can you read those into the record?

22 A. Sure. "Stable and predictable cash flow
23 derived from cash recovering mechanisms on around \$1
24 billion of rate base."

25 "Cooperative relationships with regulators in

1 Utah and Wyoming."

2 "Management financial policies are improving
3 the capital structure."

4 And "Ring-fencing like provisions help offset
5 some of the risk of its highly levered parent."

6 I think we talked about all four of those
7 points throughout the morning.

8 **Q. Thank you.**

9 MR. MOORE: I'm not sure, Chairman, that I
10 move for admission for OCS Cross H2. I will move for
11 admission now to double-check that.

12 COMMISSIONER LEVAR: I also can't remember,
13 but if any party objects to that motion, please indicate
14 to me.

15 I'm not seeing any objection, so the motion
16 is granted.

17 (Hearing Exhibit OCS H2 was
18 marked for identification.)

19 MR. MOORE: That's all I have.

20 COMMISSIONER LEVAR: Okay. Thank you.

21 Major Kirk?

22 MAJOR KIRK: No questions, sir.

23 COMMISSIONER LEVAR: Mr. Mecham?

24 MR. MECHAM: Just one quick one.

25 RE CROSS EXAMINATION

1 BY MR. MECHAM:

2 Q. Mr. Hevert, weren't the concerns that Moody's
3 expressed in the -- I guess it's Mr. Mendenhall's 1.01R,
4 expressed in the context of the company relying heavily
5 on equity, including retained earnings? In other words,
6 if they had done -- issued more long-term debt, wouldn't
7 that have freed up more cash for cash flow?

8 A. No, I think it's -- I think it's the
9 opposite. I think what Moody's is saying, the company
10 retained cash to build up its equity cushion so that it
11 could mitigate some of the risks associated with its cash
12 flow.

13 It is that financial management policy of
14 putting additional equity in and creating an additional
15 equity cushion that helped mitigate some of those risks.
16 And absent that cushion, the risks would increase.

17 Q. Nothing further.

18 COMMISSIONER LEVAR: Okay. Thank you.

19 Mr. Russell?

20 MR. RUSSELL: No questions. Thank you.

21 COMMISSIONER LEVAR: Anything else from
22 Dominion Energy?

23 MR. SABIN: Sorry?

24 COMMISSIONER LEVAR: Anything further?

25 MR. SABIN: Nothing further.

1 COMMISSIONER LEVAR: I have one or two
2 questions.

3 EXAMINATION

4 BY COMMISSIONER LEVAR:

5 **Q. When investors are looking at utilities, we**
6 **have had some questions about how far into the future**
7 **they look. I mean, does the test year of the rate case**
8 **have much impact on investor outlook on a regulated**
9 **utility?**

10 A. Yes, it can because if you are to look at the
11 resolution of a case -- and I think a good example are
12 some of the comments by Moody's. The resolution of a
13 rate case will speak to the cash flow that would be
14 expected over -- at least the near term and going a
15 little bit into the future.

16 So that's certainly one element, that the
17 outcome of a rate case will affect cash flows. But
18 secondly, the resolution of a case, as Moody's says here,
19 will be a signal to the financial community regarding the
20 nature of the regulatory environment, the company's
21 relationship with the Regulatory Commission, the
22 stability and predictability of the Commission.

23 So while I agree many of the models are long
24 term, the current case, the current test year, resolution
25 of the current case is important.

1 Q. Regulatory approval of capital investments
2 that aren't going to occur until after the rate case
3 would affect that regulatory environment, wouldn't they?

4 A. Depending upon the terms, yes, I agree with
5 that.

6 Q. One or two more questions. In your direct,
7 you cite to the study by the American Gas Association, I
8 assume Commission through ICF, on decarbonization and
9 electrification. It was titled "Implications of
10 policy-driven residential" --

11 A. Correct.

12 Q. Were the policy-driven issues typical of Utah
13 that the AGA was studying?

14 A. It is a good question. It is very broad, and
15 I think I mentioned this morning, a lot of concerns
16 regarding electrification, at least based on my
17 observation, now are focused on the coast and that is
18 what we are seeing a lot of discussion. But when we
19 think about the risks generally to the sector, it's
20 something investors would have in mind.

21 I do think that when we look at this type of
22 risk and, perhaps, this type of uncertainty is the better
23 term -- and I say "uncertainty" because the implications
24 are very difficult to quantify. When you say "risk," you
25 normally have some history, and you can look at the

1 probability of something happening and you can associate
2 numbers with it.

3 But here, we have uncertainty. We don't know
4 what is going to happen, when it's going to happen, what
5 the implications are going to be.

6 So I agree with you that the policy
7 implications are not necessarily what they are here in
8 Utah, the circumstances might not necessarily be what
9 they are here in Utah but the broad concern is there.

10 **Q. Thank you. That's all I have.**

11 COMMISSIONER LEVAR: Commissioner Clark?

12 COMMISSIONER CLARK: Thank you.

13 EXAMINATION

14 BY COMMISSIONER CLARK:

15 **Q. Back to Virginia for just a second, I**
16 **apologize for taking us there but I'm just curious. What**
17 **I think -- at least what I understand you to have told us**
18 **is that the return on equity that was approved in a**
19 **recent order in Virginia does not apply to the rate base**
20 **of the utility or at least not the general rate base. It**
21 **might be applied -- the Commission might intend for it to**
22 **apply to certain components of rate base.**

23 But can you give me a more precise
24 explanation there as to what it is applying there?

25 A. Yes.

1 **Q. Thank you.**

2 A. There are two components. The first has to
3 do with what are referred to as the rate adjustment
4 clauses, RACs, and they have to do with specific discrete
5 investments in certain types of assets, generally
6 generating assets. And it goes back to legislation in
7 Virginia that was meant to encourage the development of
8 in-state generation and the development of renewable
9 resources.

10 So when a company would develop a project and
11 commit equity to that project, because it was, in part,
12 in furtherance of achieving a public policy goal, the
13 company would be eligible for what the legislature
14 referred to as an enhanced return. And depending upon
15 the nature of the asset, whether it's coal -- carbon
16 captured-type asset, whether it is offshore wind, whether
17 it is nuclear, the enhanced return would be from 100 to
18 200 basis points over the base return.

19 So that would mean it would be anywhere from
20 10.2 to 11.2 percent for those projects, depending upon
21 their nature. And I would say that that return would be
22 in place -- not for the life of the project but for, in
23 some cases, the first 10 or 15 years.

24 And I'm sorry, I mentioned there were two
25 pieces. The second piece was -- I should have thought

1 about this. The second piece was for what they refer to
2 as the triannual earnings test. So the evolving
3 legislation in Virginia means that in 2021 for Virginia
4 Electrical Power Company, they will -- the Commission
5 will review the company's earnings relative to the 9.2
6 percent plus 70 basis points, so roughly -- so 9.9
7 percent.

8 The Commission, in that first triannual
9 review -- easy for me to say, triannual review in 2021
10 will not be able to increase the company's rates and can
11 only decrease the company's rates by \$50 million.

12 **Q. So this enhanced return is applied to policy**
13 **preferred or preferenced assets. The 9.2 percent, is it**
14 **irrelevant with respect to the rest of the rate base of**
15 **the Virginia utility that we're talking about, or is it**
16 **applied to the rest of the rate base?**

17 A. It is not applied to the rest of the rate
18 base. The company's current rates are in effect the
19 general generation distribution rate base, not including
20 those special projects, will go on earning their existing
21 return.

22 The only time those assets will be subject to
23 a test, under this most recent return, will be in 2021 in
24 the triannual review, if the return is beyond that 70
25 basis point debt bend.

1 Q. Okay. Thank you. Now with regard to -- and
2 I'm really asking about the LNG facility, but I'm going
3 to put in this in sort of a hypothetical term so I can
4 understand -- or present it to you in a way that I think
5 you can fairly consider it without being familiar with
6 the case itself.

7 A. Okay. I appreciate that.

8 Q. But just assume that a significant asset, by
9 that, I mean, say, costing in excess of \$100 million, is
10 the subject of an application that comes to the
11 Commission under a statute which allows the company to
12 seek advanced approval for investing in the asset and
13 which presumes a level of cost recovery, that is whatever
14 the proposed cost is in the application proceeding, if
15 it's approved, and assume that it is approved and so
16 there's this approval of a yet-to-be-constructed asset
17 with some assurance of cost recovery that comes via this
18 statutory structure --

19 A. Yes.

20 Q. -- is that approval going to -- how is that
21 approval going to be assessed in Moody's view of the
22 degree of regulatory support and the jurisdiction?

23 A. And without speaking for Moody's but just
24 based on my experience dealing with them?

25 Q. Right.

1 A. What I would say is that if there was a
2 project that had received pre-approval, I think from the
3 rating agency's perspective, they will look at
4 pre-approval, the possibility of some disallowance at
5 some point, but if the project is in line with what it
6 sees elsewhere, if the project is the type of project
7 that would normally go into rate base as it would in
8 other utilities, I think Moody's would look at that, as
9 we've talked about here earlier today, as a supportive
10 arrangement.

11 One of the issues we sometimes see is while
12 some legislation -- while some programs will speak to
13 pre-approval, in the final analysis, there's always some
14 element of post hoc review, which might open the company
15 up to some level of disallowance but, typically, for
16 prudence reasons.

17 But I think, generally speaking, that type of
18 legislation, that type of structure would be something
19 that would be -- would be supportive, much like we see
20 with infrastructure trackers in some cases. Forward
21 looking test years in some cases, multiyear rate plans.

22 **Q. And so sophisticated investors would have the**
23 **same view, would you expect?**

24 A. I think so.

25 **Q. Thank you. Those are all my questions.**

1 Thank you.

2 COMMISSIONER LEVAR: Mr. White?

3 EXAMINATION

4 BY COMMISSIONER WHITE:

5 Q. Good afternoon.

6 A. Good afternoon.

7 Q. I just want to go back to a line of
8 questioning prior to lunch. I just want to test my
9 understanding, which wasn't that great, of what you were
10 saying with respect to the concept of risk supportive
11 versus risk reducing and I think in the context of
12 regulatory mechanisms, so I want to make sure I
13 understand that, how that affects it. I mean, you deal
14 with it in Utah. You are probably aware that we have a
15 number of those types of mechanisms --

16 A. Right.

17 Q. -- so help me understand.

18 A. Sure. So I think the conversation had to do
19 with the distinction between -- and I'll back up. This
20 is from the perspective of the rating agencies, had to do
21 with the distinction between something that is credit
22 supportive versus something that is credit enhancing.

23 A credit supportive mechanism would be
24 something that is put in place that would mitigate the
25 downward effect that otherwise would occur but for that

1 structure. So one example that I sometimes use, and it
2 doesn't have -- it doesn't come into play here but I
3 think it is easily understandable, is company with a bad
4 debt rider.

5 If a company has a large bad debt expense and
6 then they have a mechanism in place to help recover that
7 expense on a more timely basis, that is credit
8 supportive. What it does is support the credit, the
9 company's credit profile, because absent the mechanism,
10 its profile would be diminished. It does not improve the
11 company's credit profile beyond what it otherwise would
12 have been. So that is the distinction we try to draw.

13 **Q. Is it safe to say that the current mechanism**
14 **in place supports the status quo of the outlook of the**
15 **company's risk profile?**

16 A. Yes, I think when we read Moody's, the
17 language speaks to the supportiveness of the regulatory
18 environment, which is good.

19 **Q. The question I had -- I know you have had a**
20 **lot more than you were anticipating on electrification**
21 **but it is a pretty fascinating issue right now.**

22 Other than the investor outlook, kind of
23 these general -- my sense is that it is more of a
24 general, kind of, sense of, you know, sussing the future.

25 Are you aware of any jurisdictions, court or

1 state jurisdictions, that actually applied this concept
2 with respect to a risk profile that flowed through an
3 equity, you know, order?

4 A. Not yet. I know it's an issue that has come
5 up. It's come up in an unfortunate way in Massachusetts,
6 for example, because what began thinking about the issue
7 in Massachusetts was the incident in the Merrimack
8 Valley, where there was a high pressure system that
9 destroyed, you know, many homes. And at that point, the
10 risk associated with gas were starting to be considered
11 and electrification was starting to be thought about.

12 But it is too early yet. It is not something
13 that anyone has put a number on. It's a concept that
14 people have talked about, but it is just too soon to come
15 to a definitive conclusion.

16 Q. And maybe related to that, and I apologize if
17 this is a legal question and maybe I should know this
18 already but I'm just trying to figure out, I get the
19 concept of how, you know, the investment community looks
20 at, you know, kind of long-term ratings and things like
21 that.

22 But, you know, I'm trying the figure out the
23 sand blocks that we should be playing -- in other words,
24 when we should be applying risk elements to what period
25 of time.

1 And I think we kind of danced around this
2 with LNG and maybe the decarbonization efforts, but is
3 that the -- in this case, what should we be looking at in
4 terms of what is currently in play that we should be
5 applying to this case?

6 And, again, I recognize that may lead into
7 legal theories, but --

8 A. That's okay. I think in this case, we
9 have -- it's fairly clear with the companies we see
10 downgrade and with Moody's concerns about the company's
11 credit profile, I don't think we have to look that far
12 into the future because this just recently happened with
13 the company.

14 So in this proceeding, I think we just don't
15 have to look very far into the future. We've seen what
16 happened, and I don't think we have to think too far into
17 the future to realize that it's important to maintain the
18 company's credit profile. And the equity ratio, the
19 return on equity are two things that are very important,
20 not only in supporting the company's cash flow but also
21 in signaling to the investment community the support of
22 the Commission.

23 So in my view in this case, we have a pretty
24 defined view, and we can look right to what has happened
25 and what likely would happen absent the supportive

1 outcome.

2 Q. Let me circle back to this. So if I hear you
3 correctly, it sounds like the general time parameters or
4 outlook of the investment community and how they perceive
5 risk and cash flow, etc., don't necessarily sync up to,
6 for example, a test year or a rate effective year. It
7 is, again, these two concepts sometimes conflate and can
8 potentially bleed over into each other but they are
9 counter reactive?

10 A. Well, it's an interesting question. The
11 outcome of a current rate proceeding, of course, is very
12 important because it will affect the near-term cash
13 flows, simply because of the time value of money
14 near-term cash flows are more valuable, so it will be of
15 more importance.

16 But here, because we have a situation where
17 the company's been, again, downgraded -- and to me,
18 equally important is the commentary about the company's
19 financial strength relative to its peers.

20 The resolution of this case, I think, will go
21 some ways to speaking to the financial community about
22 the company's financial profile going forward. Yes, some
23 models look forward in time, but here, the resolution of
24 the case will give a strong signal to investors as to
25 what they might expect looking forward.

1 **Q. Thank you. That's all the questions I have.**
2 **Thanks.**

3 A. Thank you.

4 COMMISSIONER LEVAR: Thank you for your
5 testimony today.

6 THE WITNESS: Thank you, sir.

7 COMMISSIONER LEVAR: And we are ready for
8 your next witness.

9 MR. SABIN: We are going to we have an expert
10 testify next, who needs to leave today on a flight
11 tonight. And so we're going to take Mr. Alan Felsenthal
12 as our next witness.

13 COMMISSIONER LEVAR: Good afternoon.

14 DIRECT EXAMINATION

15 ALAN FELSENTHAL,

16 called as a witness, having been first duly sworn,
17 was examined and testified as follows:

18 BY MR. SABIN:

19 **Q. Mr. Felsenthal, good afternoon.**

20 A. Good afternoon.

21 **Q. Would you please state your full name for the**
22 **record?**

23 A. My name is Alan Felsenthal, F, as in Frank,
24 E-L S, like Sam, E-N-T-H-A-L.

25 **Q. Mr. Felsenthal, would you please introduce**

1 **yourself to the Commission, providing a brief sketch of**
2 **your background and work experience?**

3 A. Okay. I'm a managing director at
4 PricewaterhouseCoopers.

5 COMMISSIONER LEVAR: I'm not sure your
6 microphone is on.

7 THE WITNESS: I'm a managing director at
8 PricewaterhouseCoopers, and I'm presenting testimony on
9 behalf of Dominion Energy Utah, supporting the company's
10 ratemaking position on pension costs and related
11 components.

12 BY MR. SABIN:

13 Q. Mr. Felsenthal, you submitted in this
14 proceeding some rebuttal testimony; is that correct?

15 A. Yes.

16 Q. I have that marked as DEU Exhibit 6.0R, with
17 Exhibits 6.01R through 6.03R; is that accurate?

18 A. Yes.

19 Q. Do you have any corrections to your
20 testimony?

21 A. Well, I have one. It's on page 7, line 177,
22 there's a number there that says 8.18 million. The
23 correct number needs to be 5.16 million. And that's it.

24 Q. With that correction, Mr. Felsenthal, do you
25 adopt the rebuttal testimony and the exhibits you have

1 submitted in this proceeding as your testimony for this
2 proceeding?

3 A. I do.

4 Q. Have you prepared a summary of your rebuttal
5 testimony you provided in this case?

6 A. I have.

7 Q. Would you please go ahead and provide that to
8 the Commission --

9 MR. SABIN: Before we do that, I move to
10 admit exhibits DEU 6.0R, 6.01R through 6.03R into the
11 record.

12 COMMISSIONER LEVAR: If anyone objects to
13 that motion, please indicate to me.

14 I'm not seeing any objection, so the motion
15 is granted.

16 (Hearing Exhibit DEU 6.01R, plus Attachments
17 Were marked for identification.)

18 BY MR. SABIN:

19 Q. Mr. Felsenthal, go ahead and provide your
20 summary now.

21 A. Okay. Thank you. Let me start off by saying
22 I have had an over 40-year career, primarily at Arthur
23 Andersen and PWC, and I have been focused during that
24 career on audits of regulated utilities, as well as
25 providing consulting, rate case advisory support and

1 training, various seminars, on utility accounting, income
2 tax and regulatory issues.

3 Over the course of my career, I presented
4 testimony in ten regulatory jurisdictions and at FERC.
5 In its rate case application, the company has removed all
6 pension-related components, which are the prepaid pension
7 costs, a prepaid pension asset of 112.5 million; the
8 related accumulated deferred income tax, 27.8 million;
9 and pension expenses, which in this case is a pension
10 credit of 5.5 million from the revenue requirement
11 determination.

12 The company went to Stephenson, supported
13 this position on the basis that Dominion Energy Utah did
14 not contribute to the pension trust in 2017 and 2018 and
15 does not anticipate making cash contributions to the
16 pension trust during the test period. Both OCS and UAE
17 disagreed with the company's treatment of pension
18 expenses and recommended an asymmetrical ratemaking
19 treatment by including the negative pension expense in
20 revenue requirements, while excluding the other
21 components, the prepaid pension asset from rate base and
22 the ADIT.

23 That is the asset, the prepaid pension asset,
24 that is responsible for the pension credit, denying any
25 return associated with this amount. I'm not going to

1 pretend that pension accounting is easy. It's a complex
2 issue, but it is important to understand the interplay
3 between pension cost and credits and the prepaid pension
4 asset to conclude why these components must be treated
5 consistently and symmetrically.

6 My understanding is that this is an issue of
7 first impression for the Utah Commission. Historically,
8 the company has always incurred a pension expense and has
9 always made cash contributions to the pension trust for
10 the benefit of its employees, both current employees and
11 retirees.

12 Now the company has a pension trust that is
13 fully funded and, accordingly, no contributions are
14 required. The inequitable result, stemming from the
15 proposed ratemaking position advocated by OCS and UAE,
16 providing customers the benefit of the lower pension
17 expense, in this case negative, without compensating
18 investors the source of the prepaid pension asset. It is
19 lowering pension costs.

20 The existence of a pension credit does not
21 reduce funds to lower the company's overall revenue
22 requirement. It is a journal entry. Earnings on the
23 assets in DEU's pension fund can only be used to meet
24 DEU's pension service obligations. In other words, DEU
25 does not have discretionary use of such earnings which

1 contribute to a reduction in or sometimes, like in this
2 case, a negative pension cost.

3 So what's important is to understand there
4 are two concepts: Generally Accepted Accounting
5 Principles, GAAP, pension expense, recognizes the cost of
6 employees' retirement benefits over the employees'
7 service period. It has several components that are
8 determined on an actuarial basis. However, contributions
9 are made to a pension trust to comply with ERISA and IRS
10 requirements in order to ensure that the funds are
11 available to meet the retirement obligations.

12 These two concepts are different. A prepaid
13 pension asset is the difference between contributions to
14 the pension trust in excess of the cumulative GAAP
15 pension expense. The key components to determine the
16 GAAP pension expense are service cost, which is the
17 actuarial present value of the benefits for employees for
18 a given year, and because present values are used, the
19 second component of pension expense is the interest cost.

20 Conceptually, service cost and interest cost
21 are generally independent of how or even if the plan is
22 funded by the employer.

23 The third component of pension expense is the
24 expected gain or loss on the plan's investments in a
25 given year. To the extent that that asset exists in a

1 pension trust, applying an expected return on such assets
2 reduces pension costs. This is important. The prepaid
3 pension asset reduces pension costs.

4 As I've explained, the prepaid pension asset
5 is the amount of contributions to the pension trust in
6 excess of cumulative pension expense. Because pension
7 expense is included in determination of revenue
8 requirements, the source of the prepaid pension asset is
9 investors should earn a return.

10 In this manner, customers benefited from a
11 reduced pension cost, occasioned by the existence of the
12 prepaid pension asset, and the investors are compensated
13 for this provided benefit by receiving a return on
14 contributions to the pension trust above the level of
15 pension expense.

16 So these are the pension factors that need to
17 be dealt with in the context of ratemaking and the
18 revenue requirement, prepaid pension assets, pension
19 costs, and the related accumulated deferred income taxes.
20 These tax factors are interrelated.

21 The company's exclusive -- has excluded all
22 of these components in their filing because they are not
23 currently or expected to make further contributions to
24 the pension trust. This approach follows FERC precedent
25 and is symmetrical and that all components are

1 eliminated.

2 This approach is also consistent with the
3 position taken by other affiliates of Dominion when the
4 pension trust is fully funded. Hope Gas in West
5 Virginia, East Ohio Gas in Ohio, and more recently, FERC
6 ruled in and affirmed this ratemaking treatment to
7 eliminate all pension components, including the exclusion
8 of a pension credit from a revenue requirement
9 calculation in a Dominion Energy transmission tax reform
10 proceeding.

11 The approach advocated by OCS and UAE
12 provides customers the benefit of the lower pension
13 expense, in this case negative. Without compensating
14 investors, the source of the prepaid pension asset gets
15 lower in pension expense.

16 An alternative but symmetrical approach,
17 which I talk about in my testimony, could be to include
18 all elements in the cost of service. And in the fair and
19 equitable and symmetrical approach, revenue requirements
20 would include all components, the pension credit and a
21 return on the investor-supplied prepaid pension asset,
22 which produced the reduction of pension costs. This
23 approach produces a similar result to that recommended by
24 the company in its filing.

25 The bottom line is that for ratemaking

1 purposes, all pension factors should be treated
2 symmetrically. So what I've done in my testimony is I've
3 said is to be symmetrical, you can exclude all these
4 components or include them all, in both cases, you get
5 close to the same answer.

6 The company has advocated for the exclusion
7 of everything. They relied on FERC precedent for that.
8 An alternative approach is to include everything, which
9 gets you to a very similar answer.

10 Thank you.

11 **Q. Thank you, Mr. Felsenthal.**

12 MR. SABIN: Mr. Felsenthal is available for
13 cross-examination.

14 COMMISSIONER LEVAR: Thank you.

15 Mr. Jetter?

16 MR. JETTER: I have no questions, Mr. Chair.
17 Thank you.

18 MR. MOORE: Excuse me, can we have a moment?

19 COMMISSIONER LEVAR: Do you want us to go off
20 the record for a minute or is it just a quick moment?
21 Should we go on to one of the other parties?

22 MR. SNARR: Go on to the others.

23 COMMISSIONER LEVAR: Major Kirk, any
24 questions?

25 MAJOR KIRK: No questions.

1 COMMISSIONER LEVAR: Mr. Mecham?

2 MR. MECHAM: No questions.

3 COMMISSIONER LEVAR: Mr. Russell?

4 MR. RUSSELL: Yes, I do. Thank you,
5 Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MR. RUSSELL:

8 Q. Mr. Felsenthal, I would like you to turn to
9 page 9 of your testimony, please, starting at line 230.

10 A. Okay.

11 Q. In that section, you include a discussion of
12 pension expense and how it's treated under GAAP, some of
13 which you summarized in your opening here. And I wanted
14 to ask you a couple of questions about Financial
15 Accounting Standards Board Opinion 87, or FAS 87, which
16 you also discuss in your testimony.

17 Maybe I'll start out by asking you to explain
18 what that is, just to lay the ground work here.

19 A. Okay. As I said, we will call it FAS 87, is
20 the pronouncement issued by the FASB to cover the
21 accounting for pension cost. It was issued in 1987. It
22 lays out the factors to include when measuring pension
23 expense for the period.

24 As I said in my testimony, the first
25 component is the service cost. That's the actual present

1 value of the benefits for employees for a given year.
2 Since present values are used, the second component is
3 the interest cost. As time grows closer to when the
4 benefits recognize from the past will be paid, the
5 present value increases. This increase of the obligation
6 is measured as interest cost. Conceptually, service cost
7 and interest cost are generally independent of how or
8 even if the plan is funded by the employer.

9 The third component of pension expense is the
10 expected gain or loss on plan's investment in a given
11 year. To the extent that assets exist in a pension
12 trust, apply an expected return on such asset reduces
13 pension cost. And since it is an expected return, the
14 difference between the actual gain or loss on
15 investments, the expected return is referred to as
16 actuarial gain or loss. And FAS 787 allows this gain or
17 loss to be deferred into future periods in order to
18 reduce the volatility of the pension expense.

19 The net effect of this deferral is to include
20 the expected return on investments and the pension
21 expense for the given year, and the remaining components
22 of pension expense are, essentially, the recognition
23 through amortization of the deferral of actuarial gains
24 and losses that occurred in the past, such as plan
25 amendments or other changes in the pension benefit.

1 FAS 87 allows these retroactive benefits to
2 be deferred and amortized over the remaining service
3 life. Taking collectively, these component comprise the
4 pension cost for a given year.

5 Q. Thank you. I want to direct your attention
6 to line -- to the discussion starting on line 257 of your
7 testimony.

8 The question there is: When does the pension
9 accrual stop? And your testimony states, "Once the
10 employee retires, his or her expense accrual stops and
11 pension payments begin. Over time, pension expense,
12 which considers investment returns on pension assets
13 reducing such expense, will equal the pension benefits
14 paid to retirees, less expenses of the plan, if any."

15 And I wanted to focus our attention on this
16 second sentence, "Over time." Now FAS 87 -- under FAS
17 87, expense is based on an accrual and not a cash basis.
18 Right?

19 A. Correct.

20 Q. And the amount of pension costs recorded is
21 generally different than the actual amount of annual
22 contribution made; is that correct?

23 A. Yes, they are done on two different basis.

24 Q. Right.

25 A. There is GAAP that covers the pension

1 expense, the income statement amount, and the
2 contributions are based on the government rules for
3 funding your pension plans.

4 Q. Now over the life of the plan, however, total
5 contributions are expected to equal the total FAS 87
6 expense. Right?

7 A. Yes.

8 Q. Okay. Now you acknowledge, I think, in your
9 testimony, that current rates, in effect, include pension
10 expense as part of revenue requirements. Right?

11 A. The current rates --

12 Q. Rates that are applied today, right now.

13 A. In the company's last rate case, there was a
14 test year pension expense.

15 Q. And the pension asset was not included in
16 rate base in that last test -- excuse me, that last rate
17 case. Correct?

18 A. That is my understanding.

19 Q. Okay. And do you know whether pension asset
20 has ever been included in rate base in Utah?

21 A. Interestingly, and we said this in response
22 to a data request, the company had a pension asset
23 included in Utah, in -- let me get the right year. It's
24 Data Request 11.04.

25 Q. Whose --

1 A. Kelly Mendenhall. Want me to read from it?

2 Q. Well, can you tell me who asked the data
3 request, so you and I are on the same page? And you have
4 something in front of you --

5 MR. SABIN: He is looking for the title at
6 the top of the page. Is it OCS --

7 THE WITNESS: OCS Data Request No. 11.04.

8 BY MR. RUSSELL:

9 Q. Okay. Is that in the testimony so he and I
10 can both look at it?

11 MR. SABIN: No, I don't think it's in his
12 testimony. I think it's a --

13 THE WITNESS: It's a data request response.

14 MR. RUSSELL: It's not an exhibit? Okay.

15 MR. SNARR: It is an exhibit that is part of
16 Ms. Ramas' testimony, if you want to look there.

17 COMMISSIONER LEVAR: Okay.

18 MR. SABIN: 2.07, I think, Phil.

19 BY MR. RUSSELL:

20 Q. If you can give me just a second,
21 Mr. Felsenthal.

22 COMMISSIONER LEVAR: It is connected to
23 Ramas' direct or surrebuttal, do you know?

24 MR. SNARR: Surrebuttal.

25 BY MR. RUSSELL:

1 **Q. And, again, the number was OCS 11 what?**

2 A. 04.

3 **Q. Thank you, I'm there.**

4 COMMISSIONER LEVAR: Mr. Snarr, could you
5 remind me again what the exhibit number is connected to
6 the surrebuttal testimony.

7 MR. RUSSELL: It is OCS 2.7S, and if you have
8 it up electronically, it is page 20 of 26 of that PDF.

9 COMMISSIONER WHITE: Thank you.

10 COMMISSIONER LEVAR: Okay. Mr. Felsenthal,
11 if you can go ahead and answer. Thanks for giving us a
12 moment.

13 THE WITNESS: What is the question? Can you
14 repeat the question?

15 BY MR. RUSSELL:

16 **Q. I think the question that I asked you --**

17 A. The question was, have they ever included --

18 **Q. Yes, if you are aware if they've ever**

19 **included the pension asset in --**

20 A. The response to the data request says, "The
21 company can confirm that the pension asset was included
22 in the 1999, 1995 and 1993 general rate cases as part of
23 the 165 account, which is prepaid expenses.

24 "Following the 1999 case, the company changed
25 the account from 165 to a payable to affiliates account.

1 Following the 1999 case, the account related to the
2 pension changed and it is unclear why the company
3 excluded the balance from rate base.

4 "Following the merger, Dominion Energy noted
5 the positive pension balance should include a separate
6 asset account, and the company has included that account
7 in its base period rate base consistent with the 1999
8 treatment."

9 Q. Do you understand that last sentence, when it
10 says, under the positive pension balance, is that talking
11 about the pension expense or the pension asset?

12 A. I don't know.

13 Q. Okay. I don't either. So at least from the
14 looks of this response to a data request, the pension
15 asset has not been included in rates, at least in the
16 last 20 years; is that right?

17 A. Not recently. Yes.

18 Q. Okay. But it seems that pension expense has
19 been included, at least, through the last two litigated
20 rate cases; is that right?

21 A. Yes, there's an -- I think they provided a
22 response -- or in response to a data request, they
23 submitted how much pension -- or which rate proceeding
24 and what the pension expense amount included in rates
25 was.

1 I can add just one thing, that this prepaid
2 pension asset, prior to, like, mid-2000s, the pension
3 asset was a small amount because for the most part, the
4 expense and the contributions were not that far off.
5 What happened then in 2006, the government put in what
6 they called the "Pension Protection Act," which increased
7 the amount of contributions that the companies had to
8 include in order to protect or make sure there was
9 enough -- that there was more on hand to fund the pension
10 cost when they became due.

11 So if you look at the contributions, and
12 there's a schedule that has been provided and I
13 believe -- I'll find it. The response to Data Request
14 11.05 shows that the contribution amounts have gone from
15 a couple million of dollars a year from, let's say, 1998
16 until more recently, it's starting -- in 2006, it's 12
17 million, 10 million, 8 million. So the numbers went up
18 considerably because of this Pension Protection Act which
19 required more contributions.

20 **Q. And in those years that you're referring to,**
21 **where the pension contributions went up, that's also**
22 **during the time that pension expense was included in**
23 **revenue requirement during these rate cases that we are**
24 **talking about. Right?**

25 **A. Well, again, this is in Ms. Ramas'**

1 surrebuttal. In the 19- -- depending on where I want to
2 go, in the 2008 base year, with a 2010 rate case, there
3 was 5.9 million of pension expense in rates. In the 2012
4 base year, 2014 test year rate case, there was -- at the
5 time we thought it was 8.18, but it has been revised. It
6 is 5.6 million of pension expenses been in rates.

7 So there has been, and those rate cases,
8 those are requests to recover pension expense.

9 **Q. And that request was granted. Correct?**

10 A. The request -- in the test year, that amount
11 was part of the price that customers were asked to pay in
12 revenue requirement based on that rate case.

13 **Q. Okay. And as we said earlier, the pension**
14 **expense over the life of the pension asset should equal**
15 **the pension benefits paid to retirees. Right?**

16 A. Over the life.

17 **Q. Yes. And if ratepayers are only asked to pay**
18 **pension expense when pension expense is positive, doesn't**
19 **that mean the ratepayers will overpay pension expense**
20 **over the life of the pension asset?**

21 A. See, I disagree with the concept that you're
22 stating. Ratepayers pay for service.

23 The services -- the amount, the price they
24 pay is based on a test year estimate of costs, but as
25 soon as that test year is over, the costs -- what the

1 ratepayer is paying in rate -- I won't say no
2 relationship, but there is very little relationship
3 between the amount the customer pays after the test year
4 versus the cost the company is incurring.

5 So I don't think I would argue -- I would not
6 argue that the customers paid -- they pay for service.
7 They don't pay for individual costs. I don't know if you
8 can go to a customer's bill and say, "Well, here is your
9 \$100 bill for service this month, of which \$6.25 is
10 reimbursement of pension expense and \$6.50 is
11 reimbursement of payroll expense."

12 In a general rate case, where there is no
13 tracking and true -- tracking or true-up, once rates are
14 set, that determines the price but is not necessarily
15 based on specific costs.

16 **Q. And, in fact, you mentioned earlier that the**
17 **company has not made a pension contribution since 2017.**
18 **Correct?**

19 A. Correct.

20 **Q. And yet, the rates that have been in effect**
21 **since that time have included -- I think you mentioned**
22 **\$5.6 million of pension expense in the revenue**
23 **requirement. Correct?**

24 A. I'll say it again. 5.6 million was the
25 pension cost included in the company's test year, in its

1 2014 test year, in its last rate case.

2 **Q. So "yes" was the answer; is that right?**

3 A. What was your question? The question was, in
4 the last rate case, pension expense was one of the costs
5 included in the determination of revenue requirements, it
6 was \$5.612 million and that is all I know.

7 I can't say whether, and I wouldn't say,
8 whether in years after 2014, that the company is -- that
9 that amount has been used to handle to pay the pension
10 expense that has been incurred for those years
11 afterwards, whether positive or negative.

12 **Q. Let's talk for a moment about the pension**
13 **asset. There are, as you mentioned earlier, required**
14 **minimum contributions to a pension fund. Right?**

15 A. Correct.

16 **Q. And utilities have some discretion within**
17 **limits, of course, in making pension contributions above**
18 **those required minimum amounts; is that right?**

19 A. Yes.

20 **Q. And do you believe that a prepaid pension**
21 **asset should be included in rate base?**

22 A. Yes, definitely.

23 **Q. Okay. So how should the Commission determine**
24 **whether excess contributions, those above the required**
25 **minimum, whether excess contributions to the pension plan**

1 are prudent, given the latitude that utility management
2 has with respect to the amount of contributions and the
3 timing?

4 A. Well, I won't speak for the company. The
5 company can probably do it better themselves. But my
6 understanding is they have a pension committee. They
7 decide, based on a number of factors, how to fund the
8 pension plan. They want to ensure that there's enough in
9 the plan, in the trust, to be able to pay the benefits
10 when they became due.

11 And what I say in my testimony, the amount
12 that the company pays comes from investors. I think the
13 investors -- as a result, the amount that is in the
14 pension trust, in the prepaid pension asset, reduces
15 pension expense to the benefit of ratepayers. And what
16 I'm saying is, to the extent that the customers are
17 getting a benefit of lower pension expense, brought about
18 by contributions by the investors, they are entitled,
19 they should get a return on it.

20 Q. My question was not about how the company
21 goes about determining how to exercise its discretion to
22 make pension contributions above the required minimum.
23 My question was how the Commission would determine
24 whether that decision was prudent.

25 A. Like I say, the Commission would have to put

1 its own judgment, I would guess, over that of the company
2 in determining what's -- the company meeting with its
3 actuaries, professional advisors, understanding of the
4 market, understanding of returns, understanding of
5 pension benefit payments, what kind of risk they want to
6 take, I think all those factors lead into how much -- how
7 much the contribution can be for a given year.

8 If you think about it, and I will just use an
9 example, if today we knew that the ultimate benefits the
10 company's employees would need once they retire was \$3
11 million and you could put in \$1 million today or \$2
12 million or some amount which will, with earnings, accrete
13 or produce income to get you that \$3 million. You could
14 fund the \$3 million benefit payments by only putting in 2
15 million or 1 million or whatever it is. So I think that
16 is one of the factors that goes in there. The more they
17 can put in, the greater it will grow unless something
18 terrible happens like 2008, where the market just
19 craters.

20 But I think that is another factor that needs
21 to be considered when they are determining how much to
22 fund. What is the tolerance for declines in the market?
23 But over the long run, the factors that the company
24 considers is: How much can we put in that will grow so
25 there will be enough in there to pay the benefit

1 payments.

2 Q. In that scenario that you just described with
3 the company exercising its discretion to put in money, if
4 the prepaid pension asset is included in rate base, what
5 stops it from becoming sort of a fund where the utility
6 can park investment dollars that will earn its weighted
7 average cost of capital in a rate case without having to
8 justify the investment as used in useful as it would have
9 if it were investing it in plants to provide service to
10 its customers?

11 A. No, that's a fair question. The part
12 that -- you're looking at one side of the equation.
13 However much they put in the prepaid pension asset,
14 however it grows to, whatever length it grows to, the
15 earnings on it reduce pension expense.

16 And in my -- what I calculated -- or pension
17 costs. What I calculated in the company's case is the
18 prepaid pension asset which will earn at Dominion's
19 expected return of 8.75 percent. That produces
20 what -- that produces a lower pension expense of around
21 \$10 million. If you then turn around and allow a return
22 on that prepaid pension asset, it is less than or very
23 close to the \$10 million.

24 So I would think that the way you would
25 determine that this is a bad deal for the ratepayers,

1 that that's -- I guess that's possible, is if the net-net
2 is harmful for the customers.

3 But right now, it is a benefit for the
4 customers, having this prepaid pension asset which
5 reduces pension expense.

6 **Q. You mentioned in your opening summary that**
7 **pension expense is -- I think you called it "a journal**
8 **entry." It doesn't really effect revenue requirement.**
9 **Is that an accurate -- it's been a few minutes anyway.**

10 A. No, it's a journal entry. Pension expense is
11 a journal entry, but the debit part of it, if it is an
12 expense, that should enter into revenue requirements.
13 Either way, normally, in many jurisdictions, as long as
14 companies are continuing to make contributions, accrual
15 basis of accounting works, you get the pension expense or
16 credit in revenue requirements, but at the same time, I
17 believe, you ought to include in rate base the pension
18 asset which is giving rise to that lower pension expense.

19 **Q. This will be my final question, perhaps, but**
20 **isn't it asymmetrical to include pension expense only**
21 **when the expense is positive but never when it is a**
22 **credit?**

23 A. What I have said here is the company's
24 included a credit, a pension credit, and it's only
25 including the credit which I characterize as asymmetrical

1 because you've only included the credit in revenue
2 requirements, the lowering of pension expense, without
3 including the asset coming from shareholders that gave
4 rise to that pension -- that reduced pension expense,
5 which, in this case, is reduced lower than zero.

6 But what I said is the reason I -- I have
7 read the FERC decisions, and they're -- FERC has had a
8 concept that when there are no contributions, you stop
9 making contributions, potentially, because the plan is
10 fully funded or somebody believes there is enough in
11 there to pay the benefits, that you stop recording any
12 pension expense for ratemaking purposes.

13 You still are a pension expense for GAAP and
14 it would be negative. You would still have that. But
15 for ratemaking purposes, they would say, "No, you don't
16 have any contributions. No pension expense, no pension
17 credit, no pension anything."

18 So FERC is -- and what the company has done
19 by taking everything out, is symmetrical. They are
20 taking all the points out. What I propose -- my
21 alternative approach is to put everything in. Put it in
22 the pension expense, whether positive or negative, but
23 also factor in to rate base, let them earn on the pension
24 asset contributed by investors that's producing that
25 negative expense or that lower expense.

1 What is not symmetrical is to just
2 include -- just pick out and say, "Well, I will take that
3 negative pension expense, I like that. We will reduce
4 revenue requirements for it and not consider any of the
5 pension asset."

6 And when I said "journal entry," what I meant
7 is this, and this is an example. I will make a simple
8 example. Let's just assume that the company has filed a
9 rate case and they have two costs: They have payroll of
10 \$10 million and they have a negative pension expense of 2
11 million.

12 So they file the rate case. They receive a
13 revenue requirement of \$8 million, the 10 minus the 2.
14 They collect 8 million from customers but they have 10
15 million in payroll expense. How are they going to pay
16 the 10 million in payroll expense? Answer, they need 2
17 million extra dollars. From whom? It's not going to
18 come from the ratepayers. This was just a journal entry
19 reducing the rates.

20 The way I'm going to get the extra \$2 million
21 to pay the payroll is to get that from investors. There
22 is only three sources of funds: the ratepayers,
23 customers, the investors or the government, and the
24 government is not helping, no disrespect. But in this
25 case, it is just those two

1 So that's why -- negative pension expense or
2 reduced pension expense -- it doesn't have to be
3 negative, a reduced pension expense, which
4 would -- which, again, it's a journal. That reduction
5 has to come -- the reduced pension expense which doesn't
6 turn in -- which reduces revenue requirements, has to
7 come -- has to be made up somewhere else and that has to
8 come from investors.

9 **Q. What do you call asymmetrical, including a**
10 **pension expense but not including the pension asset? Do**
11 **you agree that that's exactly what has been done in the**
12 **last, at least, two litigated rate cases in the state?**

13 A. It looks like there was no -- the pension
14 expense was included. There was no offset for the
15 prepaid pension asset.

16 **Q. Okay. Thank you. That's all I have.**

17 COMMISSIONER LEVAR: Okay. Why don't we take
18 a ten-minute break and we will go to the Office for
19 cross-examination. So we will come back at, let's say,
20 2:50.

21 (Whereupon, a break was taken.)

22 COMMISSIONER LEVAR: Okay. We are back on
23 the record, and we will go to the Office of Consumer
24 Services for any cross-examination of Mr. Felsenthal.

25 CROSS-EXAMINATION

1 BY MR. MOORE:

2 Q. Hello, Mr. Felsenthal. Sorry I butchered
3 your name.

4 A. Happens all the time.

5 Q. Just some housekeeping matters first. You
6 have access -- I'm sorry, I don't have the exhibits here.

7 These lines of question deal with your recent
8 changes through the pension expense, so I'm just going to
9 wonder, in your packet, do you have the Dominion Energy
10 response to OCS Data Request No. 11.12?

11 A. I think so, yes.

12 MR. SABIN: Hang on, I have to find that.

13 Robert, what was that number again?

14 MR. MOORE: It was 11.12.

15 COMMISSIONER LEVAR: Is that an exhibit that
16 we would have too or --

17 MR. MOORE: No. This is just relating to his
18 change in his testimony today, so I wasn't able to
19 prepare it today.

20 COMMISSIONER LEVAR: Okay.

21 MR. SABIN: Sorry, Robert, what did you just
22 say?

23 MR. MOORE: These questions relate just to
24 the change in his testimony.

25 MR. SABIN: I see.

1 MR. MOORE: That just occurred, I wasn't able
2 to prepare an exhibit.

3 MR. SABIN: All right.

4 BY MR. MOORE:

5 Q. This data request refers specifically to the
6 line in your testimony that you changed; is that correct?

7 A. Yes.

8 Q. Do you know why -- and you'll see in the
9 answer that \$8.1 million figure was responded -- the
10 response contained the \$8.18 million that you had in your
11 testimony, that has been changed. Correct?

12 A. Correct.

13 Q. Do you know why this data response wasn't
14 corrected?

15 A. I think what you are asking is when I
16 adjusted it, I started with 8.18 and I reduced it be
17 2.468, not the 3.805. Right?

18 Q. All right.

19 A. And the reason is, the 3.805 clearly states
20 it was made to pension and OPEC expense. So it combined
21 pensions and other post-employment benefits, and the
22 pension only piece, I have been told, is the 2.468.

23 Q. When did you discover this mistake?

24 A. This week.

25 MR. SABIN: Robert, I will note for the

1 record, the answer actually includes the statement about
2 the reduction, that you need to reduce the 1.8, stated in
3 the sentence below the one you were referring to. So it
4 doesn't need to be corrected. It has the reduction in
5 the next sentence.

6 MR. MOORE: I see, thank you.

7 BY MR. MOORE:

8 Q. Okay. We are going to switch gears here.
9 I'm going to hand you -- we are going to hand you a copy
10 of OCS Cross Exhibit F1.

11 (Exhibit was handed out.)

12 BY MR. MOORE:

13 Q. I will represent to you that this is the
14 testimony of Thomas P. Wohlfarth -- I might have
15 mispronounced his name, so I will spell it for the court
16 reporter, W-O-H-L-F-A-R-T-H -- who is the senior vice
17 president of regulatory affairs of Dominion Resources.

18 Mr. Wohlfarth gave this testimony under oath
19 at the hearing to approve the Settlement Docket
20 16-057-01, a settlement record of approval of the merger
21 between Questar Corporation and Dominion Resources.

22 I'm going to ask you to turn to page 18 and
23 19 and read the highlighted portion.

24 A. "Paragraph, I think that's 11, in this
25 stipulation deals with the commitment to within six

1 months of the completion or the approval of the merger.
2 We will, at shareholder expense, contribute \$75 million
3 to the pension -- Questar pension fund.

4 "And the benefit of that will be, you know,
5 obviously a function of pension expenses is return on
6 pension assets. And that will provide a -- an expense
7 reduction benefit for Questar Gas customers in perpetuity
8 in essence.

9 "The -- you know, so I think with this
10 pension contribution, this is really a win for -- it's
11 a -- it's, I'd say a win-win-win. It's good for the
12 company because it really stabilizes the pension plan,
13 and, of course, it's good for customers as well because
14 they are the beneficiaries of the pension plan. And most
15 importantly as well, it will provide about \$3.3 million,
16 our estimate, annual benefit in perpetuity for
17 customers."

18 **Q. Thank you.**

19 MR. MOORE: Request to submit to OCS Cross
20 Exhibit F1.

21 COMMISSIONER LEVAR: If anyone objects to
22 that motion, please indicate to me.

23 I'm not seeing any objection, so it is
24 granted.

25 MR. MOORE: Thank you.

1 (Hearing Exhibit OCS F1 was
2 marked for identification.)

3 BY MR. MOORE:

4 Q. Now I'm going to hand you a copy of OCS Cross
5 Exhibit F2.

6 (Exhibit was handed out.)

7 BY MR. MOORE:

8 Q. I will represent to you that this is a copy
9 of David M. Curtis', of Dominion, written testimony in
10 the merger case, explaining how the pension contribution
11 will provide customers with approximately \$3.3 million in
12 annual benefits in perpetuity.

13 I will ask you to turn to page 4 and 5 and
14 read the highlighted portion. There are two pages 4,
15 which I noticed, so could you go to the page 4 that
16 starts with line 70?

17 A. I have only one page 4 but that's okay. I
18 have line 70.

19 Q. All right.

20 A. "Yes. The major components of pension costs
21 include service cost for the current year's accrued
22 benefits, interest costs on the plan's liabilities,
23 amortization of actuarial gains and losses and a credit
24 for estimated returns on plan assets.

25 "An additional contribution of 75 million to

1 the pension plan would change the calculation of
2 estimated returns on plan assets. The higher return on
3 assets would directly reduce Dominion Questar Gas'
4 portion of pension expense from the Dominion Questar
5 retirement plan. The pension expense is included in rate
6 as part of cost of service."

7 Should I read the question?

8 **Q. Yes, please.**

9 A. "Q. How much will customers benefit as a
10 result of the pension funding?

11 "A. Based on a 7 percent expected return on
12 plan assets, the 75 million contribution would result in
13 approximately 5.2 million in annual pension expense
14 reductions, (pension contribution multiplied by expected
15 return on plan assets.) Applying Questar's current
16 allocation methodology, 3.3 million in annual benefit
17 would allocated to Dominion Questar Gas customers."

18 MR. MOORE: Request to admit OCS Cross
19 Exhibit F2?

20 COMMISSIONER LEVAR: Okay. If anyone objects
21 to that, please indicate to me.

22 I'm not seeing any objection, so the motion
23 is granted.

24 (Hearing Exhibit OCS F2 was
25 marked for identification.)

1 BY MR. MOORE:

2 Q. Isn't it true that under Dominion's plan to
3 exclude the negative pension cost from the revenue
4 requirement, customers will now receive the approximately
5 \$3.3 million in annual benefits that Mr. Wohlfarth
6 promised and explained by Mr. Curtis?

7 A. The pension expense will be reduced by that
8 amount, yes.

9 Q. But the customers will not receive the
10 approximately \$3.3 million in benefits; isn't that
11 correct?

12 A. They will receive it. It's -- the 75 million
13 is a component of that \$112 million prepaid pension
14 asset. As a result, even in my calculations, when I'm
15 figuring out the benefits to the customers, the reduction
16 in expense, it's -- this 3.3 million is part of it.

17 Q. You testified that it would be unfair for the
18 customers to receive the benefits, including the pension
19 expenses, the negative pension expense, in the revenue
20 requirement without allowing the shareholders to receive
21 return of investment in the -- of the asset; isn't that
22 correct?

23 A. What I said is, it is unfair to not be
24 symmetrical. And the shareholders contributed amounts,
25 some of which -- 75 million of which comes from this

1 testimony -- this merger agreement.

2 But the entire prepaid pension asset reduces
3 expense, which is what I said, and all I said is
4 asymmetrical treatment would be that the investors should
5 get a return on their assets.

6 Q. Well, let me ask you this question in another
7 way. Assuming, hypothetically, the Commission agrees
8 with the OCS and includes a negative pension cost in the
9 revenue requirement and doesn't include the pension
10 asset, that would benefit the ratepayers to a
11 significantly more degree than if the pension -- if, as
12 Dominion is suggesting, both the pension expense and the
13 plan asset are excluded; isn't that correct?

14 A. Sure, because you're only -- you're taking
15 the good, the credit, the reduction in pension expense,
16 without compensating the investors for the assets they
17 contributed causing that reduction in pension expense.
18 Of course that's better.

19 Q. And isn't that what was promised by
20 Mr. Wohlfarth and explained by Mr. Curtis?

21 A. I don't know. They just said, "There will be
22 a reduction in pension expense," and there is.

23 Q. Thank you. I have no further questions.

24 COMMISSIONER LEVAR: Any redirect?

25 MR. SABIN: Yes, thank you.

REDIRECT EXAMINATION

1
2 BY MR. SABIN:

3 Q. Mr. Felsenthal, I want to get a couple of
4 basics so we are all on the same page. The pension asset
5 we are talking about, that is a fund of money that is
6 held where?

7 A. In the pension trust.

8 Q. And is that part of the company -- can the
9 company access those funds to use them for its payment of
10 its cost of service?

11 A. No, and I make that point in my testimony. I
12 should have made it earlier. The moneys in the pension
13 trust can only go to making the pension payments. It
14 can't be accessed and used for general corporate
15 purposes, which is why in my example with my \$10 million
16 payroll expense, offset by \$2 million of pension credit,
17 it's not like there's \$10 million -- the 2 million that
18 has to be funded, because I don't have access to the
19 amount that the ratepayers paid, that's in the pension
20 trust.

21 Q. So let me approach it mathematically this
22 way: Let's take that credit amount, whatever it happens
23 to be, let's just say it's \$3 million, just making that
24 up. If that credit is \$3 million, and we took and gave
25 customers -- and reduced their revenue requirement of the

1 company by \$3 million, what is the impact of that on the
2 company?

3 A. The company has less cash of \$3 million.

4 Q. So if its expenses we're -- if it needed to
5 add a revenue requirement of \$17 million, and you took
6 the credit and applied it to that \$17 million, reducing
7 it by 3 so that there's now -- the customers have got
8 that benefit, what does the company have to do at that
9 point?

10 A. The company has to find \$3 million to fund
11 its --

12 MR. MOORE: I'll object at this point because
13 it's outside the cross.

14 COMMISSIONER LEVAR: Do you want to respond
15 to that Mr. Sabin?

16 MR. SABIN: Yes. I don't think so. I think
17 we need to understand this, and I think Mr. Russell and
18 Mr. Moore's questions -- in my mind, I want to clear up
19 and make sure everybody is understanding what is going on
20 here, but --

21 COMMISSIONER LEVAR: And I apologize, but for
22 my benefit, will you repeat the last question you just
23 asked?

24 MR. SABIN: Sure. My question was: If you
25 take the \$3 million credit and you use it to reduce

1 revenue requirement, as is being suggested by the two
2 people -- the two parties that are challenging the
3 company's exclusion of that credit from the revenue
4 requirement analysis, my question to him was, "What do
5 you have to do -- what would the company have to do to
6 cover that money that is taken out by the credit?"

7 COMMISSIONER LEVAR: I understand the
8 objection, but I think I'm going to allow this as within
9 the scope of cross-examination.

10 BY MR. SABIN:

11 Q. And I actually don't remember if you had
12 anything more you were saying on that, Mr. Felsenthal.

13 A. I will start again. So if there's a
14 pre-credit cost of service of 17 million and you apply a
15 3 million credit to reduce the revenue requirement to 14
16 million, the question is: How are you going to pay the
17 \$17 million of cost when you have only 14 million from
18 the customers.

19 Okay. If that credit came about by earnings
20 on the pension trust, those moneys are in the pension
21 trust. I can't access them. I can't access those
22 moneys. They have to go to pay the pension benefits. So
23 I'm going to have to go borrow or seek investor money to
24 make up for the credit, the reduction in the pension
25 expense caused by this.

1 **Q. Okay. Thank you. Do you have an**
2 **understanding, one way or another, whether the company**
3 **made a \$75 million pension contribution to the pension**
4 **trust?**

5 A. I believe they did. I don't know that for
6 sure but I think they did.

7 **Q. Will you take it as fact that that occurred?**

8 A. Yes. The reason I'm saying that is because
9 there's a pension -- a prepaid pension asset of a 112
10 million, and then the contributions that I've seen in the
11 past, the contributions and the expense, it doesn't come
12 close to that.

13 **Q. Okay.**

14 A. So the extra contribution to the pension
15 trust makes sense to me that it came from -- clearly from
16 the investors, directly from the investors.

17 **Q. So when there is a credit as there is now,**
18 **how does that benefit customers?**

19 A. The credit -- well, it depends on whether
20 there are contributions or not.

21 **Q. Well, let's take what is going on now, real**
22 **world. My understanding is there are no contributions**
23 **being made and there is a credit. How are customers**
24 **benefited, if at all, from the fact that there is a**
25 **credit?**

1 A. The customers are benefitted because pension
2 expense is being reduced by the amounts -- the earnings
3 on the expected return of paid pension assets.

4 Q. So the customers are not being required to
5 pay otherwise expenses that would exist absent there
6 being a credit?

7 A. Correct.

8 Q. Is the company taking, in that circumstance,
9 any benefit from the customers by not including the
10 credit in the revenue requirement?

11 A. No.

12 Q. Mr. Russell asked you a question earlier
13 about, in those years where there was an expense, a
14 pension expense, and customers were being asked to pay a
15 portion of that pension expense, I want to -- do you
16 understand -- do you remember when he was asking you
17 about that?

18 A. Yes.

19 Q. Can you tell me, during those years, by not
20 including the asset, were customers being made worse off
21 by the fact that the asset was not being included in the
22 revenue requirement calculation?

23 A. No. In those -- in those years, for
24 whatever -- because the pension -- the pension expense
25 was reduced by the expected return on the pension asset,

1 but the pension asset was not included in rate base or
2 didn't get earnings. The customers were benefiting at
3 the -- I hate to use the word "expense," of the
4 investors, who put the -- who funded the prepaid pension
5 asset.

6 In other cases, I have called that the "free
7 lunch" syndrome. They get the free lunch. They get a
8 reduction in pension expense. There's still an expense.
9 There's still a positive pension expense, but it's less
10 than what it otherwise would have been because the
11 earnings on the prepaid pension asset reduced it.

12 But the company did not ask for a return on,
13 at least since 1999. The assets that gave rise to it,
14 the investment that gave rise to it.

15 **Q. So in that circumstance, if I understand you**
16 **correctly, you are saying that the party that missed out,**
17 **if at all, in getting the benefit in those years was the**
18 **investors who did not get a return on the asset itself**
19 **being included?**

20 **A. Exactly.**

21 **Q. Okay. You were asked about -- the question**
22 **was when customers pay this expense versus don't pay this**
23 **expense, and you offered an explanation that customers**
24 **don't pay specific expenses. They pay for services.**

25 **If you were to do what the other side is**

1 suggesting -- well, let me ask it this way: Do we have
2 an issue with pensions where they are handled on a single
3 item -- as a single-item expenditure in these kinds of
4 cases you have been involved in? In other words, were
5 they dealt with purely in isolation as a pension expense
6 or were they dealt with in the overall revenue
7 requirement?

8 A. They are almost always dealt with in terms of
9 the overall revenue requirement. The single -- I mention
10 in my testimony that certain jurisdictions have a
11 tracker, a pension tracker, where they keep track of the
12 pension expense, the assets that gave rise to it, and
13 they true it up annually.

14 So that way, everyone is even. No one is
15 out. No one is short. The actual expense is paid for by
16 customers, the customers get the benefit of the credit
17 and it all works out.

18 Q. Thank you. Mr. Russell talked to you about
19 the impact of, perhaps, overfunding the pension asset.
20 Is it true that if a pension asset is overfunded, the
21 excess money would stay in the pension account for the
22 employee benefits and can't be withdrawn by the company
23 for other purposes?

24 A. That's correct. The asset, once it goes to
25 the pension trust, the funds in that trust can only be

1 used to pay the pension benefits.

2 Q. But it's true also, isn't it, that the funds
3 that stay in that account will defer future expenses as
4 long as they stay in a positive state -- credit state?

5 A. As long as there is a prepaid pension asset,
6 as long as there are funds in the pension trust, the
7 calculation of pension expense is reduced -- is credited
8 for the earnings on -- expected earnings on those assets.

9 Q. And do you have an understanding of whether
10 customers have been required or have not been required to
11 pay pension expenses or whether there have been plan
12 contributions since 2017?

13 A. My understanding is since 2017, there have
14 been no contributions, no further contributions to the
15 pension trust. None were required.

16 Q. Let me ask you, if you assume for the sake of
17 my hypothetical that the company has underearned in every
18 one of those same years, would the customers have missed
19 out from a benefit from any contributions they made, any
20 moneys towards contributions they made?

21 A. Not sure. Could you rephrase that or --

22 Q. If customers were paying for pension expense
23 by virtue of some rate case in 2013, and the company is
24 actually underearning every year -- let's say the company
25 underearned in every year since 2013. Okay? Are you

1 following me?

2 A. Uh-huh.

3 Q. Have customers been hurt in any way in the
4 contribution portion that was included in rates, during
5 that period of time, if the company has underearned?

6 A. Definitely. I mean, the customers aren't
7 paying for some costs if they are underearning.

8 Q. Is it your position that the company's
9 treatment of the asset and the credit in this particular
10 rate case is consistent with FERC precedence?

11 A. Yes, there have been a number of FERC cases,
12 which I cite, where -- when there is no contribution,
13 FERC -- and the companies have attempted to use accrual
14 accounting and get the pension expense and the prepaid
15 pension asset. And FERC has said, "No, in this case,
16 because you have made no contribution, no expense, no
17 pension, anything."

18 So they just zeroed everything out, which is
19 what I said in my testimony, and I also did a calculation
20 to show that excluding everything as a result of zero,
21 including the prepaid pension asset related to FERC taxes
22 and the negative pension expense, in other words all
23 components, also has a basically -- it's basically a
24 wash.

25 Q. So two more questions. In the world we are

1 in right now, where there is a credit of some amount, are
2 customers going to receive, either now or in the future,
3 the full benefit of that credit?

4 A. If you put everything together, the
5 customers -- like I say, if you take the credit, you take
6 the assets, the asymmetrical, return on planned assets
7 and include it all it, basically all of that would ignore
8 to the benefit of the customers.

9 Q. Right. So let me make sure you understand
10 what I'm asking. If we do what the company is doing and
11 you take everything out, or we do the alternative of
12 putting everything in, in either case, will the customers
13 receive the benefit of -- the full benefit of the credit
14 money -- the moneys that are sitting in that trust
15 account, to pay for that pension -- those pension
16 expenses as they arise? That is my question.

17 A. Absolutely.

18 Q. Okay. Is the company getting some benefit
19 from the customers by having that credit in there? Are
20 they keeping some benefit from the customer?

21 A. No, the -- like we've said, the pension trust
22 is a self-sustaining trust. The moneys that go into it
23 can only be used to fund pension benefits.

24 Q. And finally, you were handed two exhibits,
25 OCS F1 and F2. I just want to know if in that

1 testimony -- I see in F2, which is -- I'm looking on page
2 4, I guess the second page 4, line 79, if you can find
3 that.

4 A. Sorry, I do have two page 4s.

5 Q. Go to the second page 4.

6 A. Yes. Okay.

7 Q. The benefit that I understand him to be
8 discussing is a reduction in pension expenses, not the
9 receipt of a pension credit.

10 Would you review that and tell me if you have
11 an understanding of whether he's talking about giving
12 customers the benefit from a pension expense or whether
13 he's talking about giving customers the benefit of a
14 pension credit?

15 A. I'm not sure you can tell that without
16 knowing the other components of pension cost. I just
17 know that the pension cost calculation itself is going to
18 benefit by the 5.2 million or the 3.3 million, with
19 allocations to reduce it.

20 Q. So whether the customers would be -- if the
21 account was not in the credit standpoint, if there were
22 expenses that were required, or in a circumstance when
23 there is a credit, is it your understanding then that in
24 either case, the moneys that were contributed by, in the
25 \$75 million contribution, would defray that amount, at

1 **least of the pension expenses?**

2 A. These amounts, the earnings on the 75
3 million, reduce pension costs. And if the other
4 components of pension expense were -- I will make up a
5 number, \$10 million, reducing it by 5.2 would reduce the
6 expense down to -- 10 million less 5.2 -- 4.8.

7 If the other components of pension expense,
8 service cost and interest, was a million dollars, then
9 applying this credit would get you to negative. In
10 either case, it is reducing the cost.

11 **Q. Thank you. I have nothing further.**

12 COMMISSIONER LEVAR: Okay. If anyone has
13 recross, please let me know.

14 You do, Mr. Russell? Do you have any
15 recross?

16 MR. RUSSELL: Yes, I think I may.

17 COMMISSIONER LEVAR: Okay. Anyone else?
18 Okay. Let's go to Mr. Moore first.

19 RE CROSS EXAMINATION

20 BY MR. MOORE:

21 **Q. You testified that if the Commission keeps**
22 **going in the usual mode of including the pension expense**
23 **and excluding the pension asset, the customers would have**
24 **a free lunch; doesn't that reflect your testimony?**

25 A. I think I said the customers will get the

1 benefit of the reduced expense without paying for the
2 investor contributions that contributed to it.

3 **Q. But isn't that what Mr. Wohlfarth and**
4 **Mr. Curtis promised them?**

5 A. I think all -- again, just reading what you
6 sent me, what you gave me, it says that they will benefit
7 from the 75 million contribution to the trust. And they
8 are getting a benefit. There's a reduction in expense.

9 **Q. But they said it would benefit by 3.3 million**
10 **annually and in perpetuity?**

11 A. In expense.

12 **Q. And that is going to happen regardless of**
13 **whether you include the pension asset -- the pension**
14 **expense in the revenue or not?**

15 A. The pension expense is reduced by that
16 amount.

17 **Q. Is that going to happen regardless -- so then**
18 **what difference does it make if the pension expense is**
19 **included in rate base or not, if the customers receive**
20 **the precise same benefit?**

21 A. Can you please rephrase that?

22 **Q. Do the customers receive the same benefit**
23 **from including the pension -- the negative pension**
24 **expense in the rate base without including the pension**
25 **asset in the rate base, as they would if all pension**

1 **assets were taken away from the rate base as Dominion**
2 **suggests?**

3 A. I am not saying Dominion suggested it, but
4 obviously, I said earlier, if on one hand, you are going
5 to reduce expense by some amount and that's it, there is
6 going to be a benefit of that amount. If you are more
7 symmetrical, like I think you should be, the reduction in
8 expense is offset by the -- or should be offset by the
9 funds, the source of the funds that contributed to that
10 lower expense. So obviously --

11 **Q. But my question was --**

12 A. -- if you have a lowering and an increase
13 combined, that's going to be less than if you just reduce
14 it by the expense.

15 **Q. My question was: What benefit -- will there**
16 **be a difference in benefit assuming that the pension**
17 **expense is included -- negative pension expense is**
18 **included in rate base and the pension aspect is excluded**
19 **and when the pension -- negative pension aspect is**
20 **excluded, would the customers receive the exact same**
21 **benefit?**

22 A. The math would agree with that. It's not
23 as -- you're going to get a benefit if you only reduce
24 expense without putting the other side in, yes.

25 **Q. Well, then why does Dominion care? Why don't**

1 they just go with OCS's suggestion if the same results
2 apply either way?

3 A. I didn't say that -- we are not
4 communicating. I'm saying that the pension expense is
5 reduced because of the 75 million. That will
6 reduce -- that will result in less pension expense.

7 Okay?

8 Q. Right.

9 A. Okay. So that's one number. That is a
10 benefit to the customers. What I'm saying is if you are
11 symmetrical and include, as an offset, the funds that
12 contributed to that negative pension expense, it's less
13 of a benefit, for sure.

14 Q. Okay. Let me try this another way. I don't
15 think you're answering my question. Let me try it
16 another way, see if I can make it clearer to you.

17 Mr. Curtis stated that applying the current
18 allocation methodology, \$3.3 million of annual pension
19 benefits would be allocated to Dominion Energy Gas
20 customers. Now that works as a reduction in the revenue
21 requirement when the expense is negative. Correct?

22 A. I don't know if it says -- the expense is
23 lower by 3.3 million.

24 Q. If the expense is negative, does it reduce
25 the revenue requirement?

1 A. If the expense is lower or negative, it
2 reduces the revenue requirement, yes.

3 **Q. Does it reduce the -- I'm having a problem to**
4 **see how it makes a difference. Why don't you explain to**
5 **me what is a "free lunch" and what the customer receives**
6 **as a free lunch and what the customers receive if, as**
7 **Dominion suggests, the pension -- negative pension**
8 **expense is excluded from rate base?**

9 A. Okay. What I mean by a "free lunch" is that
10 the investors contribute assets. Those assets -- the
11 investors contribute assets. Those assets reduce an
12 expense. And I only consider the reduction and expense
13 in determining revenue requirements. They are -- without
14 considering the return on the investment that the
15 investors have contributed. It's a free lunch.

16 **Q. And that free lunch is worth about \$3.3**
17 **million, isn't it?**

18 A. Based on reading the second page 4, line 78
19 to 82, it looks like there was a \$3.3 million benefit to
20 the customers that they are receiving without paying for
21 the assets -- the asymmetrical asset that caused it.

22 **Q. And they won't receive that under Dominion's**
23 **theory that negative pension expense should be excluded**
24 **from the rate base; is that correct? They won't receive**
25 **that free lunch?**

1 A. They don't get a free -- right. No one
2 should be entitled to a free lunch. You should pay for
3 the --

4 **Q. Thank you. Go on, I didn't mean to cut you**
5 **off.**

6 A. I was going to say, if there was a reduction
7 and expense due to an investment source to investors, you
8 should handle both. That's why we have a rate base
9 earnings. Right? That's why there's a return on a rate
10 base and there's operating expenses. The return on the
11 rate base results in positive or negative expenses. They
12 should both be handled symmetrically.

13 **Q. That's all I have. Thank you.**

14 COMMISSIONER LEVAR: Thank you.

15 Mr. Russell?

16 MR. RUSSELL: Thank you.

17 RE CROSS EXAMINATION

18 BY MR. RUSSELL:

19 **Q. Mr. Felsenthal, are you aware of testimony or**
20 **responses related to data request that identify what the**
21 **pension expense would have been without the \$75 million**
22 **contribution made in 2017?**

23 A. You have to -- I have seen that somewhere.

24 **Q. Okay. I don't want to belabor this point,**
25 **just come with me for a second.**

1 If the pension expense, absent that \$75
2 million contribution, would also have been negative and
3 the \$75 million contribution made it more negative, and
4 then the company is saying, "Well, let's zero it out,"
5 the customers are not receiving the benefit of the
6 negative pension expense that they would have otherwise
7 received, absent the \$75 million contribution. Right?

8 A. Yes.

9 Q. Okay. And then I want to ask you one other
10 set of questions. It may only be one.

11 Mr. Sabin asked you some questions about who
12 benefited and who lost from -- not including the pension
13 expense since the 1999 rate case. Do you recall those
14 questions?

15 A. Vaguely.

16 Q. I may have said "pension expense." I meant
17 to say pension assets, my apologies.

18 A. That is why it was vague.

19 Q. Yes, I'm sorry. Mr. Sabin asked you some
20 questions about -- including the pension expense but not
21 including the pension asset since the 1999 rate case; do
22 you recall that?

23 A. Yes.

24 Q. And he asked you who lost out from that
25 series of events; do you recall that?

1 A. Yes.

2 Q. And your answer was that shareholders lost
3 out because the pension assets were not included; is that
4 right?

5 A. Yes. The investors did not get a return on
6 the investment they put in, which caused that negative
7 pension expense, that lower pension expense.

8 Q. But doesn't your answer assume that the
9 pension asset was positive?

10 A. It could go either way. I agree. If it's a
11 negative pension -- if it's a negative pension expense,
12 it should reduce rate bases. It should go either way.

13 Q. So a negative pension expense?

14 A. Pension assets. Well, then it is a pension
15 liability.

16 Q. Right. If it is a negative pension asset or
17 a pension liability, by including it, it would reduce
18 rate base. Right?

19 A. Correct.

20 Q. Okay. That's all I have. Thank you.

21 COMMISSIONER LEVAR: Okay. Does Dominion
22 have anything else?

23 MR. SABIN: Can I ask a couple of clarifying
24 questions?

25 COMMISSIONER LEVAR: Yes.

1 MR. SABIN: Unless it would peeve you.

2 COMMISSIONER LEVAR: No.

3 FURTHER REDIRECT EXAMINATION

4 BY MR. SABIN:

5 Q. Okay. I want to be clear on a couple of
6 things. Is this truer than not, that the company is not
7 asking to include the asset in this case and receive a
8 return on that asset?

9 A. The company is excluding all elements, all
10 components of pension.

11 Q. Okay. So if the Commission were to adopt the
12 company's position, the company wouldn't be receiving any
13 return on its pension asset, regardless of how we want to
14 look at it, there just wouldn't be a return on that
15 portion?

16 A. Correct. They would receive -- there would
17 be no compensation, one way or the other, with expense or
18 return on anything to do with pensions.

19 Q. Okay. Now if the Commission went with your
20 alternative, which was to go and be symmetrical the other
21 way, include the credit, include the asset, include all
22 components of the pension issue, the customers would
23 still be receiving the benefit of the pension
24 contributions in the form of defrayed expenses and the
25 company would be earning a return on the asset itself?

1 A. Correct.

2 Q. Okay. Under the scenario that is being
3 advocated by the OCS and by the American National Gas
4 Council and UAE, you would have a circumstance where
5 customers would get a credit applied to reduce the
6 revenue requirement, but there would be no corresponding
7 gain to the company on the asset funding that credit?

8 A. Correct.

9 Q. And there would be a shortfall for the
10 company in the revenue requirement between what customers
11 are paying and what the revenue requirement actually is?

12 A. Right. And that would be similar to
13 my -- whatever example we've used, the 17 million
14 versus -- or the 10 million versus 8 million example,
15 where there is not enough revenue requirement to pay the
16 cash expenses.

17 Q. Last set of questions. When the contribution
18 was made, the \$75 million contribution or any
19 contribution by the way of investors, isn't it true that
20 money would offset some portion, at least of customer
21 expense, for that pension account, either now or in the
22 future?

23 A. Correct.

24 Q. So customers in the circumstance where
25 Mr. Moore was talking about, where you make a \$75 million

1 contribution, those funds would -- customers would
2 receive the benefit whether it paid an expense today or
3 whether it defrayed expenses into the future or created a
4 return to defray expenses into the future, that would be
5 received wholly by the customers?

6 A. Either way.

7 Q. Thank you. That's all.

8 COMMISSIONER LEVAR: Mr. Moore?

9 MR. MOORE: I apologize for doing this again.

10 COMMISSIONER LEVAR: Sure, but at some point,
11 we have to cut it off.

12 FURTHER RECROSS EXAMINATION

13 BY MR. MOORE:

14 Q. Getting to the last question where you
15 mentioned that customers would benefit in the future,
16 that wouldn't be an annual benefit, would it?

17 A. It would be -- it would be -- well, it would
18 be a benefit as long as there's a pension asset, a
19 prepaid pension asset. The amount might change.

20 Q. The amount might change, so wouldn't it be
21 approximately \$3.3 million annually in perpetuity?

22 A. It could be more, if the company puts in.
23 They didn't. But if they decided to put more money in,
24 the number would be greater.

25 Q. But they didn't?

1 A. They haven't.

2 Q. I have no further questions.

3 COMMISSIONER LEVAR: Okay. Thank you.

4 Commissioner White?

5 EXAMINATION

6 BY COMMISSIONER WHITE:

7 Q. You have noted some FERC and other
8 jurisdictional precedents to allow for this concept for
9 Option 2, which, I guess, is the symmetry of allowing the
10 asset -- I apologize, these terms, the asset to be rate
11 based versus the potential accounting of the revenue
12 requirement. Right?

13 A. Of the expense.

14 Q. Are you aware in those contexts if those
15 other jurisdictions -- whether or not those were decided
16 prior to that decision, to infuse the pension fund with
17 from shareholders, I guess?

18 A. It would be a significant --

19 Q. Let me just tell you where what I'm trying to
20 get here.

21 A. Okay.

22 Q. What the predicate here is, essentially, it
23 would be an investment decision. In other words, there
24 would be potential for a return on it for exchange for
25 the symmetrical or the wash. Was that decided, that

1 issue decided before a particular company or investors
2 were allowed to make that decision?

3 A. I am not sure the history of it, but I do
4 know in my testimony, I have a couple of stated examples,
5 where they were made aware, or at the time, somebody may
6 not have asked for it prior, but once they were able to
7 demonstrate that the source -- the key is, what is the
8 source, the prepaid pension asset? If it's one big
9 contribution like 75 million, well then you know. They
10 said they were going to do it. They did it.

11 In the normal course of business, to the
12 extent that there are reductions in pension expense,
13 okay, and there are contributions being made under ERISA,
14 that are in excess of pension expense. That is a
15 contribution made by investors, and they need a return on
16 it.

17 Q. And the question I'm getting at is if the
18 regulatory construct of it, if an investor -- the
19 expected return on their investment, but, typically,
20 that's -- the predicate to that is the request to make
21 that investment. So that is what I'm wondering. And you
22 are saying you are not aware of any jurisdiction that is
23 actually opined on that prior to the investment being
24 made?

25 A. I don't know. There could be. I don't know.

1 I just know that they ended up -- by having this concept,
2 there was a -- it was one time called a "prepayment," a
3 prepayment because you are prepaying for the pension
4 expense. Right? You can't get it out of the fund, and
5 the investors -- it's their money, they proved -- I have
6 seen cases where they talk about it being used and
7 useful, all that other good stuff, and they get a return
8 on it.

9 Q. Let me ask you another question. This
10 partially has to do with the testimony from Mr. Wohlfarth
11 that is referenced in OCS Exhibit F1. And I'm looking at
12 page 19, starting at line 3, and I will cut to the chase.
13 It references, as part of merger commit, a charitable
14 contribution in the amount of \$1 million.

15 You know, this merger came in as a
16 stipulation, and so we're not privy, as the Commission,
17 in terms of the put and take of what goes into that, but
18 I guess my question, is there a distinction to be made
19 to -- of shareholders' money. Right? A million dollars,
20 was there an expectation from shareholders to earn a
21 return on that?

22 A. I don't know. I will tell you the difference
23 is there wasn't a benefit. There wasn't a -- there is
24 not a reduction in cost like there is on the pension.

25 Q. Okay. That is all I have. No further

1 questions.

2 COMMISSIONER LEVAR: Commissioner Clark?

3 EXAMINATION

4 BY COMMISSIONER CLARK:

5 Q. So I would like to focus on the 37.5 million
6 that's the portion of the asset that's not directly
7 related to the merger and what may have been represented
8 to the Commission and to the people of this community or
9 this state regarding what the 75 million was all about.

10 So let's just, for hypothetical purposes or
11 for my purposes of trying to understand, the investors as
12 the source of the asset -- that is what I want to
13 understand better. I don't think we have a situation
14 where debt was issued or shares were issued to generate
15 37.5 million to put in the pension fund; is that correct?

16 A. I don't know, but I will --

17 Q. Okay. But I mean probably not, at least.
18 Right? So in a situation where -- and I will just use
19 simplifying assumptions. We have \$5 million in rates
20 that's been authorized as an annual pension expense, and
21 let's say we have a year where, sort of, magically, the
22 GAAP accrual is 5 million, the actuarial ERISA
23 calculation is 5 million.

24 So \$5 million in rates comes to the company,
25 and then the 5 million that goes into the pension

1 account that same year to meet the ERISA requirements
2 is -- somehow that is investor contribution, rather than
3 the source of it being customers; is that how you are
4 thinking about it?

5 A. No. In that case, if the customers -- if the
6 pension expense was \$5 million and the ERISA requirement
7 was \$5 million, there is no prepaid pension asset because
8 the prepaid pension asset is the excess of contributions
9 over expense.

10 Q. Right, right. So --

11 A. So in that case, it would be zero.

12 Q. Okay. So we start with that happening over a
13 number of years. Now that starts to increase because of
14 the earnings performance of the fund, and we find that we
15 have more than is required under ERISA.

16 So that extra is now investor asset as
17 opposed to some other ownership; is that correct?

18 A. Can I try this?

19 Q. Yes.

20 A. Let's say that we started with your
21 assumption, that -- the \$5 million of pension expense.
22 Let's say because of earnings on the pension assets, that
23 pension expenses now is 3 million. But the ERISA
24 contribution is still 5. In that case, now there's a \$2
25 million prepaid pension asset. It couldn't have come

1 from customers. They only paid 3. So the source would
2 have had to have come from investors.

3 **Q. But it really came from the earnings on**
4 **the --**

5 A. No, no. The earnings are still in the -- the
6 earnings are not in there. The earnings reduce the
7 expense. The earnings don't go to the asset. The
8 contribution is still, in your case, \$5 million, but the
9 pension expense is now less. So if you just do the
10 calculation of what's the prepaid pension expense -- I'm
11 sorry, what's the prepaid pension asset, it's
12 contributions, in this case, 5 million. Now the pension
13 expense is now 3 million, been reduced from 5 because of
14 the earnings and the prepaid pension asset.

15 **Q. I understand.**

16 A. Okay. And --

17 **Q. I understand what you are telling me. Thank**
18 **you.**

19 A. Okay.

20 **Q. That's all my questions.**

21 EXAMINATION

22 BY COMMISSIONER LEVAR:

23 **Q. I think I have a question. It might reveal**
24 **my ignorance of GAAP or it might be a question you have**
25 **already answered. If it is, I apologize.**

1 A. I hope it is one of those two.

2 Q. You know, we've talked about the statement of
3 Mr. Wohlfarth and Mr. Curtis and the merger document
4 about their estimate of 3.3 million annual perpetual
5 benefit to ratepayers.

6 So let me ask you this: If we put aside the
7 rate base issue, assume we are not making a change to
8 rate base, we're not putting the asset in rate base but
9 we were to accept the office's proposed negative accrual
10 adjustment to expense, would that change impact the
11 estimated \$3.3 million perpetual annual benefit to
12 ratepayers?

13 A. There are two calculations. All right? The
14 3.3 million is a calculation based on the \$75 million
15 contribution to the pension trust. So that's going to be
16 \$3.3 million as long as that 75 is there.

17 Q. Okay.

18 A. The only question then is, is it appropriate
19 to have earnings or have the source of the \$75 million,
20 the company, get a return on it.

21 Q. Well, I want to put that issue aside. I want
22 to ask the impact -- the impact of the negative accrual
23 adjustment to expense that the Office is advocating for
24 without the rate base change.

25 A. It's 75 million stays as a prepaid included

1 and the prepaid pension amount, then that amount
2 times -- I think it might even be more than 3.3 million
3 because Dominion has a higher expected return on assets.

4 But it's a math, it's a calculation of what
5 the annual benefit is. It's however much is in the
6 prepaid pension asset times the expected return on plan
7 assets that are used in coming up with pension expense.

8 **Q. Okay. That is not impacted by the expense**
9 **adjustment?**

10 A. Right.

11 **Q. Okay. I think that is my only question.**

12 **Thank you for your testimony this afternoon.**

13 COMMISSIONER LEVAR: We're ready for your
14 next witness.

15 MS. CLARK: Thank you.

16 MR. SABIN: Before we call our next witness,
17 we just want to -- Mr. Felsenthal needs to catch a plane.
18 Is there any reason to keep him around any longer?

19 COMMISSIONER LEVAR: I will ask any parties
20 or the Commissioners if they have any objection to that,
21 to let me know. I'm not seeing any objection.

22 So thank you.

23 MR. FELSENTHAL: Thank you.

24 MS. CLARK: The company calls Jordan
25 Stephenson.

1 COMMISSIONER LEVAR: Good afternoon,
2 Mr. Stephenson.

3 DIRECT EXAMINATION

4 JORDAN STEPHENSON,

5 called as a witness, having been first duly sworn,
6 was examined and testified as follows:

7 BY MS. CLARK:

8 Q. Good afternoon.

9 A. Good afternoon.

10 Q. Could you please state your name and business
11 address for the record?

12 A. Yes. Jordan Stephenson, 333 South State,
13 Salt Lake City.

14 Q. Mr. Stephenson, can you please identify your
15 employer and tell us what position you hold there?

16 A. Yes. I'm a regulatory affairs manager for
17 Dominion Energy Utah.

18 Q. Mr. Stephenson, did you file pre-file direct
19 testimony in this docket, labeled DEU Exhibit 3.0, with
20 attached exhibits -- three exhibits 3.01 through 3.32?

21 A. Yes.

22 Q. And did you also file pre-file rebuttal
23 testimony in this docket, labeled as DEU Exhibit 3.0R,
24 with attached exhibits DEU Exhibit 3.0R -- I'm sorry,
25 3.01R through 3.09R?

1 A. Yes.

2 Q. And do you adopt those documents as your
3 testimony today?

4 A. I do.

5 MS. CLARK: The company moves for the
6 admission of the company's pre-filed direct testimony of
7 Jordan Stephenson marked as DEU Exhibit 3.0, with a
8 accompanying Exhibits 3.01 to 3.32, as well as
9 Mr. Stephenson's rebuttal testimony marked as DEU Exhibit
10 3.0R, with attached exhibit DEU Exhibits 3.01 through
11 3.09R.

12 COMMISSIONER LEVAR: Okay. If anyone objects
13 to that motion, please indicate to me.

14 I'm not seeing any, so the motion is granted.
15 (Hearing Exhibits DEU 3.0 and 3.0R
16 were marked for identification.)

17 MS. CLARK: Thank you.

18 BY MS. CLARK:

19 Q. Mr. Stephenson, are you able to summarize for
20 the Commission the testimony that you have offered in
21 this docket?

22 A. Yes. In this docket, the company originally
23 filed for a revenue requirement increase of \$19.2
24 million, based on 2020 test period -- average test
25 period, I should say.

1 The calculation of that revenue requirement
2 included a forecast of increased revenues from customer
3 growth, adjusted for customer usage, per customer. It
4 also included a forecast of O&M expense projected in the
5 2020 period, as well as capital investment increase.

6 Since that time, since that filing, we have
7 had several adjustments discussed throughout the period
8 of discovery in this case. And for the sake of
9 simplifying and organizing my presentation or my summary,
10 I have prepared a table that summarizes the testimonies.

11 COMMISSIONER LEVAR: Yes.

12 MS. CLARK: Thank you.

13 (Document DEU 7 was marked but
14 was not admitted as an exhibit.)

15 THE WITNESS: Over the course of this docket,
16 we have had over a dozen specific adjustments to the
17 revenue requirement we originally filed proposed by
18 various parties in this case.

19 This table is my attempt to summarize each of
20 those adjustments and where the parties currently stand
21 on those issues.

22 BY MS. CLARK:

23 **Q. Sorry to interrupt, before you get too far,**
24 **would you please identify this by its title for the**
25 **record?**

1 A. I will, yes. We have titled this DEU Hearing
2 Exhibit 7.

3 So I have organized this -- so there are
4 three main categories, and it's color shaded. So the top
5 section that you see that's highlighted in green
6 represents areas where adjustments proposed by parties in
7 this case, to which we have, I'll call, "substantial
8 agreement."

9 You'll notice some of the specific amounts
10 differ slightly as you move across these columns. The
11 reason for that is the treatment of inflation, whether
12 it's included in the test period or not, as well as the
13 lead lag factor used or the return on equity slightly
14 change the amounts of these adjustment.

15 So the final adjustment, whatever the final
16 amount is will depend on some of those factors. So
17 that's the reason why there is a little bit of variance
18 in these numbers, but this is to provide an overall view
19 of where we stand substantially on these issues.

20 So going through this green section you see,
21 Row 2 represents our "Original proposal" that the company
22 submitted of \$19.2 million from the 2020 test period.
23 That would be the revenue requirement increase in 2020.

24 The next line is an adjustment to "Cash
25 working capital." This is a rate base reduction that

1 results in an overall reduction in the revenue
2 requirement. The reason for that adjustment is the lead
3 lag factor changing from the original proposed factor to
4 a lower factor.

5 And by way of background, the company did
6 meet with representatives from the Division, and we
7 reviewed the various proposals or adjustments that the
8 Division had filed in testimony and we do agree to those
9 adjustments to the lead lag factor.

10 The office's position is slightly different.
11 I will note that I believe that the depreciation and
12 deferred income tax, the treatment of that item is not
13 agreed to by the Office. So I will not represent that we
14 are all in agreement on that issue.

15 The next item on Row 4 of the exhibit is the
16 removal of an audit fee accrual. And I will note that
17 upon review of the surrebuttal testimony of Ms. Ramas in
18 this case, the company does agree with the full removal
19 of the audit fee accrual, so we are on agreement to that
20 issue.

21 That's a little different than where we had
22 left things in my rebuttal testimony, but as Ms. Ramas
23 correctly points out, we had included accruals in our
24 analysis that are capitalized, not expense items, and
25 those should not be included in that analysis. So we

1 agree with the office's adjustment on that.

2 The next few items relate to fines being
3 removed from the test period, an adjustment to property
4 tax expense, and then we have an additional operating and
5 maintenance reduction of roughly \$600,000 for the test
6 period, which is an update to savings that the company
7 projects will occur in 2020.

8 I will note that the Office didn't expressly
9 agree to the 600,000. I think their position, and I
10 apologize if I mistake anything, but I believe that they
11 would like to see a removal of all inflation in the test
12 period, and I think the 600,000 would kind of be included
13 in that removal of inflation. So that's down in the
14 lower section of this matrix.

15 The next group of items that's related is
16 transponder -- or I will call these "partial agreement
17 items," not fully agreed to but partially agreed to. The
18 first couple items on Rows 9 and 10 are related to the
19 treatment of transponder activity in the test period.
20 And my original projection for transponder retirement
21 activity that we filed in 2019 and 2020 utilized
22 system-wide factors to estimate the impact of three
23 things.

24 One is the construction work in process that
25 remains in CWIP Account 107 at the end of the test

1 period. I will note that is not a rate base account, and
2 so we withhold a certain amount of all capital additions
3 and we include those in CWIP and we do not push that
4 through into rate base. And we used the historical
5 five-year average factor for how much would remain in
6 CWIP that was based on a system total additions for that.

7 We also had a factor for proceeds, which
8 increases the 108 amount, and we had a factor for
9 dismantling cost, which reduced the 108 account. For all
10 three of those factors, we used a system-wide total to
11 calculate what the transponder activity would be.

12 Ms. Ramas has recommended that transponders
13 should be accounted for individually, rather than using
14 system-wide factors for proceeds and dismantling
15 specifically. This results in a \$3.6 million decrease to
16 rate base in 2020.

17 Ms. Ramas' testimony does not address the
18 system-wide factor used for construction work in process
19 related to transponders. Upon further review of
20 transponder activity and after reviewing Ms. Ramas'
21 testimony, I do agree that it is appropriate to regard
22 transponders individually and to update the dismantling
23 and proceed activity.

24 In my analysis, I also updated the
25 construction work in process factor as well, and that's

1 why my adjustment is slightly different. So I would call
2 that a partial agreement on that issue.

3 And moving on to Row 11, this relates to an
4 excess deferred income tax adjustments. The parties
5 largely agree on the treatment of excess deferred income
6 tax except for the amortization period for non-plant
7 related EDIT. The company has proposed a 12-year
8 amortization period, the UAE has proposed a ten-year
9 amortization period and the Office has proposed a
10 five-year amortization period.

11 The company recommends a 12-year period
12 because the lion's share of non-plant related excess
13 deferred income tax balance is pension related, and the
14 pension has a remaining service life of 12 years. In
15 addition to the 12 -- in addition, the 12-year period
16 mitigates volatility in the revenue requirement collected
17 from customers over time, meaning that it will not result
18 in a large decrease in the revenue requirement for a
19 short period of time, followed by a large increase at a
20 later date when that balance has been fully amortized.

21 Related to this recommendation as well, it's
22 important to note that the current excess deferred income
23 tax balance is currently included as a reduction to rate
24 base in the 254 Account. Meaning that a rate of return
25 is included in the test period to the benefit of

1 customers for any unamortized balance. This return
2 fairly compensates customers throughout the time period
3 of amortization.

4 So for these reasons the company disagrees
5 with the ten-year period or a five-year period which are
6 not based on the cost that contributed to the EDIT
7 balance and that increase volatility by rushing a credit
8 over an arbitrarily short amount of time, especially when
9 recognizing the customers are fairly compensated with the
10 rate of return because we are reducing rate base by the
11 full unamortized amount of EDIT.

12 And now turning to the items in blue, Row 13
13 relates to an adjustment to "Projected plant in service."
14 As we talk about the projected plant in service, I just
15 wanted to refer back to my direct testimony in Exhibit
16 3.09. While you're opening up to that page, I will just
17 note that the company has included a capital budget in
18 2019 of \$233 million to be spent in 2019 and then \$277
19 million to be spent in 2020.

20 Exhibit 3.09 includes a comparison of actual
21 capital spending over the last five years to the budgeted
22 amount to each of those years, and I would refer to Row
23 6, where we show on average we spend within 1 percent of
24 what we have budgeted as a company. And I believe that's
25 evidence to the fact that we do not require a capital

1 reduction in 2020, as far as what is included in the test
2 period. We have high confidence that is an accurate
3 number.

4 I will note as well that as we reach the end
5 of 2019, the company anticipates that it will end the
6 year slightly above the \$233 million capital budget. And
7 the difference between the \$233 million in 2019 --

8 MR. JETTER: I would like to raise an
9 objection to this is not being a summary of testimony. I
10 think we are potentially exceeding the length of filed
11 testimony, and it appears to be rebuttal or surrebuttal.
12 And that's, ultimately, my objection.

13 COMMISSIONER LEVAR: Okay. Does anyone else
14 want to weigh on the objection before I go to Dominion?

15 MR. SNARR: The Office would weigh in on
16 that. As we are now seeing the numbers changing, it is
17 difficult for us to work through several rounds of
18 testimony and additional rounds of discovery to try to
19 figure out what the issues are, to then come and
20 understand anew what the issues might be in the form of
21 adjustments or modifications being made on the stand as
22 opposed to a real summary of what has already been
23 provided.

24 COMMISSIONER LEVAR: Okay. Before I move on,
25 let me just ask -- well, I want to ask the two of you a

1 question, but let me see if Major Kirk or Mr. Mecham or
2 Mr. Russell want to weigh in on the objection at this
3 point.

4 Mr. Russell?

5 MR. RUSSELL: I'm not sure if this is
6 responsive to Mr. Jetter's objection. I note that a
7 portion of Mr. Stephenson's testimony, or a summary of
8 his testimony, has been to alert the Commission to where
9 the company's position is now, as opposed to where it may
10 have been at the end of rebuttal, adopting some portions
11 of the surrebuttal testimony of the intervener.

12 I don't have a problem with that. I'm not
13 sure why that would be objectionable. I think the point
14 of what we are doing here is to ensure that we all know
15 what the company's position is, what the parties'
16 position are, at least on those numbers.

17 I will note that is it the a little difficult
18 to do that on the fly, to kind of adjust what we're doing
19 on the fly, but to the extent that we're -- that the
20 point of the summary is to kind of let everybody know
21 where -- the company has adopted the testimony of other
22 parties. I think that part of it is appropriate anyway.

23 COMMISSIONER LEVAR: Okay. Let me come back
24 to Mr. Snarr and Mr. Jetter before I go to Dominion.

25 And my question I wanted to ask for you is

1 similar to the issue that Mr. Russell just raised. Is it
2 your position that without an allowance for live
3 surrebuttal, if Dominion sees some issues in your
4 surrebuttal that cause them to move where they are,
5 what's the right process for us to handle that?

6 Mr. Jetter, I will go to you first.

7 MR. JETTER: So I think it would be
8 reasonable to do that. The trouble, I think, that I'm
9 seeing is that interweaving of arguments supporting the
10 company's position. It is not a clear "We agree on these
11 12 different adjustments and here they are." It seems to
12 be a bit more than that.

13 And with respect to the position matrix, at
14 least for the Division's position, I don't think it
15 accurately reflects our position, particularly on the
16 basis that it assumes issues that we have not opined on,
17 that we either support or don't support adjustments from
18 other parties that have presented those positions.

19 COMMISSIONER LEVAR: Okay. Thank you.

20 Mr. Snarr?

21 MR. SNARR: I guess it's difficult to object
22 to actions that will bring the parties together and
23 recognize resolution as opposed to a continual fight
24 where there is no fight. I acknowledge that.

25 But in this case, it has been difficult, at

1 times, to figure out exactly where we are, including the
2 formal filings but also through discovery, and I just
3 need to air that as a process that we're struggling with.

4 I guess having said that, I will defer to the
5 Commission to determine how to best handle things.

6 COMMISSIONER LEVAR: Let me just clarify. Is
7 your motion to exclude this matrix and also an objection
8 to some of the summary verbal statements that
9 Mr. Stephenson is making?

10 MR. JETTER: I guess yes to both of those. I
11 would -- I was intending to object to the entry of the
12 position matrix into the record that it doesn't, at
13 least, accurately reflect the position of the Division,
14 and --

15 COMMISSIONER LEVAR: Well, at this point, we
16 haven't had a motion to --

17 MR. JETTER: That's correct. And so what I'm
18 struggling with is as we go through each one of these
19 issues, there is a combination of position change and
20 testimony in support of that. And I don't have the
21 ability right now to evaluate all of that potentially new
22 testimony and whether that is consistent with each of
23 these issues, the testimony in rebuttal position.

24 So I recognize it is a little unorthodox to
25 object to a changing position, getting closer to,

1 potentially, our position, but I'm not sure how I can
2 reasonably respond if there are testimony differences
3 that are subtle. I mean, I may not recognize them and I
4 wanted to address that before we went on.

5 COMMISSIONER LEVAR: Okay. Let me let you
6 respond to this discussion at this point.

7 MS. CLARK: Yes, I have a few responses. And
8 first, I want to clarify the purpose of this exhibit. As
9 Mr. Stephenson was preparing his summary, it became clear
10 through the process, this litigated process, where we had
11 direct testimony, rebuttal testimony and surrebuttal
12 testimony, that the company had some adjustments that
13 they agreed with.

14 And in an effort to summarize his testimony,
15 he wanted to make it clear, to narrow the issues for all
16 of you so that you could see where there is agreement and
17 where there is not.

18 And the only changes from his surrebuttal
19 would be those where the company is moving in the
20 direction of the adjustment advocated by the parties.
21 And to the extent that that is live surrebuttal, we will
22 readily admit to the fact that we are here to tell you
23 they were right on some points. And that is what you
24 will see here is a change. That was our only intention.

25 So this is offered in an effort to simplify

1 issues for all of you and to -- and it is our intent, and
2 it is my understanding, that it is accurate, and it is an
3 accurate representation of the position of the parties as
4 drawn from their testimony. And arguments that
5 Mr. Stephenson is articulating here reside in his
6 testimony with those few exceptions that I mentioned.

7 I would also point out that the other
8 witnesses that advocated for these adjustments are in the
9 room today. So Mr. Stephenson will be subject to
10 cross-examination on this Exhibit. If there are errors,
11 they can be corrected.

12 And we will hear from all of these witnesses
13 tomorrow, and they will have the opportunity to address
14 anything in this exhibit that they see where he had an
15 error. And I will tell you -- I will represent to you
16 that it is my understanding our intention was to be
17 accurate.

18 So I guess if the parties would like us to
19 withdraw any sort of surrebuttal and not opine on those
20 adjustments that we agree with, we can do that, but
21 everything else you see in this exhibit is in the
22 testimony. The only thing this exhibit does for you is
23 simplify things.

24 THE WITNESS: Can I clarify as well -- I
25 should have stated, when I began this, that a blank space

1 in any of these columns is only blank because that
2 particular party didn't necessarily take a position.

3 So I don't mean to represent that the
4 Division is not accepting any of these adjustments by
5 leaving that blank, and I probably should have said that
6 up front, so...

7 COMMISSIONER LEVAR: Okay. Why don't we move
8 forward this way: I will give Commissioners White and
9 Clark an opportunity to ask any questions. It is
10 probably an appropriate time to take a short break.

11 And I assume, since there is a public witness
12 hearing at 6:00, there will be no objection to taking
13 ten- or 15-minute break and then going for about another
14 hour or so, and then having a 20- to 30-minute break
15 before the public witness hearing.

16 Is that objectionable to anyone, that
17 process?

18 Okay. Commissioner Clark, do you have any
19 questions on this motion that we have in front of us?

20 COMMISSIONER CLARK: No, I don't have any
21 questions.

22 COMMISSIONER LEVAR: Okay.

23 COMMISSIONER CLARK: I think I know where we
24 are.

25 COMMISSIONER LEVAR: Okay. Commissioner

1 White?

2 COMMISSIONER WHITE: Yes. I don't have any
3 questions, thanks.

4 COMMISSIONER LEVAR: Why don't we take a
5 15-minute break, then we will come back and try to have
6 some direction on how we are going to move forward here.
7 Then we will go for another hour or so before we break
8 before the public witness hearing.

9 (Whereupon, a break was taken.)

10 COMMISSIONER LEVAR: Back on the record.

11 Okay. At this point, we are going to allow

12 Mr. Stephenson --

13 MR. MECHAM: Mr. Chair, before you rule, in
14 talking to my witness, he can't track back the number
15 that Mr. Stephenson has for the ANGC position, and I
16 think that's, perhaps, the problem with this document. I
17 get what Mr. Stephenson is trying to do, and I applaud
18 him for it, but if it is not documented and parties can't
19 track their own position -- and ours is pretty simple
20 because we're already capital structure and ROE. That's
21 the problem with the numbers on this document.

22 COMMISSIONER LEVAR: No, I understand. And I
23 think the way we are going to move forward on this, we
24 are not going to -- we are going to allow Mr. Stephenson
25 to continue his verbal summary. This document is not yet

1 in evidence, but we are going to let Mr. Stephenson
2 complete his summary and then allow parties their
3 cross-examination.

4 In the event that this concludes, that we
5 don't -- in the event that we did finish with
6 Mr. Stephenson today, we want to assure parties that we
7 want to ask for him to be made available tomorrow, as a
8 result of this, or any question or issue that needs to be
9 clarified tomorrow, they can be.

10 At this point, we don't feel it advances the
11 process to not allow Mr. Stephenson to present his view
12 of his summary of their position. We understand there
13 are some objections to how he is characterizing other
14 parties' positions, and that's -- we will take that into
15 account and consider that and, of course, allow
16 cross-examination on this today and tomorrow, if anyone
17 desires it.

18 At this point, we haven't had a motion to
19 enter this into evidence, so if that comes, we will deal
20 with that as it happens. But at this point, I think we
21 are going to allow him to continue his summary and move
22 forward that way.

23 THE WITNESS: Thank you. And I'll just
24 reiterate again, as it relates to the amounts on this
25 exhibit, ultimately, the Commission will rule on an ROE,

1 that will change each of these amounts. The lead lag
2 factor changes these, whether or not inflation is
3 included changes these.

4 So I didn't mean to show this as kind of
5 final, end all number. It is mostly meant for
6 representation of where I think currently we are. So I
7 apologize for any concerns that may have caused.

8 I will say the DEU figures to the right is
9 our case, and that is based on the rate base we have to
10 date, the ROE we are proposing and everything.

11 I will continue on. I think we arrived at
12 the blue section. These are the areas where we do not
13 have agreement today, and I addressed the projected plant
14 in service. I was going to mention it in testimony, in
15 my rebuttal testimony, I mentioned three very large
16 projects occurring in 2020 that are increasing the
17 projected plant in service over what we have in 2019.
18 And those relate to a \$10 million increase to the
19 infrastructure replacement program that Kelly -- or
20 Mr. Mendenhall discussed earlier today.

21 We also have a \$14 million investment to a
22 current river gate station that will improve reliability
23 to the northern region of Utah, and a 19 million
24 investment to expand the southern system to meet a
25 rapidly growing area of St. George.

1 None of these projects individually, or any
2 other projects, have been opposed by the parties in this
3 case. Reducing the 2020 capital budget included in the
4 test period does not eliminate the company's need to
5 pursue these capital projects, but rather, it will cause
6 additional strain to the company's cash flow and credit
7 metrics as it invests in this needed capital.

8 Moving on to line 14, the removal of
9 inflation, in calculating the nonlabor O&M expenses to
10 include in its 2020 test period, the company used
11 inflation factors provided by Global Insight, a firm that
12 independently calculates inflation specifically by FERC
13 account for regulated operations.

14 This method has been approved in prior rate
15 cases the company has filed, dating back to the same
16 method used in the Rocky Mountain Power case, in Docket
17 07-035-93, and the company is not departed from that
18 procedure.

19 The Office and the UAE do not include
20 inflation in their test period, and as such, I believe,
21 failed to reasonably represent conditions that would be
22 in place during the test period.

23 Referring to Exhibit 3.4R of my rebuttal
24 testimony, I provide an exhibit -- or a look at total O&M
25 expense, even after including inflation. So 3.4R of my

1 rebuttal testimony, looking at Column E, shows the total
2 adjusted level of operating and maintenance expense in
3 the 2018 base period at 124,440,000.

4 You can see on Column G, the forecasted total
5 O&M that we included in the 2020 test period is actually
6 \$100,000 less than the 2018 base period. And so in
7 effect, all of the effects of inflation we have adjusted
8 out of the case, ultimately, through savings adjustments
9 that I've detailed in my testimony as well.

10 Looking at that same exhibit, I would just
11 point out, on Row 15 -- this hasn't been a huge topic in
12 this discussion so I just wanted to highlight. The large
13 savings we have included in the test period for 2020,
14 which amount to \$7.2 million of labor-related savings in
15 2020 and an additional \$1.1 million of nonlabor savings
16 were made possible by expenses that the company has
17 incurred in 2019 but did not include in any test period.

18 And shown on Row 15 of my Exhibit 3.4R is
19 \$15.3 million of severance payments that were incurred in
20 2019 to enable \$7.2 million of ongoing expense. And the
21 company has not proposed to defer or amortize any portion
22 of the expense it incurred to enable those savings going
23 forward, but it has included 100 percent of its savings.

24 So as such, I believe that our O&M level is
25 appropriate. Ultimately, it's slightly lower than 2018

1 O&M, and as such, I don't believe a reduction related to
2 inflation is necessary.

3 And then referring to the pension credit, all
4 I'll say about the pension credit -- I think we have had
5 plenty of discussion on that just a few moments earlier
6 by Mr. Felsenthal, but I would just reiterate that
7 removing the pension credit from 2020 does not reduce the
8 amount of non-pension O&M that the company has to
9 pay -- or rather, including a \$5 million pension credit
10 does not result in excess cash of 5.2 million that the
11 company can use to offset other O&M expenses. And as
12 such, the cash strain that introduces into the company,
13 we believe, should be addressed and removed.

14 And then related to professional services,
15 these have always been referred to throughout testimony
16 as LNG-related services. The company does not agree that
17 these professional service costs should be removed from
18 the 2020 test period. The company has several large
19 projects that will occur in 2020 that rely on such
20 professional services, as were included in the 2018 base
21 period.

22 While the 2018 base period expenses related
23 to an approved LNG facility, the professional services,
24 in 2020, will relate to other projects occurring in 2020
25 that are part of ongoing distribution operations.

1 And then the final two rows here relate to
2 cap structure and return on equity that have been
3 addressed by other witnesses, which I will not delve into
4 detail on those two issues.

5 And this concludes my summary.

6 MS. CLARK: Mr. Stephenson is available for
7 cross-examination and also Commission questions.

8 COMMISSIONER LEVAR: Okay. Thank you. We
9 will go to the Division first.

10 Mr. Jetter, do you have any questions for
11 Mr. Stephenson?

12 CROSS-EXAMINATION

13 BY MR. JETTER:

14 **Q. Mr. Stephenson, I do have some questions**
15 **regarding an exhibit that has been passed out. I don't**
16 **know that it has been entered into the record yet, but**
17 **the exhibit that's at least marked as DEU Hearing Exhibit**
18 **7, under the column entitled, "DPU," is intended to**
19 **represent the Utah Division of Public Utilities; is that**
20 **correct?**

21 A. Correct.

22 **Q. And the revenue deficiency or surplus**
23 **calculation in this model assumes no adjustments from the**
24 **filed position of Dominion Energy Utah for any of those**
25 **blank spaces; is that correct?**

1 A. Right. That just indicates that -- I think
2 the Division included a statement that if it were silence
3 on an issue, that doesn't imply that it agrees or
4 disagrees with any given issue. So I just left that
5 blank in those cells.

6 **Q. Okay. And that negative 342,688 calculation**
7 **is based on those cells being calculated as a 0 value?**

8 A. That is.

9 **Q. Okay. And would you agree with me that that**
10 **may not represent the revenue deficiency or surplus**
11 **recommendation of the Division?**

12 A. I agree. I don't know if it is on the record
13 what the final bottom line is from the Division. I just
14 tallied up everything that was on the record.

15 **Q. Okay. And so that number doesn't reference**
16 **any Division testimony?**

17 A. I would say because it is the sum of the
18 other numbers that are on testimony, I think it is
19 derived from testimony. However, if the Division would
20 like to, I guess, update -- I, obviously, wouldn't argue
21 if you would like to include other adjustments to table
22 that haven't been included in testimony.

23 **Q. Okay. Thank you.**

24 A. I don't know if my attorneys agree with that,
25 but --

1 **Q. Those are the only questions I have. I don't**
2 **actually have any cross or any other testimony otherwise.**
3 **Thank you.**

4 A. Thank you.

5 COMMISSIONER LEVAR: Okay. Thank you,
6 Mr. Jetter.

7 Mr. Moore or Mr. Snarr?

8 MR. SNARR: Thank you. I will proceed with
9 the caveat that we may have to do a little work tomorrow
10 in case I miss some things. Thank you.

11 COMMISSIONER LEVAR: Yes. As we said, we
12 will accommodate that with this witness.

13 CROSS-EXAMINATION

14 BY MR. SNARR:

15 **Q. Good afternoon, Mr. Stephenson.**

16 A. Good afternoon.

17 **Q. I will ask you some questions.**

18 COMMISSIONER LEVAR: We are not picking up
19 your microphone, sorry.

20 MR. SNARR: Sorry.

21 BY MR. SNARR:

22 **Q. Let me ask you some questions. I'm basically**
23 **trying to clarify where we are in the sense of whether or**
24 **not the Office and Dominion have found resolution or to**
25 **help identify the issues where we haven't found**

1 resolution. So that is the intent of my question. Let
2 me work through a few of these to see if we can progress
3 with that.

4 First of all, isn't it true that the
5 individual adjustments that you have presented in this
6 hearing exhibit, at least for use in your summary here,
7 that the individual adjustments are somewhat dependant on
8 the order in which you make each adjustment in your
9 model, including ultimate adjustments to ROE?

10 A. Yes, that is true.

11 Q. And so you wouldn't be surprised then that
12 the Office might disagree with many of the individual
13 representations of value or numbers here in explaining
14 their position in response to you?

15 A. Yeah, that's true. And just to get into a
16 little more detail, each time O&M changes, for example,
17 there is a cash working capital component that enters
18 into rate base. So if you have not yet updated the cash
19 working capital factor when calculating the adjustments,
20 there would be a shift. That also goes with return on
21 equity because that is applied to that rate base.

22 And so there's steps that if you do it in a
23 different order, it could shift slightly. I don't think
24 it would be a huge shift, but it would have an impact.

25 Q. Okay. Thank you for that clarification.

1 Let's focus for a minute on plant in service. I would
2 like to direct your attention to your rebuttal testimony
3 at lines 67 and 68. Do you have that there?

4 A. Yes.

5 Q. In those lines, you suggest that Ms. Ramas'
6 proposed adjustment to plant in service should be denied
7 because she does not assess any of the individual
8 projects themselves; isn't that what you said?

9 A. Right.

10 Q. Isn't it true that the detailed list of plant
11 projects making up your ultimate 2020 budget was not
12 included in the company's original filing?

13 A. The 2020 individual projects were not
14 included in the original filing.

15 Q. And it wasn't really provided to other
16 parties in this proceeding until you presented your
17 testimony in rebuttal; isn't that correct?

18 A. Actually, no. I think we did provide several
19 data requests on September 5th and -- or around early
20 September in response to the Division of Public
21 Utilities, that included individual projects, accounting
22 for the total change from the 2018 capital budget to the
23 2020 capital budget. I think it amounted to 66 some-odd
24 million worth of capital projects individually specified.

25 Q. I'm not sure if I'm focusing on the right

1 data request, but I believe some of the data request that
2 you provided related to plant projects during the time
3 frame you represented. Also had caveats that this was
4 not the final budget and not the final list; isn't that
5 true?

6 A. I'm not sure. I would have to check the data
7 request.

8 Q. All right. Isn't it true that the actual
9 level of 2018 capital expenditures was 212.2 million?
10 And I believe you have Exhibit 3.09 that reflects that.

11 A. Let me check that number. The actual --
12 yeah, the actual capital spending in 2018 was 212
13 million.

14 Q. While we are there, the actual projected
15 capital expenditures for 2019, they were expected to be
16 232.4 million; is that right? On that exhibit?

17 A. I'm sorry, are you referring to my direct
18 Exhibit 3.09?

19 Q. Yes.

20 A. And you're referring to 2014?

21 Q. 2019.

22 A. Oh, I'm sorry. So my Exhibit 3.09, I don't
23 see a 2019 figure on this.

24 Q. Let me -- maybe I referenced the wrong number
25 here. Let me look at that for just a minute.

1 A. But I do know offhand that it is around 233
2 million total.

3 Q. Thank you. That is all I needed to know.
4 And with respect to 2020 test year, isn't it true that
5 you're looking at what you're projecting or forecasting
6 to be 277.7 million?

7 A. That's correct.

8 Q. Okay. Isn't it also true that the
9 functionalized categories associated with the company's
10 requested capital expenditure for the test period differ
11 significantly in the company's rebuttal testimony from
12 what was initially proposed?

13 A. The functional categories meaning?

14 Q. The functionalized categories associated with
15 each of the capital projects.

16 A. I think I know where you are referring to.
17 If I recall, Ms. Ramas included a table in her testimony
18 that includes categories of capital additions that
19 differed by subcategory, and I would agree that there
20 were changes between categories. I think in total, the
21 overall change from 277 million went up slightly to 278
22 million with the update, yeah.

23 Q. So I was going to kind of build to that, and
24 I wasn't going to ask you to comment on her exhibit, but
25 you reviewed that exhibit in your -- or are you

1 acknowledging that some of the shifts that she portrays
2 there are, in fact, based upon the numbers that were
3 initially provided and then later provided by the
4 company?

5 A. Yeah, the original numbers came from a
6 capital budget that was prepared in the fall of 2018, and
7 at the time we provided my exhibit, my rebuttal exhibit,
8 3.1R, we had updates to projects that caused shifting in
9 those numbers.

10 And I would add that's typical experience for
11 us as we move throughout the year, that there are updates
12 to project costs.

13 Q. All right. Thank you. Let me move to the
14 transponder issue, and I appreciate that you indicated
15 some, perhaps, coalescing on something that might work.
16 But at least as presented in your exhibit, I don't think
17 we are close on our numbers yet, so let me ask a couple
18 of questions so we can highlight the issues here.

19 Isn't it true that the cost associated with
20 dismantling and removing transponders that occurred
21 during the period of 2016 through 2019 were booked to
22 either Construction Work in Progress 107 or to Plant in
23 Service 101 as the new transponder were installed?

24 A. That's correct.

25 Q. Okay. And isn't it true that the company has

1 agreed that the amounts booked to plant in service should
2 be reduced by the dismantling cost for the old
3 transponders in order to avoid a double-counting as those
4 things are rolled up in the company's file case?

5 A. Yes. So that's where, when I looked at the
6 101 balance -- so sometimes I refer to plant in service
7 as 101, which encompasses all the sub-accounts, including
8 transponders. And it's true that as we adjust the
9 dismantling cost and move costs out of the 101 to the
10 108, that it impacts both sides. The 101 account will
11 drop, as well as the 108. So there is a neutral impact
12 on rate base through that accounting entry and the 101
13 drops as a result.

14 When I reviewed that, I looked at the total
15 101 balance as it relates to transponders, to review: Is
16 it at a sufficient level and does it need to be adjusted?
17 And based on my analysis of transponders, we are at an
18 appropriate level because there is a construction work in
19 progress factor included in the 101 that removed 29
20 percent of all transponder additions.

21 And in reality, transponders do not remain in
22 construction work in process. So we used a systemwide
23 factor. Similar to how we did dismantling and how we did
24 proceeds, we used systemwide factors. We also used a
25 systemwide factor for construction work in process that

1 should not have been -- I mean, if you are doing a
2 specific to transponder adjustment, that one should be
3 updated as well.

4 I understand that that's probably a lot of
5 moving parts to describe verbally, so I'm happy to write
6 it down as a journal entry. We have a pad as well, if
7 that would help, I could write it out. So I don't know
8 if that would be helpful, but...

9 **Q. I think that might be helpful. You wouldn't**
10 **be surprised at our number crunching of those same**
11 **concepts aren't coming up with exactly the same number?**

12 **A.** Yes, I am happy to write it down, and we
13 can -- I can share that with you.

14 **Q. Okay.**

15 **MS. CLARK:** If we can take a moment and set
16 this up?

17 **MR. SNARR:** As long as we can get that so I
18 can have my witness to look at it overnight, that is
19 fine. We don't need to spend time writing it down as
20 well.

21 **BY MR. SNARR:**

22 **Q. Thank you. Let's turn to cash working**
23 **capital now. Both the Office and the Division questioned**
24 **the appropriateness of the lead lag study that the**
25 **company included in its original filing; isn't that**

1 correct?

2 A. That's correct.

3 Q. And then after reviewing the Division's
4 recommendation through the Division's witness
5 Mr. Thomson, as I understand it, the company agreed to
6 accept his recommendations; is that right?

7 A. That's correct.

8 Q. Somewhere -- and I understand, I believe that
9 making those adjustments, the lead lag study that the
10 company now supports results in a reduction of the net
11 lag days from 7.358 days as initially proposed to a
12 negative .828 days as you run that through the company's
13 model; is that correct?

14 A. Right.

15 Q. All right. Now isn't it true -- and, again,
16 I'm trying to focus on where we differ with where you are
17 right now. Isn't it true that after accepting the
18 Division's suggested recommendations, that the company's
19 lead lag study still seeks recovery of amounts associated
20 with depreciation and deferred income taxes?

21 A. Yes.

22 Q. Isn't it also true that the amounts
23 associated with depreciation and deferred income taxes do
24 not involve an actual outflow of cash being made by the
25 company?

1 A. So I believe in my direct testimony, I
2 address the issue of both of those things: depreciation
3 and deferred incomes tax, and I also included a reference
4 to an individual named Haney, I think it's Robert Haney,
5 who discusses that particular item.

6 And the cash flow with depreciation actually
7 occurs up front when the company invests in the asset.
8 And what happens is depreciation expense is then
9 recognized going forward. And I believe that the problem
10 arises, where as depreciation expenses occur and that
11 increases the accumulated depreciation balance, there's a
12 period of time where there is a lag between when the 108
13 or accumulated depreciation has been booked and when you
14 actually collect that depreciation expense from
15 customers.

16 And so because we have a revenue lag that's
17 meant to recoup the depreciation expense related to that
18 asset, we receive the impact of that depreciation
19 expense, or the 108, 30 some-odd days after the actual
20 entry has occurred. So our rate base is always 30 days
21 too low because the 108 change happens right away at the
22 end of the month, and the revenue associated to that
23 happens 30 days later.

24 So I believe that's the answer to your
25 question as to why there is a cash impact.

1 Q. So we may still be at odds on that point but
2 we'll address that.

3 Would you accept, though, subject to check,
4 that if the Commission decided to remove or exclude the
5 amounts associated -- separately with depreciation and
6 deferred income taxes, that that might result in the lead
7 lag study that the company now supports, being adjusted
8 such that the negative .828 days would actually change to
9 a negative .905 days?

10 A. I reviewed Ms. Ramas' exhibit showing that
11 impact and agree.

12 Q. Okay. On nonlabor expenses, I do recognize
13 the company is indicating that you are going to reflect
14 reduction of O&M expense by \$601,333; is that right?

15 A. That's correct.

16 Q. And just for the sake of clarity of issues,
17 that's without the Office and Dominion coming together on
18 whether these inflation factors ought to be applied in
19 that area; isn't that correct?

20 A. Sorry, could you repeat your question?

21 Q. The adjustment of 601 some-odd thousand
22 dollars is the reduction you're planning to make, just to
23 point out what is still at odds between the Office and
24 the company. The Office still believes that the way the
25 company has applied certain inflation factors is not

1 correct. Do you understand that to be the case, in terms
2 of where the issues are still?

3 A. Yes.

4 Q. Okay. And in reviewing some of the nonlabor
5 expenses, would it be accurate to say that the company,
6 if we look at the 2018 results and then look at some of
7 the individual nonlabor expense items that -- for some of
8 the actual or forecasted experience that you've had in
9 2019, that there may still be some decreases that the
10 company will reflect in individual items; isn't that
11 right?

12 A. So you're saying, looking at the 2018 actual
13 results for certain O&M items --

14 Q. And comparing it to where you are coming out
15 in 2019, aren't there still some individual items where
16 you're showing a decrease in the expenditures in 2019?

17 A. That's true. In fact, going back to the
18 exhibit that I referred to in my summary that summarizes
19 our O&M projections, you will see that we have included a
20 reduction, in 2019, of 1.9 percent in O&M expenses
21 overall. So yes, certain items have been reduced in
22 2019.

23 Q. Okay. Thank you. I was going to ask some
24 questions about the accrued audit fees, and I think based
25 upon your summary, we don't need to touch that, so we can

1 put that one aside.

2 With respect to the EDIT amortization, you
3 indicated that the company supporting the 12-year period
4 of amortization and UAE is supporting a 10-year and the
5 Office is supporting a 5-year amortization period. Am I
6 accurate in what you said?

7 A. Yes.

8 Q. And I think, without going into the number or
9 whatever, the Office will concur with you that those are
10 the differences in terms of where the issues are?

11 A. Yes.

12 Q. Okay. Now with respect to the professional
13 services and the company's application, certain outside
14 services fees were included in the 2018 experience,
15 particularly related to the approval of voluntary
16 resource decision, the LNG application; is that correct?

17 A. Correct.

18 Q. You've indicated that that's representative
19 of ongoing efforts year to year, and the Office has taken
20 the position that those events are really nonrecurring
21 events or, at least, infrequently occurring events; is
22 that correct?

23 A. I believe that's the positions, yes.

24 Q. Today you testified that there may be
25 additional individual regulatory proceedings or projects

1 related to plant or whatever.

2 Do you have more specific information about
3 what you're suggesting we ought to consider?

4 A. Sure. For example, just a few -- December
5 1st, we filed a new filing for expansion of service into
6 Eureka that currently does not receive natural gas
7 service. That particular effort will include special
8 services, professional services, and in addition to a lot
9 of these -- I believe that as you look at the kinds of
10 services that were included related to the LNG cost,
11 these are very common shared-type services for all kinds
12 of projects.

13 Engineering analysis, legal work if we
14 require those kinds of services for those projects, I
15 don't see the basis of removing those particular types of
16 costs from the test period in 2020. So Eureka is one
17 example.

18 We plan on filing another docket related to
19 HB107 Bill that passed earlier this year at the
20 Legislature which is directing the gas -- the intent is
21 to direct the gas utility here in the state to pursue
22 clean air-type projects. That is also special-type
23 projects that will be included in 2020 efforts that will
24 require these types of special services as well, so...

25 Q. Now, were these projects you identified today

1 previously included in your testimony or in the company's
2 initial application?

3 A. I don't believe I got into detail as to
4 specific projects.

5 Q. All right. Subject to looking at this a
6 little more carefully and doing more tomorrow, that will
7 conclude my cross for now.

8 COMMISSIONER LEVAR: Thank you, Mr. Snarr.
9 Major Kirk?

10 MAJOR KIRK: Yes, sir. Thank you. I have a
11 few questions.

12 CROSS-EXAMINATION

13 BY MAJOR KIRK:

14 Q. First I would like to direct your attention
15 to DEU Hearing Exhibit 7. On line 19 there, it reflects
16 a revenue deficiency surplus calculation, and for FEA,
17 you have that calculated, a negative 4,872,595?

18 A. Right.

19 Q. Earlier, you said where parties have not
20 taken a position, those are reflected as blanks on this
21 sheet; is that accurate?

22 A. That is true.

23 Q. And so just because FEA hasn't taken a
24 position on Items 3 through 16, that negative 4 million
25 is calculated is if those are zeros, even though they are

1 blanks; is that correct?

2 A. That's correct.

3 Q. So if FEA did take a position on some of the
4 other parties' positions and joined them in briefing or
5 adopt those in our briefing, that number would,
6 ultimately, change; is that correct?

7 A. Yes, I would agree.

8 Q. Thank you. Next, I want to ask you a couple
9 questions about the capital expenditures. In your
10 testimony, you indicate that there were some planned
11 capital expenditures in 2020. Approximately, how much is
12 that?

13 A. Total is 277 million.

14 Q. 277 million? The company hasn't yet spent
15 that money. Correct?

16 A. That's correct.

17 Q. And if, hypothetically, the Commission
18 ordered a different capital structure than what Dominion
19 has proposed, those expenditures could be funded through
20 debt or other methods of financing. Right?

21 A. So, well, first off, I think whatever the
22 Commission chooses to, ultimately, approve doesn't
23 necessarily line up with what actually the company is
24 funding.

25 For example, currently, the company is using

1 60 percent equity in its capital structure, and we
2 project, in 2020, it will be 60 percent equity. We
3 proposed 55 percent equity to this Commission. So what
4 actually ends up being funded does not necessarily line
5 up with the order that comes out of this case.

6 **Q. So you would agree then the company has**
7 **discretion to choose how to finance those capital**
8 **expenditures?**

9 A. Sure.

10 **Q. And those could be financed through long-term**
11 **debt instead of capital expenditures. Correct?**

12 A. Well, I think however you choose to fund
13 those, it would still be a capital expenditure and would
14 require a return to capital issuers. And so yeah, I'm
15 not sure if I understood your question correctly, but --

16 **Q. As far as where the money comes from, that**
17 **could be from debt or from equity?**

18 A. Sure.

19 **Q. Even though they are, in fact, capital**
20 **expenditures, you don't necessarily have to use equity to**
21 **pay for it?**

22 A. Right.

23 **Q. Thank you.**

24 A. Well, sorry, you just said it could come from
25 debt or from equity, but we have to use equity to pay for

1 it.

2 I think how it works is whatever the ratio
3 from debt to equity is, that mix of capital is what is
4 used to pay for it. So in our case, we are projecting
5 actual equity will be funding 60 percent of the total
6 capital budget and 40 percent would come from debt. We
7 have proposed 55, 45 for the sake of ratemaking in this
8 case.

9 Q. So Exhibit 3.31, your cost of capital
10 worksheet, would you take a look at line 20?

11 A. Okay. Yup.

12 Q. And on what is labeled as "Column E
13 proposed," there's \$203,257,107 there. Would that the
14 proposed amount of -- well, what does that number
15 represent?

16 A. That number represents the projected amount
17 that would be in place in that 2020 test period.

18 Q. The projected amount of what?

19 A. Of common equity, specifically in Account
20 211, miscellaneous paid in capital.

21 Q. And that would be, essentially, additional
22 funds from shareholders put into the account in 2020; is
23 that correct?

24 A. Yeah, that would be -- I believe so. That is
25 the definition of equity, is it's funds from

1 shareholders, yeah.

2 **Q. Right. And that money hasn't already been**
3 **placed in that account. That is just a plan that the**
4 **company intends to take?**

5 A. No. Actually, that infusion into that
6 account occurred in 2018. I think you can see, as you
7 look at Column C -- well, let me back up. It was in
8 place at the end of 2018. I can't remember for sure if
9 it happened in 2018 or a prior year prior to 2018, but
10 yeah, it's currently there at of the end of 2018. We
11 project it will still be in that account at the end of
12 2020.

13 **Q. But that money hasn't yet been spent on**
14 **anything?**

15 A. Well, so I'm not sure I would agree that it
16 hasn't been spent on anything. I think the equity
17 balance on a balance sheet doesn't necessarily mean that
18 is a cash account waiting to be spent. It's an
19 accounting balance that represents the amount of funding
20 that came from shareholders at a certain point in time.
21 But that doesn't tie it with a cash account.

22 **Q. At the end of the day, though, you would**
23 **agree that the company has discretion to determine how to**
24 **finance capital expenditures in the future, regardless of**
25 **what your actually capital structure is or what your**

1 **approved capital structure is?**

2 A. Yes, I believe the company has discretion.

3 **Q. Thank you.**

4 COMMISSIONER LEVAR: Does that conclude your
5 questions?

6 MAJOR KIRK: That concludes my questions.
7 Thank you.

8 THE WITNESS: Can I just correct one thing?
9 I think we are -- we are limited in certain activities we
10 take. I just don't want to leave the record unclear,
11 that our discretion isn't limitless. We did have to come
12 in and request approval to get capital funding -- or
13 equity percentage up above 55 percent, in a prior docket,
14 that was related to a merger commitment.

15 So I don't want to leave the impression we
16 have complete discretion as to equity decision we make or
17 debt issuances we make. There is some regulatory
18 proceedings involved with that, so...

19 COMMISSIONER LEVAR: Do you have any
20 follow-up to that clarification?

21 MAJOR KIRK: Nothing further. Thank you.

22 COMMISSIONER LEVAR: Thank you.

23 Mr. Mecham.

24 MR. MECHAM: Thank you, Mr. Chair.

25 CROSS-EXAMINATION

1 BY MR. MECHAM:

2 Q. Mr. Stephenson, with respect to your exhibit
3 marked hearing Exhibit 7, with respect to the ANGC's
4 position, you've got numbers down in Row 17, 18 and 19
5 for us, reflecting the fact that we really only took
6 positions on rate of return on equity, as well as capital
7 structure. Correct?

8 A. Correct.

9 Q. And where did you get those numbers?

10 A. So we have an Excel model that has been filed
11 as part of my direct testimony and also as part of my
12 rebuttal testimony. In there, there is a cell for the
13 cost of equity that can be changed. And I believe we
14 derived this amount by just changing the cost of equity
15 percentage in the model, and then that flowed through, as
16 well as the capital structure tab within the model. That
17 flowed through as well.

18 Q. So as we have looked at -- as my witness
19 looked at his exhibits, he couldn't track the number. As
20 an example, the 1,599,000, that didn't track anywhere to
21 an exhibit.

22 Are you able to document an exhibit that it
23 came from?

24 A. No, because it came out of the model. I
25 don't think we have memorialized that change in an

1 exhibit.

2 Q. You may be familiar with Mr. Oliver's
3 testimony, but are we to assume that the capital
4 structure or the -- excuse me, the capital structure is
5 50 percent equity or 52 percent equity or 55 percent
6 equity and 9 percent? I mean, what are we to assume? I
7 don't know what you fed into your model.

8 A. So as it relates to the capital structure, we
9 adjusted the portion of equity to match the testimony of
10 Mr. Oliver, I believe, and subject to check, we could
11 reconcile where the difference was. It may be that there
12 was a difference in rate base that the equity was applied
13 to. I just have to check, and we can reconcile that.

14 Q. So to the best of your understanding, you
15 think it is 9.5 percent ROE and 50 percent equity ratio?

16 A. I believe so, yup.

17 Q. And how do you intend the Commission to use
18 this document, if it is admitted?

19 A. As I mentioned, I recognize that the amounts
20 on this document may change as some of these other
21 factors change. The purpose was just to have something
22 to refer to the organized summary that, obviously, has a
23 lot of moving parts.

24 And so I think, ultimately, the Commission
25 will likely verify the amounts on this, and they will

1 likely be different based on what other factors are
2 ruled, whether it's a different equity percentage or a
3 different cap structure or a different total amount of
4 expenses, that will slightly shift all of these amounts.

5 So, ultimately, when the final order comes
6 out, all of these amounts will need to be refreshed and
7 updated.

8 Q. Okay. All right. Thank you. That is all I
9 have now. We may have more tomorrow.

10 COMMISSIONER LEVAR: Mr. Russell?

11 MR. RUSSELL: Thank you.

12 CROSS-EXAMINATION

13 BY MR. RUSSELL:

14 Q. Turning to DEU Hearing Exhibit 7, you have a
15 column for UAE number, and I think I'll note for the
16 Commission's purpose that UAE's proposed adjustments can
17 be found in Table KCH-1F, which is on page 5 of the
18 surrebuttal testimony of Kevin Higgins. Some of the
19 numbers in that table are the same as those that are
20 represented in this position matrix and some of them are
21 different.

22 I think we can chalk up the differences in
23 the order in which some of the adjustments were made,
24 because as Mr. Stephenson said earlier, there is a cash
25 working adjustment. And if you make the adjustment in

1 different orders, some of these come out differently.

2 But in any event, if the Commission wants to
3 know the proposed adjustment that UAE has put forth,
4 those are found in the surrebuttal testimony that has
5 been pre-filed by Mr. Higgins. And with that, I will
6 leave DEU Exhibit 7.

7 Mr. Stephenson, we tread a lot of ground on
8 pension expenses with Mr. Felsenthal, and I don't intend
9 to go over again, but there are a couple of points I do
10 want to get to.

11 I am not sure if this was in your testimony
12 or somebody else's testimony or if it was a response to
13 data request, but there has been some discussion amongst
14 the parties about what the pension expense would have
15 been in the test period 2020, absent the \$75 million
16 contribution. Do you recall that?

17 A. I do.

18 Q. Okay. And that pension expense, absent the
19 \$75 million contribution, would have been a negative
20 number. Correct?

21 A. It still would have been a negative number.

22 Q. Okay. And offhand, do you know what that
23 negative number would have been?

24 A. No. I believe it shrunk to possibly 2 to 3
25 million.

1 **Q. Yes. And I think maybe the best way to do**
2 **this is to go to -- it's Exhibit 2.16, OCS Exhibit 2.16,**
3 **filed in the direct testimony of Donna Ramas.**

4 MR. RUSSELL: And for those with -- and it is
5 OCS Data Request No. 3.02.

6 MR. SABIN: Did you say direct testimony?

7 MR. RUSSELL: For those with electronic
8 copies, it's page 23 of that PDF. It says page 22 at the
9 bottom. It's page 22 of the electronic version.

10 MR. SABIN: Would you say the number again?

11 MR. RUSSELL: OCS 3.02 is the data request.
12 The exhibit is 2.16.

13 BY MR. RUSSELL:

14 **Q. Okay. If I wanted to determine what the**
15 **negative pension expense or pension credit would be for**
16 **2020, absent the \$75 million contribution, using the**
17 **number on the table at the bottom of the company's**
18 **response to OCS 3.02, how would I do it?**

19 A. So yeah, I believe what this reflects -- so
20 we are on page 22, so this is OCS 3.02. Correct?

21 **Q. Yes.**

22 A. So what this table shows is beginning in
23 2017, we had a \$75 million contribution level, and we had
24 an assumed return percentage of 8.75 percent. And so for
25 each year, you can see the \$75 million contribution is

1 now worth 96 million because of that compound growth of
2 the 75. So we have a \$96 million balance currently
3 related to that contribution.

4 The second column applies the expected return
5 on plant assets of 8.75 percent to arrive at \$8.4 million
6 credit. That reduces the overall service cost or expense
7 in that pension fund.

8 And then, ultimately, that pension is
9 allocated down to Dominion Energy Utah, so that becomes a
10 \$5.5 million credit. And then of that amount, some of it
11 ends up in capital, based on total labor, and some of it
12 ends up in expense.

13 And so the final column is a \$2.9 million
14 expense value, so I believe that is the amount that the
15 asset is -- the 75 million is now contributing to a
16 credit is \$3 million.

17 I would note that in an additional update to
18 this amount, we provided -- I believe it's attached to
19 Ms. Ramas' Exhibit 2.07S. There is a data request asking
20 for an update of the forecasted pension credit that is
21 now \$2.8 million, rather than 5.2. So these come from a
22 third-party, Towers Watson, that runs the actuarial
23 reporting and the return on assets and provided an
24 update. So that amount may have changed slightly since
25 this data request was prepared.

1 Q. Okay. I guess what I'm trying to find is if
2 I can figure out what the pension expenses would have
3 been in 2020, absent the \$75 million. Can you tell me
4 that by looking at this table?

5 I mean, I will tell you that there is another
6 data request. In fact, it is OCS 3.03 that is not part
7 of this exhibit. I can give it to you if you need it,
8 but it references -- the question was asked, and I'm
9 paraphrasing, but, you know, calculate the pension
10 expense, absent the \$75 million. And that response just
11 referred back to this data response.

12 So I'm just wondering if you can look at this
13 and tell me how it is, if that is how you derive it?

14 A. Yes. I think we included a \$5.4 credit in
15 the test period, total credit. You subtract 2.9 from
16 that amount, you end up with -- and I was warned not to
17 do math on the stand earlier today. But we will round up
18 3 million minus 5.2 and so you would be at 2.2.

19 Q. Okay. Thank you.

20 A. But let me just highlight as well that it is
21 my position, and Mr. Felsenthal as well, that as long as
22 contributions exceed expense, that asset that exists
23 within the pension account has been funded because the
24 total contribution exceeded the expense.

25 And I believe the assumption is over the last

1 20 years plus, is that expense level has been included in
2 our rates. And so that total asset actually came from
3 the excess contributions over what has come from
4 ratepayers. And under that assumption, I think the \$75
5 million is one piece of it. The whole 112 million,
6 though, is still something that -- our position is it
7 came from shareholders.

8 And so whether or not we look at a 75 million
9 or 112 million, I think the total credit -- the story is
10 the same as far as our position, is the whole \$112
11 million sitting in the asset account today came from
12 shareholders.

13 **Q. And I think there is some testimony from**
14 **Ms. Ramas as well, and hopefully, we will hear from her**
15 **tomorrow.**

16 **Dominion Energy's position in this case is**
17 **that the negative pension expense or pension credit**
18 **should not be calculated or included with respect to**
19 **calculation of revenue requirement. Correct?**

20 **A. That's correct.**

21 **Q. Okay. And the upshot of that is by not**
22 **including it -- I guess it depends on how I say this. If**
23 **you included it, it reduces revenue requirements. If you**
24 **don't include it, the revenue requirements goes the other**
25 **direction. Right?**

1 A. So I'm going to back up a little bit. If you
2 include the pension expense, yes, you reduce the amount
3 of revenue requirement a company can collect from other
4 operating expenses that it incurs.

5 **Q. And in exchange for Dominion customers being**
6 **denied the benefit of recognizing that negative pension**
7 **expense in this case, is Dominion willing to forego**
8 **seeking recovery of pension expense in the future, if and**
9 **when it turns positive?**

10 A. Well, so my position on this pension credit,
11 and I don't know that this came out really thoroughly
12 earlier, but as -- we can look at this exhibit we
13 actually have open, OCS 3.02, the data request that's
14 part of -- I can't remember what exhibit we are in, but
15 that data request that we just referred to. It's OCS
16 2.16D.

17 You can see as the return is earned on the
18 fund in contribution level, the balance on this account
19 increases. Right? So we start at \$75 million. In 2020,
20 we anticipate at being at 96 million, based on this
21 chart. So every dollar of the pension expenses -- or I
22 will say every dollar of pension credit stays in this
23 particular account, and the company cannot go into that
24 account and pull money out.

25 And so my position is that this credit,

1 ultimately, benefits customers, in that it prolongs the
2 amount of time before we have a flip back to a positive
3 expense.

4 So if you picture it like a bank, like a
5 piggy bank, and there's a return accumulating in this
6 balance and it is getting larger and larger and larger,
7 the company is not paying dividends with that cash. It
8 is not taking that cash to offset expenses anywhere. It
9 stays in the piggy bank. It doesn't go anywhere. It's
10 true that we have an accrual accounting entry each year,
11 but that doesn't mean the cash went anywhere. It stays
12 in the account.

13 That accumulates and even adds more of a
14 credit, and all else being equal, that balance keeps
15 rising. As long as that balance is rising, the chances
16 that that expense, within a pension account, is going to
17 flip back to a positive are getting lower and lower and
18 lower, which means customers don't have to worry about
19 expense for a prolonged amount of time.

20 And so I think this credit is benefiting
21 customers as it goes along, even if we are not raiding
22 the piggy bank to pass it through each year. The company
23 doesn't benefit at all from that cash being in that piggy
24 bank. I don't know if that made sense, but --

25 **Q. I understand your position. It didn't**

1 actually answer my question, though.

2 The question was if -- I understand it is
3 DEU's position it does not believe it is appropriate to
4 include the pension credit in rates in this rate case.

5 My question is: When that pension expense
6 flips back to positive, is the company willing to forego
7 including that positive pension expense in revenue
8 requirement in that future test period?

9 A. Well, it's hard for me to speculate into
10 future test periods that may occur three, six, nine years
11 from now. I think what we've done is prepared a position
12 based on the circumstances in play today, and if we come
13 back to another general rate case and file a position, we
14 will have to justify that position based on the merits
15 and based on the circumstances in place at that time.

16 I don't think that now is the time to address
17 future rate case circumstances that may be in effect,
18 so...

19 Q. Okay. That is not something that the company
20 is willing to commit to right now?

21 A. No, I think I wouldn't commit to the
22 treatment of any particular cost in a future rate case.

23 Q. I will ask you to turn to line 522 of your
24 direct testimony, if you would.

25 A. Could you repeat the --

1 Q. Line 522.

2 A. 522? Okay.

3 Q. Okay. There is a question on line 522, and
4 that question is: Is the company proposing changes to
5 way the way pension expense is included in the revenue
6 requirement going forward? The answer is yes, and you
7 identify the proposed changes.

8 And I guess what I'm wondering is, if the
9 company is not willing to commit to what it wants to do
10 or what it will propose to do with pension expenses,
11 positive or negative now, when you say going forward, you
12 only really mean this rate case. Right?

13 A. Right. Yeah, this rate case, which
14 encompasses 2020 and beyond until we file the next
15 general rate case.

16 Q. Okay. Let's talk about excess deferred
17 income taxes for a moment. There is a lot of ink about
18 EDIT throughout this docket, and we have kind of narrowed
19 things down to the amortization period for non-plant
20 EDIT.

21 And I gather as Mr. Snarr summarized, we've
22 got the office sitting at five years and then the UAE's
23 sitting at ten and the company is at 12, and I think it
24 might be useful, very quickly, to kind of talk about what
25 that non-plant EDIT is. And I will try to do it as

1 quickly as we can because this can be complicated.

2 But excess deferred income taxes are the
3 amount of the income tax that have been collected in rate
4 that are in excess of the company's tax liability going
5 forward. Right? I'm being very high level.

6 A. Sure. And although we don't have any rider
7 or treatment, so, you know, we get to collect it and
8 rates are included in the test period and then it
9 changes. But yes, it was included in a test period.

10 Q. Sure. And because of the tax cuts and job
11 act that was recently passed, there has been a series of
12 surcredits that the company has been returning EDIT back
13 to customers, and there has been some agreement between
14 the company and UAE's position about a fourth surcredit.
15 There was also some discussion about plant-based EDIT and
16 how that is amortized. Right?

17 A. Right.

18 Q. In your testimony?

19 A. Yes.

20 Q. There is some discussion in your testimony?

21 A. Right. For the -- I believe it is 2019
22 plant-based EDIT.

23 Q. Right. And there are some very strict rules
24 about how that plant-based EDIT gets returned, and it
25 basically gets returned over a long period of time,

1 commensurate with the depreciation of plant-based assets.
2 Right?

3 A. Right.

4 Q. And so what we have left with is this
5 non-plant EDIT, where there are not those strict rules
6 about how quickly that excess can get returned to
7 ratepayers. Right?

8 A. Correct.

9 Q. Okay. And would you agree with me that the
10 Commission has a fair bit of discretion as to how it can
11 order that non-plant EDIT to be returned over what period
12 of time?

13 A. I do believe there is some discretion there.

14 Q. Okay. In your summary, you indicated that
15 the company believes that a 12-year period is correct,
16 and one of the, sort of, principles that you offered is,
17 you know, a 12-year period will, you know, alleviate rate
18 shock. Right? If we return it too quickly, then when it
19 drops off, then rates will go up the year after it gets
20 returned. Right?

21 A. That's right.

22 Q. On the other side of that balance, I suppose,
23 that the Commission has to consider is the fact that
24 these -- this is money that has already been collected
25 from ratepayers, and it is getting returned over a

1 lengthy period of time. It's not quite as lengthy as the
2 plant-based EDIT but it is still a fair bit of time.

3 Right?

4 A. Right. 12 years.

5 Q. Or five or ten or even --

6 A. Possibly five or ten, right. Our position is
7 12.

8 Q. Right. I understand your position is 12.
9 I'm just trying to layout the consideration for the
10 Commission that the taxes -- excuse me, the rates have
11 already been collected, and it is just an effort to get
12 it back to the ratepayers. But the longer you wait, the
13 less overlap there is from the ratepayers that pay the
14 tax and those that you are returning it to. Right?

15 A. Sure. Yup.

16 Q. Okay. That's all I have. Thank you.

17 COMMISSIONER LEVAR: Okay. I think with
18 that, we will probably adjourn for the day and plan to
19 return tomorrow, with the understanding that probably
20 before we go to redirect, we will give other parties, if
21 there are still remaining concerns over the exhibit or
22 the summary, to ask further questions.

23 I think I'm going to make an unusual
24 commentary from the Commission that may help this issue.
25 If it helps to allay any concerns of whether this exhibit

1 that has been passed out would be used for ratemaking
2 purposes and order drafting, we just want to assure
3 everyone that we have our own internal processes and
4 modeling, as we work through our decision points, that,
5 you know, we wouldn't use this exhibit as a basis for
6 calculations in an order.

7 And there is also the caveat that there is
8 reconsideration period, if we did any math wrong, that
9 allows corrections. If that helps. Maybe it doesn't.
10 But I know all of you will be thinking about it between
11 now and tomorrow, whether you want to ask further
12 questions on these issues.

13 And with that, we are in recess. We have a
14 public witness hearing beginning in about 30 minutes, and
15 then we will reconvene the evidentiary hearing tomorrow
16 morning at 9:00.

17 (The hearing was adjourned at 5:30 P.M.)

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REPORTER'S CERTIFICATE

State of Utah)
)
County of Salt Lake)

I hereby certify that the witnesses in the foregoing hearing were duly sworn to testify to the truth, the whole truth, and nothing but the truth in the within-entitled cause;

That said hearing was taken at the time and place herein named;

That the testimony of said witnesses were reported by me in stenotype and thereafter transcribed into typewritten form.

I further certify that I am not of kin or otherwise associated with any of the parties of said cause of action and that I am not interested in the events thereof.

IN WITNESS WHEREOF, I set my hand this 30th day of December, 2019.



Kellie Peterson, RPR

	\$233 235:18 236:6,7	\$8.1 190:9
<hr/>		
\$	\$277 235:18	\$8.18 190:10
<hr/>		
\$1 40:20 119:6 147:23 183:11 221:14	\$3 183:10,13,14 197:23, 24 198:1,3,10,25 276:16	\$8.4 276:5
\$1.1 247:15	\$3.3 192:15 193:11	\$80 11:15,20 18:20
\$1.4 63:10 64:6	195:5,10 211:18 212:16, 19 218:21 225:11,16	\$800 31:14
\$1.8 18:15	\$3.6 233:15	\$90 12:3
\$10 12:6 184:21,23 187:10 197:15,17 208:5 245:18	\$4.15 70:14	\$96 276:2
\$100 135:14 155:9 180:9	\$5 222:19,24 223:6,7,21 224:8 248:9	<hr/>
\$100,000 247:6	\$5.4 277:14	0
\$112 195:13 278:10	\$5.5 276:10	<hr/>
\$120 63:13	\$5.6 180:22	0 250:7
\$14 245:21	\$5.612 181:6	0.31 63:23
\$140 62:10	\$50 57:4 154:11	0.8 105:24
\$141 65:12,13	\$500,000 63:24	04 176:2
\$141,500,000 63:25	\$55 25:3	07-035-93 246:17
\$15.3 247:19	\$59 25:24	09 25:2
\$157 63:21	\$6.25 180:9	<hr/>
\$17 198:5,6 199:17	\$6.50 180:10	1
\$19 18:14	\$600,000 232:5	1 14:25 15:5 44:8,18
\$19.2 228:23 230:22	\$601,333 261:14	45:16,24 46:18,19 48:1,7
\$2 183:11 187:20 197:16 223:24	\$65 25:13,25	51:17 62:19 63:22 68:5, 17 83:1 89:1 104:23
\$2.4 63:10 64:6	\$7.2 247:14,20	109:23 111:1 122:9
\$2.8 276:21	\$70 63:13	131:21 138:11 142:6
\$2.9 276:13	\$75 192:2 200:3 207:25 213:21 214:1,3,7 217:18, 25 225:14,19 274:15,19	183:15 235:23
\$20 16:1 17:3	275:16,23,25 277:3,10 278:4 279:19	1,000 35:17 36:17
\$200 107:13 135:14	\$8 17:1,4 29:8,11 31:8 95:22 96:10,14 97:6 187:13	1,008 35:19 36:19
\$203,257,107 268:13		1,070 36:20
\$22 15:14		1,084 36:22
		1,599,000 271:20
		1-day 46:22
		1.0 9:5,16,23
		1.01 9:6,17 22:20
		1.01R 9:10,18 17:8 22:21

130:17 131:7,8,14 149:3	11.05 178:14	136:7 265:24
1.02 13:5	11.12 189:10,14	16-057-01 10:19 191:20
1.02R 12:22 13:1,2	11.2 58:15 153:20	165 176:23,25
1.05 14:23 16:8 30:19,20	11.45 57:9	17 6:1 133:16 199:14 217:13 271:4
1.05R 9:10,18	11.88 83:25 84:8	1731 117:6,10
1.0R 9:9,18,23	112 200:9 278:5,9	1734 117:7,10
1.10 76:25	112.5 165:7	177 163:21
1.10R 130:14,15	11th 14:16	18 16:9,20 116:7 128:24 143:16 191:22 271:4
1.15 9:6,17	12 124:6 129:5 178:16 234:14,15 238:11 282:23 285:4,7,8	19 17:10 131:15 133:16 143:16 191:23 221:12 245:23 265:15 271:4
1.8 191:2	12-year 234:7,11,15 263:3 284:15,17	19- 179:1
1.9 262:20	124,440,000 247:3	19-057-13 62:25 138:12
10 92:24 98:2,18,21,25 104:2 153:23 178:17 187:13,14,16 208:6 217:14 232:18	13 235:12	19-057-25 11:1
10-year 263:4	13.52 83:25 84:8	19-57-2 6:5
10.2 58:15 153:20	13.95 92:2	1987 171:21
10.5 18:16 23:18 39:1 74:17,23 89:20 90:18,21 91:12,24	130 52:22	1993 176:22
10.75 38:25 57:12,18 58:4 84:1 91:13	13th 85:20	1995 176:22
100 58:14 105:17 117:20 153:17 247:23	14 129:3,13 199:15,17 246:8	1998 178:15
101 256:23 257:6,7,9,10, 12,15,19	147 48:19	1999 176:22,24 177:1,7 202:13 214:13,21
101R 23:1	149 48:19	1:00 122:15
105 98:4	15 104:9 153:23 247:11, 18	1st 73:7,20 143:3 264:5
107 232:25 256:22	15-minute 242:13 243:5	
108 233:8,9 257:10,11 260:12,19,21	150 14:3	<hr/> 2 <hr/>
10:40 68:25	1568 111:7	2 12:13 14:13 15:6 17:14 34:18 51:17 63:2 69:19, 20 100:11 105:23 110:5 119:10 126:14 128:11 131:24 132:1 183:14 187:10,13,16 197:17 219:9 230:21 274:24
11 176:1 191:24 234:3	1569 111:7	
11.04 174:24 175:7	1582 112:20	
	1583 112:20	
	16 16:20 17:23 53:17,24 116:5 132:17,23,24	

2.0 34:18 35:3	40:2,7,13,19 82:9 84:22	268:17,22 269:12 274:15
2.01 34:18 82:23 83:5 104:21 108:20 109:18	125:18,20 126:12 136:11,15 138:6 204:23, 25	275:16 277:3 279:19 282:14
2.01R 34:20 109:22,25	2014 18:14 24:1 25:25 26:13 27:9 40:2,8 179:4 181:1,8 254:20	2021 56:23 58:12 154:3, 9,23
2.07 175:18	2015 27:9 123:5 124:12	2022 138:23 139:20
2.07S 276:19	2016 15:13 16:17 27:9 115:23 116:12,14 126:19 256:21	2023 77:1
2.09 115:22	2017 30:9 81:11 82:17 165:14 180:17 204:12,13 213:22 275:23	21 13:23 15:25 24:18,20 25:19 123:20
2.09R 123:1	2018 12:23 14:21 31:1,6 74:3 81:10 115:23 123:20 124:5 129:5 142:22,24,25 165:14 247:3,6,25 248:20,22 253:22 254:9,12 256:6 262:6,12 263:14 269:6,8, 9,10	211 268:20
2.0R 34:19 35:3	2019 6:1 14:25 15:20 16:14 17:10 22:2,15 27:20 30:20 69:14 70:13 72:15 73:21 74:2 76:4 77:1 81:9 88:2 100:11 123:6 124:13,21 126:12 131:13,15 136:16 142:7, 12,21,22 232:21 235:18 236:5,7 245:17 247:17, 20 254:15,21,23 256:21 262:9,15,16,20,22 283:21	212 254:12
2.11 34:18	2020 15:7 17:16 28:1 228:24 229:5 230:22,23 232:7,21 233:16 235:19 236:1 245:16 246:3,10 247:5,13,15 248:7,18,19, 24 253:11,13,23 255:4 264:16,23 266:11 267:2	212.2 254:9
2.16 275:2,12		21st 55:22
2.16D 279:16		22 25:19 30:9 74:19 275:8,9,20
2.2 277:18		23 129:7,14 275:8
2.24R 34:20		230 171:9
2.4 91:15		232.4 254:16
2.468 190:17,22		233 255:1
2.5 106:8		24 13:10 14:14 115:9
2.7S 176:7		25 12:24
2.82 105:22 106:3,23		25.5 106:21 110:4,14
2.9 277:15		25.50 105:9 106:6 109:19
20 90:11 127:23 128:6,9 132:23 136:7 176:8 177:16 268:10 278:1		250 14:3 34:11
20- 242:14		254 234:24
200 58:14 153:18		257 173:6
2000 19:6		26 176:8
2006 178:5,16		27 110:3,14
2008 55:11 179:2 183:18		27.8 165:8
2009 26:4		277 255:21 266:13,14
2010 179:2		277.7 255:6
2012 179:3		278 255:21
2013 25:6,12,25 26:2,8		

28 63:3 76:19	77:4 78:23 131:13 142:7	49.88 81:10
28.83 82:21 83:8,19 84:4	260:19,20,23 286:14	4s 207:4
286 104:12	30-day 46:22	
29 257:19	30-minute 242:14	<hr/> 5 <hr/>
296 117:1	300 12:13 104:15	5 29:11 31:8 39:1 63:14
2:50 188:20	301 104:15	64:7 65:12 70:15,18,24
<hr/> 3 <hr/>	30th 11:7 14:24 73:8	104:23 105:1,5,12 118:7,
	143:2,3,17	10,11 193:13 222:22,23,
	32.5 48:23	25 223:24 224:12,13
3 15:7 16:7 63:22 75:7	333 8:24 227:12	273:17
79:20 81:7 83:1 92:21,22	342,688 250:6	5-year 263:5
114:3 128:22 198:7	35 40:5	5.16 163:23
199:15 221:12 223:23	37 83:2	5.2 194:13 207:18 208:5,
224:1,13 265:24 274:24	37.5 222:5,15	6 248:10 276:21 277:18
277:18	<hr/> 4 <hr/>	5.5 106:2 165:10
3.0 227:19 228:7,15		5.6 179:6 180:24
3.01 227:20 228:8,10		5.9 179:3
3.01R 227:25	4 18:9 22:24 25:8 30:23	50 18:2 31:10 93:4,12
3.02 275:5,11,18,20	74:25 76:5,7 88:23	94:18 96:13,20 97:13,20
279:13	193:13,14,15,17 207:2,5	133:24 134:16,18,19
3.03 277:6	212:18 231:15 265:24	272:5,15
3.09 235:16,20 254:10,	4,872,595 265:17	50.09 81:10
18,22	4.30 70:14	50.23 88:6
3.09R 227:25 228:11	4.37 91:9	51 87:19
3.0R 227:23,24 228:10,	4.8 208:6	512 76:19,22
15	40 142:21 268:6	513 76:19,22
3.1R 256:8	40-year 164:22	52 18:3 50:12,25 87:19
3.3 194:16 195:16 207:18	43 80:15 139:25	89:8 90:1 272:5
209:9 211:23 225:4,14	44 80:15	52.5 87:20 88:2
226:2	45 81:17 268:7	52.52 81:9 82:15
3.31 116:22,24 268:9	47 63:19	522 281:23 282:1,2,3
3.32 227:20 228:8	48 51:14 101:17	53 35:11,15 36:6
3.4R 246:23,25 247:18	49 82:17	54 35:17 36:17,19
3.805 190:17,19		54.9 26:3
30 33:13 63:4 73:21 76:3		

55 12:17,19 16:15,23,25
17:6 18:17 19:3,11 23:19
29:8 42:1,15,22,24 43:4
50:14,21 52:2,5,6,13
81:17,23 82:12 87:7,12,
15 89:11 90:1,4 95:21
96:1,13,14,19 97:7,15,20
101:3,14 102:8 267:3
268:7 270:13 272:5

55-45 103:3

57 35:21 36:20 93:8

57.5 102:6

57.59 82:10

58 36:22

59 26:2 46:2

5:30 286:17

5th 253:19

6

6 35:15,18,20 36:7,18,19
53:24 70:11,13 104:23
105:1,5,12 235:23

6.01R 163:17 164:10,16

6.03R 163:17 164:10

6.0R 163:16 164:10

6.19 110:8,12,18

6.42 109:19 110:11

60 16:24,25 17:1 29:8
40:3 42:2 43:3 52:3,6,13
62:5 74:25 95:21 96:2,
14,19 97:7,13 101:14
102:9 133:23 134:12,15
267:1,2 268:5

600,000 232:9,12

601 261:21

61 101:6

61.04 100:11,18

63 74:25

66 253:23

660.5 117:1

67 253:3

68 253:3

6:00 6:9 242:12

7

7 35:16,19,20 36:7,18,19,
21 56:25 104:23 105:1,5,
7 163:21 194:11 229:13
230:2 249:18 265:15
271:3 273:14 274:6

7.2 105:11

7.358 259:11

70 27:21 57:12 154:6,24
193:16,18

70s 44:21

71 101:17

72 11:15 28:1,2

75 193:25 194:12 195:12,
25 208:2 209:7 211:5
220:9 222:9 225:16,25
276:2,15 278:8

78 212:18

787 172:16

79 207:2

797 80:15,17

798 139:24 140:3,4

8

8 36:21,23 105:1 108:20
178:17 187:14 217:14

8.09 39:5

8.18 163:22 179:5 190:16

8.75 184:19 275:24 276:5

80 18:25 27:24 28:2

800 80:15 139:24

82 74:16 129:6 212:19

828 259:12 261:8

85 40:3 111:4

86 112:19

87 171:15,19 173:1,16,17
174:5

88 82:17

880 83:2

881 83:2

9

9 36:23 39:6,10 46:2
89:12,19,23 90:6,7
123:14 171:9 232:18
272:6

9.1 90:21

9.2 56:9,25 57:22 58:2,9
86:5 154:5,13

9.25 53:1,5,8,12,23
85:10,13 89:19 90:8,21
124:4

9.3 86:11 123:14

9.35 123:14,20

9.37 90:18,22

9.4 86:19 87:5	98 118:16 119:6,7,8,11, 12	144:4 176:23,25 177:1,6 203:21 204:3 206:15 207:21 217:21 223:1 232:25 233:1,9 234:24 244:15 246:13 257:10 268:19,22 269:3,6,11,18, 21 277:23 278:11 279:18,23,24 280:12,16
9.5 39:6,8,13 89:4,23 272:15	992 35:12,15 36:6,10,11, 12	
9.55 50:14,23	9:00 6:1 286:16	
9.59 74:3	9s 89:19 90:21	
9.6 125:1 142:24 143:1		
9.62 124:20	<hr/> A <hr/>	accounted 233:13
9.68 39:5 74:1,18,20,24 125:20	A.M. 6:1	accounting 165:1 166:1 167:4 171:15,21 185:15 205:14 219:11 253:21 257:12 269:19 280:10
9.69 142:12	A2 17:13 28:11 93:22	
9.7 40:14,17 41:9 58:9 72:23 84:20,22 85:6,8 86:6 87:4 90:9 125:23	A3 17:11,13 28:11 93:22	accrete 183:12
9.72 142:23 143:1	ability 17:25 18:5 67:14 68:10 95:17 103:5 132:20 135:2 239:21	accrual 173:9,10,17 185:14 205:13 222:22 225:9,22 231:16,19 280:10
9.75 107:6	absent 78:6 149:16 158:9 160:25 201:5 214:1,7 274:15,18 275:16 277:3,10	accruals 231:23
9.8 72:24	absolute 49:20 50:5 129:12	accrued 193:21 262:24
9.85 39:2,15 41:10 50:12, 25 72:24 126:2	absolutely 111:25 119:20 147:20 206:17	accumulated 165:8 168:19 260:11,13
9.9 38:25 41:12 56:25 58:4 74:20 89:19 91:13 143:12 154:6	accelerated 27:15	accumulates 280:13
9.94 142:11,16 143:2,9 147:1	accept 91:23 116:23 225:9 259:6 261:3	accumulating 280:5
9.98 110:25 111:2	Accepted 167:4	accuracy 112:10
905 261:9	accepting 242:4 259:17	accurate 20:1 44:5 47:14,18,22 50:15 52:24 58:22 64:19 112:15 145:1 147:1 163:17 185:9 236:2 241:2,3,17 262:5 263:6 265:21
90s 19:4	access 37:21 93:18 103:18 189:6 197:9,18 199:21	accurately 55:3 69:15 238:15 239:13
94 115:16	accessed 197:14	achieving 153:12
95 115:16 120:8	accommodate 251:12	acknowledge 174:8 238:24
956 109:2,6	accompanying 9:6,9,16 228:8	acknowledging 256:1
957 109:7	account 91:16 97:16	
958 109:2		
96 82:9 98:4 276:1 279:20		
97 120:20		

acquired 126:19	additions 233:2,6 255:18 257:20	admission 9:16 148:10, 11 228:6
acquisition 31:13 115:20,24	address 8:22,24 12:15 91:10 117:7 227:11 233:17 240:4 241:13 260:2 261:2 281:16	admit 15:21 34:22 74:7 164:10 194:18 240:22
act 46:10 178:6,18 283:11	addressed 245:13 248:13 249:3	admitted 229:14 272:18
action 12:22,24 13:14 85:25 132:10	addresses 37:12 117:12 131:24	admittedly 59:6,9,10
actions 62:2 238:22	adds 21:10 63:23 280:13	adopt 9:12 37:2 47:21 163:25 216:11 228:2 266:5
activities 120:17 270:9	ADIT 165:22	adopted 237:21
activity 141:21 232:19,21 233:11,20,23	adjourn 285:18	adopting 237:10
actual 19:6,9 39:12 42:2 43:3,6,9,10 52:5,6,13 81:24 82:3 96:2,18 98:25 99:8 100:11 102:9 115:18 118:12,15 134:19 171:25 172:14 173:21 203:15 235:20 254:8,11, 12,14 259:24 260:19 262:8,12 268:5	adjourned 286:17	advanced 155:12
actuarial 167:8,17 172:16,23 193:23 222:22 276:22	adjust 237:18 257:8	advances 244:10
actuaries 183:3	adjusted 44:10 47:10 48:9 57:8 190:16 229:3 247:2,7 257:16 261:7 272:9	advantage 41:3
add 12:5 64:1 140:12 141:8 143:25 178:1 198:5 256:10	adjustment 43:8,13,14, 16 44:6,17,22 45:3,5 52:10,11,12,14,17,18,19 56:17,18 58:13,14 61:1 64:21 66:24 96:24 97:1, 24 118:8,18,25 153:3 225:10,23 226:9 230:14, 15,24 231:2 232:1,3 234:1 235:13 240:20 252:8 253:6 258:2 261:21 273:25 274:3	adverse 55:15
added 12:7 31:14 66:17	adjustments 43:7 44:11, 15 119:5 229:7,16,20 230:6 231:7,9 234:4 236:21 238:11,17 240:12 241:8,20 242:4 247:8 249:23 250:21 252:5,7,9, 19 259:9 273:16,23	advised 33:25 34:7,9
addition 64:4,8 234:15 264:8	administrative 21:11	advising 34:3
additional 11:25 12:5,8,9 20:4,23 21:7,11 51:6 113:13 115:5,14 116:17 137:23 138:3 149:14 193:25 232:4 236:18 246:6 247:15 263:25 268:21 276:17		advisors 183:3
Additionally 12:7		advisory 164:25
		advocated 166:15 169:11 170:6 217:3 240:20 241:8
		advocating 225:23
		affairs 191:17 227:16
		affect 66:1,2 75:2 108:12 111:24 150:17 151:3 161:12
		affected 107:16
		affects 95:16,17 157:13
		affiliates 169:3 176:25
		affirmed 169:6
		afforded 114:17
		afternoon 157:5,6 162:13,19,20 226:12

227:1,8,9 251:15,16
aftertax 144:7
AG's 7:5,7
AGA 79:16 81:5 82:16
141:16 143:6,7 151:13
AGA's 74:18
agencies 7:21 49:25 79:4
80:11 85:25 157:20
agency 21:3
agency's 156:3
aggregate 106:25 107:1
agree 40:11 50:5 58:4
60:25 61:3 70:9 72:8
73:22 74:24 81:25 82:17
85:7 87:23 90:25 91:2,6,
18 92:5,6,8 94:24 97:2
101:19 105:9,13 106:2
109:12 110:20 114:13
145:12 150:23 151:4
152:6 188:11 210:22
215:10 231:8,18 232:1,9
233:21 234:5 238:10
241:20 248:16 250:9,12,
24 255:19 261:11 266:7
267:6 269:15,23 284:9
agreed 15:19 231:13
232:17 240:13 257:1
259:5
agreement 11:12 196:1
230:8 231:14,19 232:16
234:2 240:16 245:13
283:13
agreements 55:14
agrees 196:7 250:3
ahead 35:10 37:9 90:2
108:8 116:10 164:7,19
176:11

air 7:20 239:3
air-type 264:22
Alan 6:17 162:11,15,23
alert 237:8
align 96:2
allay 285:25
alleviate 284:17
alleviated 64:3
allocated 118:1 194:17
211:19 276:9
allocating 60:12
allocation 34:1 117:7,12
118:2 194:16 211:18
allocations 207:19
allowance 238:2
allowed 17:6 18:16
23:17,19,20 81:8 220:2
allowing 195:20 219:9
Alta 51:9
alternative 65:18,22
109:7 110:18 169:16
170:8 186:21 206:11
216:20
Alyson 7:10
amendments 172:25
American 7:15 73:6,19
87:21 88:17 141:20
151:7 217:3
amortization 172:23
193:23 234:6,8,9,10
235:3 263:2,4,5 282:19
amortize 247:21
amortized 173:2 234:20
283:16

amount 11:15,21 14:8
54:11 64:3 65:10 94:22,
25 114:5 118:19 135:24
140:23 165:25 168:5
173:20,21 174:1 177:24
178:3,7 179:10,23 180:3
181:9 182:2,11,13
183:12 195:8 197:19,22
206:1 207:25 209:16
210:5,6 218:19,20
221:14 226:1 230:16
233:2,8 235:8,11,22
247:14 248:8 268:14,16,
18 269:19 271:14 273:3
276:10,14,18,24 277:16
279:2 280:2,19 283:3
amounted 253:23
amounts 11:11 141:8
178:14 181:18 195:24
201:2 208:2 230:9,14
244:24 245:1 257:1
259:19,22 261:5 272:19,
25 273:4,6
analyses 71:2 112:8
analysis 51:22,23 58:20
64:11 65:3,5,15 66:7
94:5,6,17 96:11 97:11,14
101:9 104:7 110:14
119:21 146:5,10,18
156:13 199:4 231:24,25
233:24 257:17 264:13
analyst 33:12,15 109:8
analysts 38:17,18 107:22
112:18
analytical 82:19
Andersen 164:23
Anderson 7:11
anew 236:20
ANGC 89:3 243:15

ANGC's 271:3	applies 13:14 276:4	areas 48:15 113:9 230:6 245:12
announcement 86:2	apply 39:22 44:6,15 45:4 47:8,10,13 57:14 64:20 152:19,22 172:12 199:14 211:2	argue 180:5,6 250:20
annual 18:15 63:12,14 64:7 65:12 78:13 173:21 192:16 193:12 194:13,16 195:5 211:18 218:16 222:20 225:4,11 226:5	applying 38:10 47:25 72:4,6 152:24 159:24 160:5 168:1 194:15 208:9 211:17	arguing 101:3
annually 25:3 63:23 203:13 209:10 218:21	apprised 10:8	arguments 11:23 112:6 238:9 241:4
answering 211:15	approach 47:11 62:15 69:5 73:3 107:8 109:7 131:6 168:24 169:2,11, 16,19,23 170:8 186:21 197:21	arise 206:16
anticipate 165:15 279:20	approached 45:16	arises 260:10
anticipates 236:5	approaches 41:15,19	arrangement 156:10
anticipating 158:20	appropriateness 258:24	arrive 276:5
apologies 214:17	approval 16:15,17 18:25 19:11 99:12,14,19 100:6, 24,25 151:1 155:12,16, 20,21 191:20 192:1 263:15 270:12	arrived 245:11
apologize 36:4,16 61:21 70:20 75:8 130:17 152:16 159:16 198:21 218:9 219:10 224:25 232:10 245:7	approve 191:19 266:22	Arthur 164:22
apparent 44:21	approved 10:25 11:21 18:6 25:1 26:4 62:9 86:18 88:5,6 90:15 99:3, 6,8,22 100:18 104:1 152:18 155:15 246:14 248:23 270:1	articulating 241:5
apparently 24:6	approximately 14:3 63:24 77:4 78:11,16 93:4 193:11 194:13 195:4,10 218:21 266:11	as-is 28:1
appearances 6:11,12	April 11:6 115:23 116:5	aspect 38:13 210:18,19
appeared 143:15	arbitrarily 235:8	aspects 37:16,17 122:2 139:2
appearing 89:3 90:17	area 245:25 261:19	assess 92:9 108:23 253:7
appears 41:8 133:4 236:11		assessed 155:21
applaud 243:17		assessing 72:6,13
application 6:5 155:10, 14 165:5 263:13,16 265:2		assessment 64:13 104:7 109:13
applied 41:19 47:1,3,17 50:17 57:15 70:19 152:21 154:12,16,17 159:1 174:12 198:6 217:5 252:21 261:18,25 272:12		assessments 42:18,19
		asset 41:16 67:10 68:21 70:19 153:15,16 155:8, 12,16 165:7,21,23 166:4, 18 167:13,25 168:3,4,8, 12 169:14,21 172:12 174:15,19,22 176:19,21 177:6,11,15 178:2,3 179:14,20 181:13,21 182:14 184:4,13,18,22 185:4,18 186:3,24 187:5 188:10,15 195:14,21 196:2,10,13 197:4 200:9

201:20,21,25 202:1,5,11,
18 203:19,20,24 204:5
205:9,15,21 208:23
209:13,25 212:21 214:21
215:9,16 216:7,8,13,21,
25 217:7 218:18,19
219:10 220:8 222:6,12
223:7,8,16,25 224:7,11,
14 225:8 226:6 260:7,18
276:15 277:22 278:2,11

asset-based 34:4

assets 56:20 61:5 118:20
153:5,6 154:13,22
166:23 168:1,18 172:11
173:12 192:6 193:24
194:2,3,12,15 196:5,16
201:3 202:13 203:12
204:8 206:6 210:1
212:10,11,21 214:17
215:3,14 223:22 226:3,7
276:5,23 284:1

assist 30:11

associate 152:1

Association 8:1 73:7,20
87:21 141:21 151:7

assume 23:23 66:2 67:4,
10 117:21 135:10 138:20
139:2 151:8 155:8,15
187:8 204:16 215:8
225:7 242:11 272:3,6

assumed 100:2 275:24

assumes 47:2 238:16
249:23

assuming 89:25 105:9
196:7 210:16

assumption 53:6 66:15
67:5 223:21 277:25
278:4

assumptions 65:6

222:19

assurance 155:17

assure 244:6 286:2

astray 36:15

asymmetrical 165:18
185:20,25 188:9 196:4
206:6 212:21

attached 9:18 79:5
130:13 227:20,24 228:10
276:18

attachments 9:24 35:4
164:16

attempt 229:19

attempted 205:13

attention 12:20 17:14
18:9 73:23 123:8 147:11
173:5,15 253:2 265:14

attorney 6:23 140:18

attorneys 133:21 135:11
250:24

attract 138:1

attractive 41:2

audit 231:16,19 262:24

audits 164:24

August 17:9 79:12
102:23 131:15

authorize 23:17 53:11
57:4

authorized 39:2,15
40:11,14 50:12 53:4,8
72:18,19 74:1 81:14,21
82:14 85:5 87:3,17,22
90:12 93:12 125:19
126:2 142:10,15,23
143:22 222:20

average 12:11 14:4 49:6,

7 65:12 70:23 72:14
73:25 81:8,18,20,21,22
82:8,10,14 83:12,16,17,
18,23,24,25 84:19 85:8
86:6 87:20,22 88:2 90:9,
22 102:6 103:11 106:19
124:16,19 125:18,19,22
142:2,5,10,14 147:2,4
184:7 228:24 233:5
235:23

averaged 90:17 129:7

averages 143:16

avoid 257:3

aware 54:3,5 55:4 61:14,
24 62:1,8 86:19 88:7
91:7 93:24 108:3 157:14
158:25 176:18 213:19
219:14 220:5,22

B

Ba1 31:11,14

bachelor's 33:9

back 12:18 26:16 40:13
51:2 54:22 58:10 65:19
66:11 69:2,3 71:23 93:6
99:10 100:20 108:14
118:4,5 119:7 122:9,15,
17 146:3 152:15 153:6
157:7,19 161:2 188:19,
22 235:15 237:23 243:5,
10,14 246:15 262:17
269:7 277:11 279:1
280:2,17 281:6,13
283:12 285:12

background 33:6,8
47:12 69:25 163:2 231:5

backwards 112:15

bad 116:4 158:3,5 184:25

balance 20:19 42:4,5
82:5 99:11 101:10,13
118:24 177:3,5,10
234:13,20,23 235:1,7
257:6,15 260:11 269:17,
19 276:2 279:18 280:6,
14,15 284:22

balancing 92:15

bank 280:4,5,9,22,24

barely 124:9,10

base 15:6,10,12 17:15
18:16 23:24,25 49:4,8,21
50:18 56:15,20,24 74:16
86:10 133:15 147:24
152:19,20,22 153:18
154:14,16,18,19 156:7
165:21 174:16,20 177:3,
7 179:2,4 181:21 184:4
185:17 186:23 202:1
209:19,24,25 210:1,18
212:8,24 213:8,10,11
215:18 225:7,8,24
230:25 233:1,4,16
234:24 235:10 245:9
247:3,6 248:20,22
252:18,21 257:12 260:20
272:12

based 11:23 12:10 18:15
19:8 42:17,18,20 44:20
46:22,24 47:1 54:20
57:7,20,21 63:13 64:21
65:20 66:6 83:11 89:7
95:14 106:4 118:12
128:7 129:16,24 151:16
155:24 173:17 174:2
179:12,24 180:15 182:7
194:11 212:18 219:11
225:14 228:24 233:6
235:6 245:9 250:7 256:2
257:17 262:24 273:1
276:11 279:20 281:12,
14,15

baseline 50:23

bases 112:2 215:12

basic 137:15

basically 205:23 206:7
251:22 283:25

basics 197:4

basis 14:3 17:24 31:9
39:1 40:3,5 49:20 56:25
57:12 58:15 65:5 71:3
74:20 77:24 80:5 90:11
93:3 94:18 105:17
107:23 118:7,10,11,17
119:20 127:24 128:7,9
129:12 130:8 132:18
133:24 144:7 145:5
153:18 154:6,25 158:7
165:13 167:8 173:17,23
185:15 238:16 264:15
286:5

basket 25:16

bear 45:17 60:17,19
61:3,4 103:5 115:21
118:7

bearing 38:2 60:4 139:8

began 159:6 241:25

begin 51:22 173:11

beginning 13:8,21 15:1
48:19 63:17 80:18
275:22 286:14

behalf 7:20,25 163:9

behavior 38:13,14,16

belabor 79:10 86:8
213:24

belief 44:7

believes 186:10 261:24
284:15

benchmark 40:12 42:13
72:20 90:15

bend 154:25

beneficial 15:12,20

beneficiaries 192:14

benefit 16:1,5 47:5 61:9
113:16 166:10,16 168:13
169:12 172:25 182:15,17
183:5,14,25 185:3 192:4,
7,16 194:9,16 196:10
198:8,22 200:18 201:9
202:17 203:16 204:19
206:3,8,13,18,20 207:7,
12,13,18 209:1,6,8,9,20,
22 210:6,15,16,21,23
211:10,13 212:19 214:5
216:23 218:2,15,16,18
221:23 225:5,11 226:5
234:25 279:6 280:23

benefited 168:10 200:24
214:12

benefiting 202:2 280:20

benefits 17:4 167:6,17
172:1,4 173:1,13 179:15
182:9 183:9 186:11
190:21 193:12,22 195:5,
10,15,18 199:22 203:22
204:1 206:23 211:19
280:1

benefitted 201:1

beta 44:10,23,25 45:11,
16,19 46:2,4,20,22 48:9

betas 44:7 45:7,21,24,25
46:11,17,24 47:11,25
48:6

big 135:20 220:8

bill 50:14 180:8,9 264:19

billion 18:15 31:8 63:11

64:6 76:25 147:24
billions 34:8
binder 130:11
bit 44:4,10 45:25 46:6
48:14 58:17 63:17 69:25
72:10 75:17 90:8 91:17
94:3 95:24 110:22,23
113:6 114:13 127:18
129:22 144:19 146:20
150:15 230:17 238:12
279:1 284:10 285:2
Black 86:18,25 88:4
blank 241:25 242:1,5
249:25 250:5
blanks 265:20 266:1
bleed 161:8
blocks 159:23
Bloom 44:20
Bloomberg 44:13 45:4
47:10
blue 31:11 235:12 245:12
Board 171:15
boards 34:9
body 73:24
bolded 128:23
bonus 13:24 14:10
booked 256:21 257:1
260:13
boost 23:23
borrow 55:17,18 135:13
199:23
bottom 25:9,19 124:15
140:3 142:17,19 169:25
250:13 275:9,17
bought 66:21

bounds 59:16 143:12
boxes 142:1,3,9
boy 50:6 54:10
break 51:9 68:23,25 69:1
91:17 122:9,14,16
188:18,21 242:10,13,14
243:5,7,9
briefing 266:4,5
bring 77:20 103:7 135:2,
7 238:22
bringing 40:21
brings 66:13
broad 49:10 79:21
128:13 151:14 152:9
brought 182:17
Bruce 7:15
budget 25:21,22,24 26:1,
2,13,15 27:5,8,19,23
28:1 235:17 236:6 246:3
253:11,22,23 254:4
256:6 268:6
budgeted 235:21,24
build 149:10 255:23
bullet 132:21
burden 60:5
burdens 21:11
burning 75:14
business 8:21,23 31:6,
11 33:9 40:23 86:22
113:1,3,9,25 114:22
121:20 133:12 141:11
220:11 227:10
butchered 189:2
buy 34:3 66:12
buys 52:8

C

calculate 46:21,22 57:17
94:14 106:25 233:11
277:9
calculated 28:16 29:14
44:6,24 49:5 51:12,13
65:1,11 93:25 118:6
184:16,17 250:7 265:17,
25 278:18
calculates 14:1 246:12
calculating 79:6 139:21
246:9 252:19
calculation 63:20 64:13,
20 96:15 103:21 169:9
194:1 201:22 204:7
205:19 207:17 222:23
224:10 225:14 226:4
229:1 249:23 250:6
265:16 278:19
calculations 42:21
195:14 225:13 286:6
call 32:6 105:11,18,22
107:20 108:16 110:19
171:19 188:9 226:16
230:7 232:16 234:1
called 8:16 13:13 15:1
16:8 18:10 32:13 126:15
127:21 162:16 178:6
185:7 202:6 221:2 227:5
calls 8:10 32:9 226:24
Cameron 6:15
cap 18:19 24:16,24,25
25:2,13,22 26:8 249:2
273:3
capital 12:3 14:3,5,9
17:19 19:6,9 29:4 34:1
37:14,19,22 38:1,6 39:16

40:20,23 41:16,21,25
42:2 43:3,4,6,9,10,11
49:5,6,7,14,19 50:3,22
51:4,13 54:4,5,6,15,24
55:5,7,11 59:19 60:12
62:2,4,8 68:21 70:19
75:5 76:19,25 77:5,17
78:12,15,21 80:12,20
81:16,24 82:3,14 87:8,
17,18 88:5 90:17 92:11
93:4,17,19 96:2,3,18
99:12 102:2 103:3,4,6,8,
11,12,16,21,23 113:14
116:18 117:1 118:1
129:4,23 134:10,19,20
135:25 137:18 138:1
139:10 140:9,13,24
141:1 148:3 151:1 184:7
229:5 230:25 233:2
235:17,21,25 236:6
243:20 246:3,5,7 252:17,
19 253:22,23,24 254:9,
12,15 255:10,15,18
256:6 258:23 266:9,11,
18 267:1,7,11,13,14,19
268:3,6,9,20 269:24,25
270:1,12 271:6,16 272:3,
4,8 276:11
capitalization 16:16
capitalized 231:24
capitalizes 87:24
capitalizing 101:10,13
CAPM 44:5
capture 38:12
captured-type 153:16
captures 38:15
carbon 76:8,9 153:15
carbon-based 75:13
care 68:11 210:25

career 164:22,24 165:3
carefully 265:6
carries 17:20
carry 82:5
case 12:1,5 15:14,16,19
18:13 20:17,22 23:9,23
24:2 25:12 26:8 28:15
39:24 42:23 43:15 45:9
48:3,5 56:5,8,11,14 57:8,
15 72:12 82:13 85:10,12
86:6,9,13,17,18 94:20
98:10 102:25 114:15
120:18 123:16,24 124:12
125:18 133:14 135:4
136:11 139:10,11,14,22,
23 143:15 144:5,9,10,13
145:2,4 150:7,11,13,17,
18,24,25 151:2 155:6
160:3,5,8,23 161:20,24
164:5,25 165:5,9 166:17
167:2 169:13 174:13,17
176:24 177:1 179:2,4,12
180:12 181:1,4 184:7,17
186:5 187:9,12,25
193:10 204:23 205:10,15
206:12 207:24 208:10
214:13,21 216:7 223:5,
11,24 224:8,12 229:8,18
230:7 231:18 238:25
245:9 246:3,16 247:8
251:10 257:4 262:1
267:5 268:4,8 278:16
279:7 281:4,13,17,22
282:12,13,15
cases 19:4,7 20:16 21:10
74:2 123:4 141:23,24
142:20 153:23 156:20,21
170:4 176:22 177:20
178:23 179:7 188:12
202:6 203:4 205:11
221:6 246:15

Casey 7:2
cash 13:24 14:2 15:7
16:9,18 17:23 23:24
31:15 33:20 41:1,6,16
48:25 49:3,5,10,18,22
50:1,2,3,5,7,10,19 55:12,
17,20 70:21 78:20 83:11,
13 87:14 93:8,9 94:8
96:6,7 102:8,24 107:1
113:11,21 114:18
126:20,22 127:8,14,15,
18,23 128:4,23 129:12
130:4 132:16,22 133:12,
16 134:11 135:1,5,9,18,
19,20 136:1,2,7,19
140:16 147:22,23 149:7,
10,11 150:13,17 160:20
161:5,12,14 165:15
166:9 173:17 198:3
217:16 230:24 246:6
248:10,12 252:17,18
258:22 259:24 260:6,25
269:18,21 273:24 280:7,
8,11,23
catch 226:17
categories 141:10 230:4
255:9,13,14,18,20
category 18:5 79:21
127:12 128:14
caused 199:25 212:21
215:6 245:7 256:8
causing 196:17
caveat 251:9 286:7
caveats 254:3
cell 32:16 271:12
cells 250:5,7
Centerpoint 53:12,17
85:10,11,16 95:25

cents 118:16 119:7,8
CFO 16:19 129:4
Chair 170:16 243:13
270:24
Chairman 28:5 88:14
122:7,22 148:9 171:5
chalk 273:22
challenged 120:9
challenges 17:15 132:2,
7
challenging 199:2
chance 116:22
chances 280:15
change 11:6,10 13:17
42:8 46:3,12 51:24 55:15
62:11 65:8 87:6 88:9
92:21 96:25 107:6 111:1
114:4 140:16 189:18,24
194:1 218:19,20 225:7,
10,24 230:14 239:19
240:24 245:1 253:22
255:21 260:21 261:8
266:6 271:25 272:20,21
changed 13:9 14:17
30:15 46:13 72:18
126:11 136:14 176:24
177:2 190:6,11 271:13
276:24
changing 231:3 236:16
239:25 271:14
characterize 143:5
185:25
characterizing 244:13
charge 99:11 108:2,3,10
charges 6:7
charitable 221:13

chart 46:2 124:22,25
125:4 279:21
chartered 33:12
chase 221:12
cheaper 135:12
check 116:24 254:6,11
261:3 272:10,13
choose 267:7,12
chooses 266:22
chosen 98:8
circle 161:2
circumstance 90:13
101:23 114:2 201:8
202:15 207:22 217:4,24
circumstances 77:12
102:8 152:8 281:12,15,
17
cite 107:24 151:7 205:12
cites 22:8
cities 26:24
city 8:24 26:19 227:13
claim 113:21
claims 114:18
clarification 45:20
252:25 270:20
clarified 244:9
clarify 45:18 146:23
239:6 240:8 241:24
251:23
clarifying 215:23
clarity 261:16
Clark 6:13,14 8:10,18
9:15 10:9 19:13 29:18,
23,25 130:21 131:6
152:11,12,14 222:2,4

226:15,24 227:7 228:5,
17,18 229:12,22 240:7
242:9,18,20,23 249:6
258:15
clauses 56:17,18 58:13,
14 153:4
clean 264:22
clear 25:9 48:11 89:16
120:14 144:9 145:19
160:9 198:18 216:5
238:10 240:9,15
clearer 211:16
climate 128:15
close 23:5 32:16 170:5
184:23 200:12 256:17
closer 72:10 90:14 172:3
239:25
clustered 89:18
coal 153:15
coalescing 256:15
coast 151:17
coasts 59:6
coefficient 44:25
coefficients 44:23 46:3,
4,20,22 48:10
coincided 46:8
Coleman 7:2
collect 187:14 260:14
279:3 283:7
collected 13:24 234:16
283:3 284:24 285:11
collectively 173:3
color 230:4
Colorado 86:11 123:13,
19,24

column 25:21 27:4,19
105:7,12 108:20,22
247:1,4 249:18 268:12
269:7 273:15 276:4,13

columns 104:23 230:10
242:1

combination 50:17
239:19

combinations 49:21 50:7

combined 15:18 190:20
210:13

commensurate 284:1

comment 64:10 65:3,7
86:13 146:6 255:24

commentary 161:18
285:24

commented 11:9

comments 121:4 150:12

commercial 88:18

commission 6:5 16:15
19:4,5,10,14 23:16,20
24:6 33:6 37:6,10,12
39:19 53:4,7,11,19,21
56:8,16 57:3,21 59:22
62:9 69:5 85:18,21 86:17
92:8,13,14 99:22 100:18
101:6 123:5 144:24
146:21 150:21,22 151:8
152:21 154:4,8 155:11
160:22 163:1 164:8
166:7 181:23 182:23,25
196:7 208:21 216:11,19
221:16 222:8 228:20
237:8 239:5 244:25
249:7 261:4 266:17,22
267:3 272:17,24 274:2
284:10,23 285:10,24

commission's 39:21
85:19 273:16

Commissioner 6:3,20
7:3,12,17,23 8:3,12 9:19,
25 13:1,3,6 19:15 21:15,
19,22 23:3 24:10 28:7
29:16,19,21,23,25 32:1,
3,6,15 34:24 35:13 36:8,
11,13 43:23 62:17 68:6,
14,22,25 69:2,7,9 71:17,
20 72:9 73:4 74:9 84:14
88:12 122:8,14,16 125:8,
11 130:15 144:17 147:8
148:12,20,23 149:18,21,
24 150:1,4 152:11,12,14
157:2,4 162:4,7,13 163:5
164:12 170:14,19,23
171:1,3 175:17,22 176:4,
9,10 188:17,22 189:15,
20 192:21 194:20 196:24
198:14,21 199:7 208:12,
17 213:14 215:21,25
216:2 218:8,10 219:3,4,6
222:2,4 224:22 226:13,
19 227:1 228:12 229:11
236:13,24 237:23 238:19
239:6,15 240:5 242:7,18,
20,22,23,25 243:2,4,10,
22 249:8 251:5,11,18
265:8 270:4,19,22
273:10 285:17

Commissioners 226:20
242:8

commissions 92:14
100:3,7

commit 38:6 137:17
153:11 221:13 281:20,21
282:9

commitment 191:25
270:14

commitments 10:13,17,
18

committed 19:24

committee 182:6

commodity 76:11

common 33:21 77:11
82:6 87:18 98:7,25 99:8
100:11 101:4,6 103:13,
14,15,25 264:11 268:19

communicating 126:25
211:4

community 79:4 108:17
114:6 145:17,24 146:1
150:19 159:19 160:21
161:4,21 222:8

community's 103:20
108:13

companies 13:11,15
14:14 19:5 34:3 44:8
49:25 55:11,16 65:24
77:10 82:5,11 83:20 85:1
87:3,12 88:1 98:7,9 99:9,
16 100:6,21 101:10,24
102:1,6,22 104:2 105:19
106:9,25 108:16,24
120:9,10 121:15 137:20
160:9 178:7 185:14
205:13

company 6:16,19 8:10
9:1,15 10:15,17,22 11:1,
19,24 12:2,17 14:17,19
15:8,11,14,19 16:2,23
17:6,11,13 18:2 19:23
20:19,25 22:3,8 23:25
24:3 30:3,15 31:8 33:25
34:22 42:1,14 45:8 51:6,
8 52:4 53:23 54:11,13,
17,25 59:20 60:13 62:5
64:19 65:1 71:2,8,11
76:3 77:12,13,15,22
79:2,11 80:4 82:6,13
83:17,18 84:25 86:22
87:1,24 90:13 93:11,15,
22 94:9,22 96:1 98:11,22

100:10,12,14 101:13	56:22 57:3 59:24 72:22	235:2
103:1 105:8,11 106:7	76:14,24 78:5,18 79:9	compensating 60:4
107:10,23 108:19	93:8,9,10,13 94:8 95:9	166:17 169:13 196:16
109:18,20 110:2 115:9,	96:18 98:16 99:11	compensation 60:9
11,19 117:3 118:13,25	101:23 102:7 103:5	216:17
119:4,6,24 120:4,5,10,	108:13 112:25 114:2	compete 37:19
19,25 121:14,18,22	116:25 120:21 126:2,17	compile 11:8
122:3 126:12,19 127:1,3,	127:6,10 128:4,7,18	complete 54:7 244:2
8,11 128:10 129:7,21,25	129:11,13,14 133:12	270:16
130:2,3,8 132:9,11	134:13 135:16,22	completed 138:23
133:15 134:8 135:4	136:15,21 137:1,24	completion 192:1
137:12,20,22 149:4,9	140:21 150:20 154:5,10,	complex 37:20 42:6 65:3
153:10,13 154:4 155:11	11,18 158:9,11,15	66:7 103:9,22 166:1
156:14 158:3,5 160:13	160:10,18,20 161:17,18,	compliance 11:2
165:5,12 166:8,12	22 163:9 165:17 166:21	complicated 97:14 283:1
169:24 170:6 174:22	168:21 174:13 180:25	complied 10:18
176:21,24 177:2,6 180:4,	183:10 184:17 185:23	comply 167:9
17 181:8 182:4,5,12,20	199:3 205:8 216:12	component 167:19,23
183:1,2,23 184:3 186:18	228:6 237:9,15 238:10	171:25 172:2,9 173:3
187:8 192:12 197:8,9	246:4,6 253:12 255:9,11	195:13 252:17
198:1,2,3,8,10 199:5	257:4 259:12,18 263:13	components 46:2 152:22
200:2 201:8 202:12	265:1 275:17 283:4	153:2 163:11 165:6,21
203:22 204:17,23,24	company-calculated	166:4 167:7,15 168:22,
205:5 206:10,18 214:4	62:10	25 169:7,20 170:4
216:6,9,12,25 217:7,10	comparable 65:22	172:21 193:20 205:23
218:22 220:1 222:24	125:24,25	207:16 208:4,7 216:10,
225:20 226:24 228:5,22	comparative 65:17 77:9	22
230:21 231:5,18 232:6	129:24 130:9	compound 276:1
234:7,11 235:4,17,24	comparatively 130:10	comprise 173:3
236:5 237:21 240:12,19	compare 72:14 97:7	compute 104:25
246:10,15,17 247:16,21	compared 12:9 81:10	concentrate 141:6
248:8,11,12,16,18 256:4,	142:12	concentration 33:10,11
25 258:25 259:5,10,25	comparing 262:14	concept 157:10 159:1,
260:7 261:7,13,24,25	comparison 102:17	13,19 179:21 186:8
262:5,10 263:3 266:14,	235:20	219:8 221:1
23,25 267:6 269:4,23	compensate 137:23	
270:2 279:3,23 280:7,22	compensated 119:16	
281:6,19 282:4,9,23	137:8 168:12 235:9	
283:12,14 284:15	compensates 138:2	
company's 14:5 18:4		
19:9 20:22 23:18 33:19,		
24 39:2,12 41:6,22,25		
43:1,3 51:24 52:7 53:13		

concepts 161:7 167:4,12 258:11	consideration 60:7,22 285:9	117:15 131:21 145:3 146:5 149:4 157:11 168:17
Conceptually 167:20 172:6	considerations 22:2,22 79:22 93:9	contexts 219:14
concern 17:18 22:14,15 59:4 121:7 145:24 152:9	considered 34:5 38:23 48:24 59:18 75:3 95:12 145:22 146:8 159:10 183:21	continual 238:23
concerned 14:14 22:11 127:14	considers 54:2 94:8 121:12 173:12 183:24	continuation 18:18
concerns 10:21 41:7 93:8 145:18 149:2 151:15 160:10 245:7 285:21,25	consistency 92:11	continue 11:21 20:14,18 128:17 243:25 244:21 245:11
conclude 43:18 166:4 265:7 270:4	consistent 74:5 84:5 102:10 169:2 177:7 205:10 239:22	continuing 64:1 128:9 185:14
concludes 19:12 31:24 244:4 249:5 270:6	consistently 84:22 166:5	contract 121:2
conclusion 41:23 138:8 159:15	consolidated 31:9,15 71:1	contractual 113:20 140:14
conclusions 42:20 121:4	constant 50:18 82:20 83:12	contribute 165:14 167:1 192:2 212:10,11
concur 263:9	constrained 15:5	contributed 186:24 195:24 196:17 207:24 209:2 210:9 211:12 212:15 235:6
condition 128:8	constraint 30:6 103:18	contributing 276:15
conditions 37:23 38:14, 16 84:5 246:21	constraints 42:7,10 101:25 103:14,17	contribution 173:22 178:14 180:17 183:7 192:10 193:10,25 194:12,14 200:3,14 205:4,12,16 207:25 209:7 213:22 214:2,3,7 217:17,18,19 218:1 220:9,15 221:14 223:2, 24 224:8 225:15 274:16, 19 275:16,23,25 276:3 277:24 279:18
confidence 236:2	construct 220:18	contributions 165:15 166:9,13 167:8,13 168:5, 14,23 174:2,5 178:4,7, 11,19,21 181:14,17,24, 25 182:2,18,22 185:14 186:8,9,16 200:10,11,20, 22 204:12,14,19,20
confidential 10:1,2	constructed 138:23	
confirm 126:1 176:21	construction 11:17 12:10 232:24 233:18,25 256:22 257:18,22,25	
conflate 161:7	consultant 34:2,7,9	
connected 175:22 176:5	consulting 164:25	
connection 53:18 96:25	Consumer 7:6,8 188:23	
consequence 38:15 53:5 64:2	contagion 30:24	
consequences 37:24	contained 190:10	
considerable 54:11	content 68:13	
considerably 178:18	context 39:22 41:24	

209:2 216:24 220:13
223:8 224:12 277:22
278:3
convention 106:4,15
conversation 90:5
157:18
Cooperative 147:25
copies 275:8
copy 69:12 75:21 76:2
123:18 191:9 193:4,8
corner 131:1
Corp 31:14
corporate 34:4 197:14
corporation 102:13
105:16 117:22 191:21
correct 20:2,6,23,24
23:11,22 25:4 27:25
28:13 29:10 34:20,21
35:9 49:1,6,19,23 53:3
56:3,9 57:23,24 70:8,16,
20 73:21 75:6,15 77:2,3,
18 80:25 81:1,18 83:21
85:2 87:19 88:25 89:1,4,
5 91:13,16 92:12 95:3
101:18 102:14 105:4,14
107:14 108:6,22 109:17
110:6,15 117:14,16
120:11 123:7 124:7,8,17,
18,21 125:1,2 126:4
127:17 130:16 133:1
137:10 141:25 143:4,23
145:4 151:11 163:14,23
173:19,22 174:17 179:9
180:18,19,23 181:15
190:6,11,12 195:11,22
196:13 201:7 203:24
211:21 212:24 215:19
216:16 217:1,8,23
222:15 223:17 239:17
249:20,21,25 253:17

255:7 256:24 259:1,2,7,
13 261:15,19 262:1
263:16,17,22 266:1,2,6,
15,16 267:11 268:23
270:8 271:7,8 274:20
275:20 278:19,20 284:8,
15
corrected 190:14 191:4
241:11
correction 35:6,17 36:3
163:24
corrections 163:19
286:9
correctly 28:12 48:22
63:18 74:4 81:2,12 95:20
142:25 161:3 202:16
231:23 267:15
correlations 46:5,7
cost 17:3 18:10,22 20:19
22:23 26:18 27:14 28:16,
17,21 34:13 37:13 38:4,
5,7,8,9,10,20,22 39:4,12,
16,23,24,25 40:7,16
41:9,23 45:1 49:4,6,7
51:12,17 63:21 65:17,20
66:1,3 72:22 76:12 77:8
79:23 90:17 91:2,4,8,14,
15,20 92:10 93:25 94:21
95:7,16 96:24 97:2,3,19,
25 103:4,11,16,23
114:14,15 116:19 118:5,
18,22,25 119:1,5,14,18
129:23 135:12 136:24
155:13,14,17 166:3
167:2,5,16,19,20 168:11
169:18 171:21,25 172:3,
6,7,13 173:4 178:10
180:4,25 184:7 193:21
194:6 195:3 196:8
197:10 199:14,17
207:16,17 208:8,10

221:24 233:9 235:6
256:19 257:2,9 264:10
268:9 271:13,14 276:6
281:22
cost-recovery 80:3
costing 155:9
costs 11:17,25 12:4
17:25 18:5,7,23 21:11
37:22 51:14 65:1,20
76:11 80:5 115:16,19
117:16,25 118:6,10,14,
24 132:20 163:10 165:7
166:19 168:2,3,19
169:22 173:20 179:24,25
180:7,15 181:4 184:17
187:9 193:20,22 205:7
208:3 248:17 256:12
257:9 264:16
Council 7:15 88:18 217:4
counsel 6:14,15 10:4
counter 161:9
counterparty 121:2
counterproductive
135:7
country 14:7 98:20 142:5
couple 21:23 24:15
77:20 85:9 135:11
138:10 171:14 178:15
197:3 215:23 216:5
220:4 232:18 256:17
266:8 274:9
court 124:3 158:25
191:15
cover 62:21 65:11
171:20 199:6
covered 77:5 78:12
covers 173:25

craters 183:19
create 45:4 50:18 51:6
132:9
created 218:3
creating 149:14
credit 13:18,22 14:11,24
15:4,11 17:9,15,20
18:20,24 19:1 21:3,5
22:22 28:21,24 29:5
30:7,20,21 42:16 55:14
76:3 78:2,3,5,6,7 79:9,
22,25 80:7,8,9,10 85:15
93:10,14,18 94:4,8,15,16
102:16 103:19 112:25
113:15 114:3 115:4,10
122:1,2 127:4,10 128:18
132:2,5,7 134:5,12
135:16 147:15,18
157:21,22,23 158:7,8,9,
11 160:11,18 165:10,24
166:20 169:8,20 185:16,
22,24,25 186:1,17
193:23 196:15 197:16,
22,24 198:6,25 199:3,6,
15,19,24 200:17,19,23,
25 201:6,10 203:16
204:4 205:9 206:1,3,5,
13,19 207:9,14,21,23
208:9 216:21 217:5,7
235:7 246:6 248:3,4,7,9
275:15 276:6,10,16,20
277:14,15 278:9,17
279:10,22,25 280:14,20
281:4
credit-supportive 78:1
credited 204:7
credits 166:3
criteria 104:13,16,17
criticize 75:10

criticized 120:7
cross 10:5 62:16,19
69:19 71:21 74:7 79:13
81:4 126:7,13 138:11
141:15 146:25 147:11
148:10 191:10 192:19
193:4 194:18 198:13
251:2 265:7
cross-examination 10:7
19:14,19 21:17,24 24:13
43:22,25 71:25 75:21
84:17 88:15 122:10,11,
21,23 170:13 171:6
188:19,24,25 199:9
241:10 244:3,16 249:7,
12 251:13 265:12 270:25
273:12
crunching 258:10
cumulative 144:2 167:14
168:6
curious 152:16
current 21:8 23:9 50:12
72:19 78:6 97:13 128:18
133:14 134:5 150:24,25
154:18 158:13 161:11
166:10 174:9,11 193:21
194:15 211:17 234:22
245:22
Curtis 195:6 196:20
209:4 211:17 225:3
Curtis' 193:9
cushion 13:15 149:10,
15,16
customer 10:22 20:20
50:11 180:3 206:20
212:5 217:20 229:2,3
customer's 50:9,14
180:8

customers 13:24 15:12,
18,21,24 16:1,4,5 17:4
26:23 37:25 50:21,24
55:2 58:1,6 59:11 60:20
61:2,11 65:9 76:12 88:19
166:16 168:10 169:12
179:11 180:6 182:16
184:10 185:2,4 187:14,
23 192:7,13,17 193:11
194:9,17 195:4,9,15,18
197:25 198:7 199:18
200:18,23 201:1,4,9,14,
20 202:2,22,23 203:16
204:10,18,22 205:3,6
206:2,5,8,12,19 207:12,
13,20 208:23,25 209:19,
22 210:20 211:10,20
212:6,20 214:5 216:22
217:5,10,24 218:1,5,15
223:3,5 224:1 234:17
235:1,2,9 260:15 279:5
280:1,18,21 283:13

customers' 29:2

cut 90:2 213:4 218:11
221:12

cuts 283:10

CWIP 232:25 233:3,6

cycle 106:13

D

dampening 40:22

danced 160:1

Daniel 7:11

data 11:8 38:11 44:24
87:23 108:22 129:18
143:7 174:22,24 175:2,7,
13 176:20 177:14,22
178:13 189:10 190:5,13
213:20 253:19 254:1,6

274:13 275:5,11 276:19,
25 277:6,11 279:13,15
date 11:6 116:1 123:19
234:20 245:10
dated 30:8 131:12
dating 246:15
David 7:1 193:9
day 63:15 85:21 269:22
285:18
day-to-day 33:20 93:19
days 259:11,12 260:19,
20,23 261:8,9
DCF 82:20 104:25
de-risking 31:1
deal 128:2 157:13 184:25
189:7 244:19
dealing 95:15 155:24
deals 191:25
dealt 168:17 203:5,6,8
debit 185:11
debt 14:3 16:18,19,20
17:23 28:17,21 29:1 31:8
33:22 38:7,9 50:2 51:13,
14,17 54:18,20 55:12
80:19,21 81:17 82:6
91:4,8,15 94:22,25 95:3,
7,8,9,17,18 97:3,8 99:12
113:13,16,19,23 114:14,
15,21,24 121:14,15
126:21,23 127:8,16,18,
23 128:5 129:4,12 130:6
132:17 133:16,17 134:9
135:8,12,19,23,24 136:1,
2,7,19 140:8,10,12,13,
19,23 149:6 154:25
158:4,5 222:14 266:20
267:11,17,25 268:3,6
270:17

decarbonization 145:8,
18 146:16 151:8 160:2
December 6:1 30:9 69:14
123:20 264:4
decide 182:7
decided 53:19 74:2
85:21 218:23 219:15,25
220:1 261:4
decision 54:2,17 55:21
85:19 134:14 182:24
219:16,23 220:2 263:16
270:16 286:4
decisions 186:7
deck 69:14
decline 17:25 76:17
126:22 127:15 132:20
declined 110:11
declines 183:22
decoupling 76:14
decrease 53:13 154:11
233:15 234:18 262:16
decreased 40:7,17 41:11
decreases 262:9
default 44:16 47:10
defer 204:3 239:4 247:21
deferral 172:19,23
deferrals 13:25
deferred 165:8 168:19
172:17 173:2 231:12
234:4,5,13,22 259:20,23
260:3 261:6 282:16
283:2
deficiency 249:22
250:10 265:16
defined 160:24

definition 146:19 268:25
definitive 159:15
deflator 11:18 12:11,13
26:5,11
defray 207:25 218:4
defrayed 216:24 218:3
degradation 136:18
degree 14:4 33:9 63:22
80:22 114:23 155:22
196:11
degrees 63:22 113:13
deliberated 53:11
deliberation 53:19 54:10
85:18
delve 249:3
demands 75:14
demonstrate 220:7
demonstrates 93:2
119:15
denied 253:6 279:6
denominator 135:24
denying 165:24
departed 246:17
department 11:8
departure 80:9
depend 230:16
dependant 252:7
depending 14:4 49:19
151:4 153:14,20 179:1
depends 46:21 101:23
200:19 278:22
depreciate 16:21
depreciation 13:25 14:11
49:12 78:13,14,17,20,22

231:11 259:20,23 260:2, 6,8,10,11,13,14,17,18 261:5 284:1	227:19,23,24 228:7,9,10, 15 229:13 230:1 245:8 249:17 265:15 273:14 274:6	175:23 227:3,18 228:6 235:15 240:11 253:2 254:17 260:1 264:21 265:14 271:11 275:3,6 281:24
depressed 54:16 55:1	DEU's 115:19 166:23,24 281:3	directing 264:20
derive 277:13	develop 153:10	direction 10:7 43:17 240:20 243:6 278:25
derived 147:23 250:19 271:14	developed 108:23	directly 119:10 194:3 200:16 222:6
describe 132:4 258:5	development 153:7,8	director 9:2 163:3,7
Design 63:15	differ 230:10 255:10 259:16	directors 34:10
designation 33:12	differed 255:19	disagree 78:25 81:25 82:2 91:22 179:21 252:12
desires 244:17	difference 16:25 29:7,11 46:23 74:17,20,23 92:18, 19,20,22 95:20 96:13 97:19 103:9 113:3 167:13 172:14 209:18 210:16 212:4 221:22 236:7 272:11,12	disagreed 120:12 165:17
destroyed 159:9	differences 92:17 240:2 263:10 273:22	disagrees 235:4 250:4
detail 249:4 252:16 265:3	differently 67:15 274:1	disallowance 156:4,15
detailed 22:22 79:22 247:9 253:10	difficult 15:21 39:21 54:4 55:5 59:3,9,10,25 92:14 93:16,17,20 145:20 151:24 236:17 237:17 238:21,25	disallowing 18:23
deterioration 13:16	dilute 14:2	discount 120:1
determination 49:4 94:18 127:10 142:20 165:11 168:7 181:5	diminished 158:10	discounted 41:16 70:21 83:11,13 107:1
determinations 48:25	direct 8:14 9:4 10:5,16 12:20 13:3 14:23 17:14 24:19 30:17 32:11 34:15, 17 35:7,13,23,24 36:2,6 37:3,7 38:2 46:1 49:9 72:17 73:23 74:25 76:19 80:16 82:24 104:9 109:1 110:12 139:25 140:5 151:6 162:14 173:5	discover 190:23
determine 144:5 167:15 181:23 182:23 184:25 239:5 269:23 275:14		discovery 229:8 236:18 239:2
determined 11:24 26:9 53:11 63:9 143:10 144:1 167:8		discrete 153:4
determines 180:14		discretion 181:16 182:21 184:3 267:7 269:23 270:2,11,16 284:10,13
determining 106:13 182:21 183:2,21 212:13		discretionary 166:25
DEU 9:5,6,9,16,17,23 12:22 14:23 16:7 17:8 30:19 34:18,19 35:3 82:23 83:4 104:20 115:22 116:22 122:25 130:13 133:23 163:16 164:10,16 166:24		discuss 10:12,13 19:2 133:20 171:16
		discussed 61:24 229:7 245:20
		discusses 260:5

discussing 207:8 229:15 246:16 264:18
270:13 282:18

discussion 121:12
133:22 146:18 151:18
171:11 173:6 240:6
247:12 248:5 274:13
283:15,20

discussions 86:1

dismantling 233:9,14,22
256:20 257:2,9,23

disrespect 187:24

dissimilar 113:1

distinction 157:19,21
158:12 221:18

distress 80:23

distressed 55:8

distributed 118:22,23

distribution 6:6 80:1
85:12 91:3 98:19 101:20
102:17 129:6 154:19
248:25

diversity 31:17

dividend 34:10 54:12
96:4 117:4 134:22,24
135:2,14,23

dividends 16:19 83:13
133:18 280:7

division 6:20,24,25
10:21 98:12 231:6,8
239:13 242:4 249:9,19
250:2,11,13,16,19
253:20 258:23

Division's 238:14 259:3,
4,18

docket 6:5 9:5 10:1,11,
19 11:1 25:2 27:23 55:24
62:24 138:12 191:19
227:19,23 228:21,22

document 16:7 62:22
73:1,10,17,25 126:14
133:5 141:19,20 225:3
229:13 243:16,21,25
271:22 272:18,20

documentation 136:13

documented 243:18

documents 9:12 21:3
126:6 133:20 138:7
228:2

dollar 78:19,20 118:16
279:21,22

dollars 34:8 178:15
184:6 187:17 208:8
221:19 261:22

Dominion 6:6,14 8:8 9:3
14:6,20 28:11 31:5 32:9
45:8 56:2,3 61:15 62:2,
24 64:5 69:13 71:2,4,5
75:2,4 81:16 88:20 92:10
103:4 115:22 116:17
117:7,18,25 118:1
119:17 126:19 134:15
138:5 149:22 163:9
165:13 169:3,9 177:4
189:9 191:17,21 193:9
194:3,4,17 196:12 210:1,
3,25 211:19 212:7
215:21 226:3 227:17
236:14 237:24 238:3
249:24 251:24 261:17
266:18 276:9 278:16
279:5,7

Dominion's 91:15 93:2
102:17 118:2 184:18
195:2 212:22

Dominion-questar 86:22

Donna 7:11 275:3

double 33:9

double-check 148:11

double-counting 257:3

doubt 89:15

Douglas 7:1

down 13:12,20 14:15
15:2 17:21 18:11 28:16
40:21 63:16 66:13 73:24
83:23 85:15 91:17 96:9,
20 97:12 106:11 110:21
114:9 127:20 128:22
132:13,23 133:24
134:16,18 135:3,8 136:3
142:17 208:6 232:13
258:6,12,19 271:4 276:9
282:19

downgrade 17:11,22
18:24 22:21 28:14 29:12
41:6,22 51:18 94:10,20,
21 95:16 97:9 127:21
128:10,20 131:22,25
132:12,14,25 136:5
160:10

downgraded 28:11 79:12
93:22 94:11 102:23
114:3 115:12 161:17

downgrades 17:12

downtimes 29:4

downturn 28:23

downward 41:1 52:12,14
64:20 78:7 93:13 134:11
136:3 157:25

dozen 229:16

DPU 11:22 62:19 68:5,17
69:19,20 138:11 249:18

drafting 286:2

draw 18:8 42:20 115:7,13
121:4 158:12
drawdown 55:14
drawdowns 55:16
drawn 241:4
drawn-out 112:5
drop 257:11
drops 257:13 284:19
due 41:6 71:9 178:10
182:10 213:7
duly 8:16 32:13 162:16
227:5

E

E-L 162:24
E-N-T-H-A-L 162:24
E-R-T 32:24 33:4
earlier 14:8 17:18 42:3
46:6 47:3 52:4 72:21
74:6 75:17 85:13 87:7
89:2 93:6 96:23 103:13
107:19 110:23 114:14
123:10 126:6,10 127:18
129:22 134:23 141:10
145:10 146:4,24 156:9
179:13 180:16 181:13
197:12 201:12 210:4
245:20 248:5 264:19
265:19 273:24 277:17
279:12
early 159:12 253:19
earn 168:9 184:6,18
186:23 221:20
earned 279:17
earning 154:20 216:25

earnings 41:17 56:22,24
57:10,11,13 58:11 70:14,
21 104:24 105:2,10,15,
16 106:6,8 107:19
109:15,19 110:1,13
111:19,22,23 112:11
116:18,25 149:5 154:2,5
166:22,25 183:12 184:15
199:19 201:2 202:2,11
204:8 208:2 213:9
223:14,22 224:3,5,6,7,14
225:19
easier 15:23 65:9
easily 158:3
easing 46:9
East 169:5
easy 154:9 166:1
economic 28:22
economics 33:10
EDIT 234:7 235:6,11
263:2 282:18,20,25
283:12,15,22,24 284:5,
11 285:2
education 33:6
educational 33:8
effect 49:15 65:14 66:15
90:13 91:20 92:2,9 94:3,
15,21 95:2,6,7 96:10
106:18 110:21 118:9
141:5 145:12,19 154:18
157:25 172:19 174:9
180:20 185:8 247:7
281:17
effective 76:12 91:16,19
143:25 161:6
effectively 50:11 56:25
60:4 61:25 77:21 83:13
effects 51:24 247:7

efficacy 112:6
efficiently 37:22
effort 240:14,25 264:7
285:11
efforts 160:2 263:19
264:23
Einfeldt 7:2
electric 53:13 85:11
86:15 123:16
Electrical 154:4
electricity 75:14
electrification 58:21,23
59:2 60:20 61:25 75:4,12
146:16 151:9,16 158:20
159:11
electronic 275:7,9
electronically 176:8
element 18:21 150:16
156:14
elements 45:1 135:20
140:15 159:24 169:18
216:9
Elevated 17:19
eligible 95:12 153:13
eliminate 110:24 169:7
246:4
eliminated 169:1
elimination 14:10
else's 274:12
embedded 95:6
emphasize 137:4
employee 173:10 203:22
employees 166:10
167:17 172:1 183:10

employees' 167:6	enhancing 78:4 157:22	14 38:1,4,5,6,8,10,21,22
employer 167:22 172:8 227:15	enjoying 28:22	39:3,4,13,23,25 40:7,17, 20 41:9,23 42:25 43:2,14
enable 247:20,22	ensure 118:19 167:10 182:8 237:14	45:1 49:13,14,21 50:13, 15,17,22 51:4 52:2,5,7
encompassed 125:3	enter 54:18 68:4,15 185:12 244:19	53:5,14 54:12,15,16 61:2 62:5 65:17,20 66:1,3
encompasses 257:7 282:14	entered 249:16	67:10 72:22 77:8 81:8, 14,17,21,22 82:6,11,12
encourage 153:7	enters 252:17	84:20 87:22 89:7,11 90:1 91:2,14,21 93:12 94:12, 19 95:21 96:1,5,20,24
end 39:8 40:1 41:11 51:22 55:2 63:3,19 67:11 74:21 84:1 89:19 90:10 96:11 97:11 100:16 102:13 123:5 124:12,13 130:19 137:4 141:7 232:25 236:4,5 237:10 245:5 260:22 269:8,10, 11,22 277:16	entire 22:7 47:17 115:9 124:17,18 125:2 196:2	97:2,12,19,20,21,25 98:7,25 99:1,8 100:12, 18,25 101:4,6,14,15,17, 21 102:9 103:25 111:20 112:25 113:3,6,7,17,18, 22,23,25 114:1,8,9,15, 16,17,20,21,22 115:4,6, 14 116:17,19 117:3,4,8, 13,25 118:3,13,14,20,24 119:1,3,6,10,17,25 120:1 130:7 133:23 134:3,9,12, 20,21 135:6,7,13,21,24 136:24 137:6,9,10,14 139:10,22 140:22 141:6, 7,13 142:6 149:5,10,14, 15 152:18 153:11 159:3 160:18,19 230:13 249:2 252:21 267:1,2,3,17,20, 25 268:3,5,19,25 269:16 270:13,16 271:6,13,14 272:5,6,9,12,15 273:2
ended 221:1	entitled 23:8 58:24 182:18 213:2 249:18	
ends 267:4 276:11,12	entries 124:3,22	
Energy 6:6,14 8:1,9 9:3 14:6,20 31:5 32:9 45:8 53:12 56:2,3 61:15 62:2, 24 64:5 69:13 71:2,4,5 75:2 81:16 86:11 88:20 115:23 116:17 117:18 118:1 119:17 134:15 138:5 149:22 163:9 165:13 169:9 177:4 189:9 211:19 227:17 249:24 276:9	entry 105:8 123:9,19 166:22 185:8,10,11 187:6,18 239:11 257:12 258:6 260:20 280:10	
Energy's 75:5 86:13 92:10 117:7 278:16	environment 22:23 37:20 75:6 79:2 80:8,10 150:20 151:3 158:18	
enforce 53:14,22	environments 18:10 79:23 80:2	
engineering 26:22 264:13	EPS 70:15	
enhanced 56:17 58:13 153:14,17 154:12	equal 13:25 67:6,16 173:13 174:5 179:14 280:14	
enhancement 61:25	equally 161:18	
	equate 103:22	
	equation 16:7 35:15,16, 18,19,20 36:7,18,19,21, 22,23 184:12	equivalent 50:13,23 129:25
	equitable 169:19	Eric 7:2
	equity 10:14 12:14,16 16:16,23 17:5,6 18:3,4, 16,23 19:8,11 23:17,19 29:8 33:22 34:13 37:13,	ERISA 167:9 220:13 222:22 223:1,6,15,23
		error 146:25 241:15
		errors 35:8 241:10
		essence 192:8

essentially 172:22
219:22 268:21
establish 56:21
established 124:11
estimate 38:10,22 39:1,
12,25 91:18 105:10,15,
17,18,22 106:7,8 109:14
110:1,7,10,13 112:11
118:9 179:24 192:16
225:4 232:22
estimated 39:11 51:12
193:24 194:2 225:11
estimates 39:5,19
104:24 108:23 109:18
111:18,20
estimating 52:2 109:4,11
estimation 138:5
Eureka 264:6,16
evaluate 239:21
evaluation 62:11
event 64:7 107:9,25
108:5,18 244:4,5 274:2
events 31:1 64:2 104:16
144:24 214:25 263:20,21
evidence 10:17,21 11:16
12:1,8 93:1 103:2 111:17
112:1,10 115:18 119:15
235:25 244:1,19
evidenced 118:21
evidentiary 286:15
evolving 154:2
ex-post 112:14
exact 116:1 210:20
EXAMINATION 8:14
29:24 32:11 125:13
144:21 147:9 148:25

150:3 152:13 157:3
162:14 197:1 208:19
213:17 216:3 218:12
219:5 222:3 224:21
227:3
examined 8:17 32:14
162:17 227:6
examples 85:1 220:4
exceed 16:15 277:22
exceeded 277:24
exceeding 236:10
Excel 86:11,13 271:10
exception 10:23 105:14
exceptions 241:6
excess 155:9 167:14
168:6 181:24,25 203:21
220:14 223:8 234:4,5,12,
22 248:10 278:3 282:16
283:2,4 284:6
exchange 100:1 219:24
279:5
exclude 107:23 170:3
195:3 239:7 261:4
excluded 168:21 177:3
196:13 210:18,20 212:8,
23
excluding 165:20 205:20
208:23 216:9
exclusion 169:7 170:6
199:3
exclusive 168:21
excuse 45:4 49:25 52:5
70:20 88:20 98:9 111:22
130:16 140:3 170:18
174:16 272:4 285:10
Executive 7:20

exercise 65:17 77:9
110:23 136:25 182:21
exercising 184:3
exhibit 9:5,6,9,16,17
12:22 13:4 14:22,25 17:8
30:19 34:17,18,19 35:3
62:16,19 68:16,17 69:6,
19,20 71:13 73:2,15
74:7,13 75:23 76:2 79:13
81:5 82:22,23 83:5,8
104:20,24 105:12 110:7
115:22 116:24 123:1,4
124:11,16 126:13
130:13,14,23 131:2,4,14,
19 138:10,11,15 141:16
146:25 148:17 163:16
164:16 175:14,15 176:5
189:15 190:2 191:10,11
192:20 193:1,5,6 194:19,
24 221:11 227:19,23,24
228:7,9,10 229:14 230:2
231:15 235:15,20 240:8
241:10,14,21,22 244:25
246:23,24 247:10,18
249:15,17 252:6 254:10,
16,18,22 255:24,25
256:7,16 261:10 262:18
265:15 268:9 271:2,3,21,
22 272:1 273:14 274:6
275:2,12 276:19 277:7
279:12,14 285:21,25
286:5
exhibits 9:6,10,16,17,18,
23 10:1,3 12:21 34:18,20
130:20 131:3 163:17,25
164:10 189:6 206:24
227:20,24 228:8,10,15
271:19
exist 20:13 139:19,20
172:11 201:5
existed 20:9

existence 166:20 168:11
existing 94:25 95:2
154:20
exists 167:25 277:22
expand 245:24
expansion 59:19 264:5
expect 13:18 47:24,25
66:18 67:5 102:2 145:8
156:23 161:25
expectation 221:20
expected 23:9 41:17
45:6 83:14,15 105:23
108:15 127:7 128:5,8
150:14 167:24 168:1,23
172:10,12,13,15,20
174:5 184:19 194:11,14
201:3,25 204:8 220:19
226:3,6 254:15 276:4
expecting 24:7
expects 11:1 126:20
expenditure 14:5 203:3
255:10 267:13
expenditures 12:3 14:10
75:5 77:5,18 78:12,15
254:9,15 262:16 266:9,
11,19 267:8,11,20
269:24
expense 158:5,7 165:19
166:8,17 167:5,15,16,19,
23 168:6,7,15 169:13,15
171:12,23 172:9,18,21,
22 173:10,11,13,17
174:1,6,10,14 177:11,18,
24 178:4,22 179:3,8,14,
18,19 180:10,11,22
181:4,10 182:15,17
184:15,20 185:5,7,10,12,
15,18,20,21 186:2,4,12,
13,16,22,25 187:3,10,15,

16 188:1,2,3,5,10,14
189:8 190:20 192:2,6
194:4,5,13 195:7,16,19
196:3,12,15,17,22
197:16 199:25 200:11
201:2,13,14,15,24 202:3,
8,9,22,23 203:5,12,15
204:7,22 205:14,16,22
207:12 208:4,6,7,22
209:1,8,11,14,15,18,24
210:5,8,10,14,17,24
211:4,6,12,21,22,24
212:1,8,12,23 213:7,21
214:1,6,13,16,20 215:7,
11,13 216:17 217:21
218:2 219:13 220:12,14
221:4 222:20 223:6,9,21
224:7,9,10,13 225:10,23
226:7,8 229:4 231:24
232:4 246:25 247:2,20,
22 260:8,14,17,19
261:14 262:7 274:14,18
275:15 276:6,12,14
277:10,22,24 278:1,17
279:2,7,8 280:3,16,19
281:5,7 282:5
expenses 165:9,18
173:14 176:23 179:6
192:5 195:19 198:4
201:5 202:24 204:3,11
206:16 207:8,22 208:1
213:10,11 216:24 217:16
218:3,4 223:23 246:9
247:16 248:11,22 260:10
261:12 262:5,20 273:4
274:8 277:2 279:4,21
280:8 282:10
expensive 55:2,19
experience 33:7,14
54:20 66:11 95:14 99:24
100:5,23 103:15 120:15
155:24 163:2 256:10
262:8 263:14

expert 162:9
explain 113:2 114:12
129:9 137:11 171:17
212:4
explained 114:7 146:17
168:4 195:6 196:20
explaining 193:10
252:13
explanation 152:24
202:23
exposed 113:8,18,19
114:16,23 115:6
expressed 121:7 149:3,4
expressly 232:8
extent 99:16,18 100:21,
24 107:21 111:17 140:23
167:25 172:11 182:16
220:12 237:19 240:21
extra 11:8 187:17,20
200:14 223:16
extraordinarily 55:19
59:3 145:19
extremely 28:24 29:5

F

F1 191:10 192:20 193:1
206:25 221:11
F2 193:5 194:19,24
206:25 207:1
face 42:10 101:25 103:13
114:21 135:25
faced 66:14 67:21,24
faces 75:2 77:13
facility 64:4,9 107:12
138:21 139:3,8 145:1
155:2 248:23

facing 84:5

fact 11:24 15:19 43:3,9
45:24 47:9 52:3 63:13
66:16 82:8 94:7,9 107:18
108:14 119:3 129:23
136:21 180:16 200:7,24
201:21 235:25 240:22
256:2 262:17 267:19
271:5 277:6 284:23

factor 24:16 44:7 75:11
111:13 114:1 121:13
128:10,19 136:5 140:21
145:13,14 183:20 186:23
230:13 231:3,4,9 233:5,
7,8,18,25 245:2 252:19
257:19,23,25

factoring 139:21

factors 12:9 17:22 41:7
48:24 75:1 111:11
127:21 132:7,13,16
168:16,20 170:1 171:22
182:7 183:6,16,23
230:16 232:22 233:10,14
246:11 257:24 261:18,25
272:21 273:1

failed 246:21

fair 14:8 27:18 53:6 67:5
114:5 117:19 120:18
169:18 184:11 284:10
285:2

fairly 125:24 155:5 160:9
235:2,9

fall 18:5 113:8 128:6,8
135:22 136:20 256:6

fallen 40:3 46:8 87:4

falling 136:1

falls 76:7 79:21 110:18

familiar 31:2 45:14 48:13
55:21 64:12 70:3 108:10

155:5 272:2

FAS 171:15,19 172:16
173:1,16 174:5

FASB 171:20

fascinating 158:21

favor 79:3 113:20

FEA 265:16,23 266:3

features 18:11 22:23
31:7 79:24

fed 272:7

Federal 7:20 40:19 46:9

fee 231:16,19

feedback 32:17

feel 116:4 244:10

fees 262:24 263:14

Felsenthal 6:17 162:11,
15,19,23,25 163:13,24
164:19 170:11,12 171:8
175:21 176:10 188:24
189:2 197:3 199:12
213:19 226:17,23 248:6
274:8 277:21

felt 55:14

fencing 22:8,12,13 31:3
53:14 121:10,23

FERC 165:4 168:24
169:5 170:7 186:7,18
205:10,11,13,15,21
219:7 246:12

fight 238:23,24

figure 97:7 159:18,22
190:9 236:19 239:1
254:23 277:2

figured 66:25

figures 245:8

figuring 195:15

file 8:4 9:4,8 187:12
227:18,22 257:4 281:13
282:14

filed 6:19 18:13 187:8
228:23 229:17 231:8
232:21 236:10 246:15
249:24 264:5 271:10
275:3

filing 11:6 18:14,18
21:10 168:22 169:24
229:6 253:12,14 258:25
264:5,18

filings 16:4 239:2

final 156:13 185:19
230:15 245:5 249:1
250:13 254:4 273:5
276:13

finally 17:7 27:22 120:2
144:8 206:24

finance 33:10,11 51:21
137:15 267:7 269:24

financed 267:10

financial 13:16 15:5
16:10 17:17 23:9 31:6
33:12,24 38:3,10 43:5,12
47:17 51:5,7,11 52:11
70:7 72:5 76:15 80:22,23
92:11 96:21 103:19
108:12,17 113:9,11,14
114:6,22 126:18 127:12
128:8,24 141:4,8,9,11,12
148:2 149:13 150:19
161:19,21,22 171:14

financially 37:25 93:3

financing 91:3,5 97:3,4,8
266:20

find 54:15 112:5,6
178:13 189:12 198:10

207:2 223:14 277:1	flows 41:2 113:22 135:5 150:17 161:13,14	forward-looking 42:19 45:5 47:6
fine 27:7 258:19	fly 237:18,19	found 251:24,25 273:17 274:4
finer 232:2	focus 123:8 131:20 132:1 173:15 222:5 253:1 259:16	fourth 18:11 283:14
finish 95:4 244:5	focused 48:25 151:17 164:23	frame 254:3
finished 78:9	focusing 253:25	Frank 162:23
finite 113:23 114:19	follow 67:1 140:17	free 202:6,7 208:24 212:5,6,9,15,16,25 213:1,2
firm 38:6 246:11	follow-up 59:17 123:9 147:6 270:20	freed 149:7
five-year 233:5 234:10 235:5	Footnote 25:8	freeze 15:6,10,13 17:16 126:23 127:16
fixed 80:20 140:9,14 141:1	Force 7:20	frequently 21:10 38:22
flexibility 26:21,23	forecast 79:5 105:2 112:15 229:2,4	Friday 85:20
flight 29:3 162:10	forecasted 247:4 262:8 276:20	front 126:8 147:13 175:4 242:6,19 260:7
flip 128:21 131:20 280:2, 17	forecasting 255:5	fuel 75:13
flips 281:6	forego 279:7 281:6	full 32:21 73:24 81:6 112:24 114:8 115:2 118:19 162:21 206:3,13 231:18 235:11
flotation 115:16,19 117:16 118:5,6,9,14,18, 22,24,25 119:5,14	forget 9:25	full-year 74:3
flow 14:2 15:7 16:9,18 17:23 23:24 31:15 33:20 41:6,16 48:25 49:3,5,10, 18,22 50:1,2,3,5,7,10,19 70:21 78:20 83:11,13 87:14 93:8,9 96:6 102:8, 24 107:1 113:11 114:18 126:20,22 127:8,14,15, 18,23 128:4,23 129:12 130:4 132:17,22 133:13, 16 134:11 135:19,21 136:1,2,7,19 140:16 147:22 149:7,12 150:13 160:20 161:5 246:6 260:6	forgone 129:24	fully 76:11 113:17 119:16 166:13 169:4 186:10 232:17 234:20
flow-related 94:8	form 41:17 134:22 216:24 236:20	fun 90:16
flowed 159:2 271:15,17	forma 42:20	function 33:23 34:6 46:4 192:5
	formal 239:2	functional 255:13
	formally 88:20	functionalized 255:9,14
	forms 41:15	fund 17:2 78:14 118:20 166:23 178:9 181:14 182:7 183:14,22 184:5 192:3 197:5 198:10 206:23 219:16 221:4
	forward 10:8 31:17 45:1 91:8 107:17 108:12,18 112:16 127:7 128:7 156:20 161:22,23,25 242:8 243:6,23 244:22 247:23 260:9 282:6,11 283:5	

222:15 223:14 267:12
276:7 279:18

fundamental 91:2

fundamentally 56:12
57:5,6 86:9 89:13

funded 166:13 167:22
169:4 172:8 186:10
197:18 202:4 266:19
267:4 277:23

funding 174:3 194:10
217:7 266:24 268:5
269:19 270:12

funds 121:14,16 166:21
167:10 187:22 197:9
203:25 204:2,6 210:9
211:11 218:1 268:22,25

furtherance 153:12

future 61:16 144:25
150:6,15 158:24 160:12,
15,17 172:17 204:3
206:2 217:22 218:3,4,15
269:24 279:8 281:8,10,
17,22

G

GAAP 167:5,14,16
171:12 173:25 186:13
222:22 224:24

gain 167:24 172:10,14,16
217:7

gains 172:23 193:23

Gardner 63:8

gas 7:15 14:17,19 15:4
16:14 17:10 18:13 31:11
33:18 45:16 46:18 48:1,6
59:6 64:25 67:13,16
72:15 73:6,19 74:1 75:15
76:3,9,10,11 80:1,3 81:8,

22 84:6,9 85:12 86:15,
16,19,22,25 87:12,21
88:5,18,21 91:3 98:11,
14,16,17,22 100:10,14
101:5,20 102:12 104:2
107:4 110:7,24 115:20
119:16,18 123:4,16,24
124:3 126:17,20 129:19
133:11 141:20,23 142:5,
11,20,23 145:1 151:7
159:10 169:4,5 192:7
194:17 211:19 217:3
264:6,20,21

Gas' 23:24 30:7 79:25
129:4 194:3

gate 245:22

gather 25:13 282:21

gave 186:3 191:18
197:24 202:13,14 203:12
209:6

GDP 11:18 12:11,13
26:4,10

gears 191:8

general 12:1,5 18:13
45:12 66:15 121:4
126:23 127:15 141:10
144:10,13 152:20 154:19
158:23,24 161:3 176:22
180:12 197:14 281:13
282:15

General's 6:23

generally 11:12 41:14
47:17 71:6,20 91:3
109:3,10,14 110:18
113:10,11 119:23 132:7
135:19 151:19 153:5
156:17 167:4,21 172:7
173:21

generate 126:20 127:8
133:16 222:14

generated 78:20

generating 56:19 153:6

generation 31:10 153:8
154:19

gentlemen 37:11

geographic 31:16

George 245:25

get allocated 118:12

gist 67:22

give 26:22 30:18 49:22
64:16 84:10 120:24
152:23 161:24 175:20
242:8 277:7 285:20

giving 90:13 176:11
185:18 207:11,13

Global 12:10 246:11

goal 153:12

goals 10:23,25

Goldman 54:9

good 6:3,22 7:19 8:12,
19,20 19:21,22 20:18
30:1 32:19,20 37:11 40:8
44:2,3 59:1 68:24 72:2,3,
16 84:23 150:11 151:14
157:5,6 158:18 162:13,
19,20 192:11,13 196:15
221:7 227:1,8,9 251:15,
16

Gorman 7:22 12:15 18:1
42:21

government 174:2 178:5
187:23,24

grade 17:13

gradualism 39:14,22
53:2

gradually 39:14

granted 9:22 35:2 68:15
74:12 148:16 164:15
179:9 192:24 194:23
228:14

great 28:22 32:2 157:9

greater 67:7 91:3 105:11,
18 106:2 114:23 183:17
218:24

green 230:5,20

gross 14:7 63:11 64:6
92:2 118:15

grossed 91:24

ground 171:18 274:7

group 26:22 88:18 98:8,
9,23 104:12 105:10
108:24 114:4 137:19
232:15

grow 183:17,24

growing 245:25

grown 109:11

grows 172:3 184:14

growth 70:15,18,21
82:20 83:12,14,16,19
104:24 105:2,10,15,17,
24,25 106:6,8,11,12,13,
16,21 107:7,19 108:15,
24 109:2,4,9,14,15,17,20
110:1,7,10,13,17,20,21
111:19,22,23 112:7,11,
18 229:3 276:1

GSP 63:11,12

guess 26:16 60:9 89:22
115:1 123:5,18 131:20
149:3 183:1 185:1 207:2
219:9,17 221:18 238:21
239:4,10 241:18 250:20
277:1 278:22 282:8

guidelines 127:5

H

H-E 32:24 33:4

H1 73:2 74:8,13 79:13
126:7 141:16 146:25

H2 75:21 79:14 126:7,13
147:11 148:10,17

halfway 128:22

hand 73:1 75:20 178:9
191:9 193:4 210:4

handed 69:12 73:14
75:23 126:5 191:11
193:6 206:24

handful 35:8

handle 181:9 213:8
238:5 239:5

handled 11:11 26:22
203:2 213:12

Haney 260:4

Hang 189:12

happen 53:7,10 54:19
58:12 96:8 140:20 145:9
152:4 160:25 209:12,17

happened 28:14 40:19
41:21 53:16 54:8 160:12,
16,24 178:5 269:9

happening 59:5 101:12
152:1 223:12

happy 26:23 36:24
258:5,12

hard 15:15 66:24 121:3
281:9

harmful 185:2

hate 202:3

HB107 264:19

head 75:24 104:5,6 116:2

heading 147:18

heads-up 73:13

hear 93:22 121:21 161:2
241:12 278:14

heard 41:5 75:9 95:19
121:21

hearing 6:5,8,9 7:1,16
9:23 35:3 68:5,17 69:20
74:13 148:17 164:16
191:19 193:1 194:24
228:15 230:1 242:12,15
243:8 249:17 252:6
265:15 271:3 273:14
286:14,15,17

heavily 84:2 149:4

held 197:6

helped 22:9 149:15

helpful 79:9 80:7 258:8,9

helping 133:15 187:24

helps 22:13 76:15 91:9
285:25 286:9

Hevert 6:17 32:9,12,19,
23 33:3,5 34:14 35:6
37:2 43:20,21 44:2 69:12
71:15 72:2 88:17 122:18,
25 125:15,16 149:2

Higgins 8:2 273:18 274:5

high 14:9 20:4,7 23:20
25:17 26:2 82:21 83:9,
18,19 84:9 106:12
126:21 127:9 128:5
134:3 137:22 159:8
236:2 283:5

high-impact 59:13

higher 17:20 22:3,4 26:6,
7 31:12 56:2,5 58:24
61:11 66:21 68:1 72:22
82:7,12 94:16 97:3
101:21 102:4 130:2,5,10
133:15 137:3,12,13,17,
22 138:3,6 194:2 226:3
highest 14:7 106:8
highlight 147:18 247:12
256:18 277:20
highlighted 73:25 76:6,7
79:19 81:7 128:22
191:23 193:14 230:5
highlighting 132:5
highly 15:8 17:20 30:4
103:9,22 121:8 148:5
Hills 86:18,25 88:5
historical 23:10 44:24
45:7,11 46:17 233:4
historically 111:10 166:7
history 24:24 33:13
151:25 220:3
hit 25:25 119:11
hoc 156:14
hold 8:25 33:10,12 70:4
73:11 227:15
holders 113:16 141:6,7
holding 13:11 31:7 45:8
46:23 105:8 106:7
107:10 109:18 110:2
120:10,19
holiday's 85:20
homes 159:9
honest 54:19
Honestly 27:13
hope 78:10 122:3 169:4

225:1
hour 122:15 242:14
243:7
housekeeping 189:5
Houston 53:12
huge 247:11 252:24
hundred 31:14
hurt 205:3
hypothetical 64:18 65:8
66:6,20 67:1,3 138:18
155:3 204:17 222:10
hypothetically 64:19
196:7 266:17

I

i.e. 80:23
ICF 151:8
idea 68:24
identical 42:9 102:1,3
identification 9:24 35:4
68:18 69:21 74:14
148:18 164:17 193:2
194:25 228:16
identified 94:10 136:4
264:25
identifies 124:12
identify 36:2 62:21
213:20 227:14 229:24
251:25 282:7
ignorance 224:24
ignore 144:24 206:7
IHP 25:15
imagine 54:19 66:24
impact 15:24 97:16,18,

21 135:15 150:8 198:1
203:19 225:10,22 232:22
252:24 257:11 260:18,25
261:11
impacted 12:25 13:17
226:8
impacts 15:6,10 17:16
76:16 257:10
impairment 107:11
108:2,3,10
implications 60:23
115:11 151:9,23 152:5,7
imply 250:3
import 90:24
importance 161:15
important 12:18 18:21
28:19,20,25 46:13 49:24
72:20 77:20 114:6 136:4,
19 150:25 160:17,19
161:12,18 166:2 167:3
168:2 234:22
importantly 136:20
192:15
impression 166:7 270:15
improve 16:10 128:25
158:10 245:22
improvements 31:19
improving 148:2
in-state 153:8
incident 159:7
include 25:15 31:7
124:23 169:17,20 170:4,
8 171:11,22 172:19
174:9 177:5 178:8
185:17,20 187:2 193:21
196:9 206:7 209:13
211:11 216:7,21 233:3

246:10,19 247:17 250:21 264:7 278:24 279:2 281:4	incomes 260:3	180:4
included 139:3 142:20 168:7 174:15,20,23 176:17,19,21 177:6,15, 19,24 178:22 180:21,25 181:5,21 184:4 185:24 186:1 188:14 194:5 201:21 202:1,19 205:4 209:19 210:17,18 215:3 225:25 229:2,4 230:12 231:23,25 232:12 234:23,25 235:17 236:1 245:3 246:3 247:5,13,23 248:20 250:2,22 253:12, 14,21 255:17 257:19 258:25 260:3 262:19 263:14 264:10,23 265:1 277:14 278:1,18,23 282:5 283:8,9	incomplete 115:5	incurs 118:14 279:4
includes 33:8 43:5 82:20 90:18 191:1 196:8 235:20 255:18	inconsequential 75:19	independent 167:21 172:7
including 20:7 107:7 149:5 154:19 165:19 169:7 185:25 186:3 188:9,10 195:18 201:9, 20 205:21 208:22 209:23,24 214:12,20,21 215:17 239:1 246:25 248:9 252:9 257:7 278:22 281:7	incorporates 133:13	independently 246:12
income 23:24 24:3 49:11,12,13 91:16,19,25 92:19,22,23 113:10 120:22 133:15 135:19, 20,22 144:1,4 165:1,8 168:19 174:1 183:13 231:12 234:4,5,13,22 259:20,23 261:6 282:17 283:2,3	incorrect 89:14	index 26:5 95:12,13
	increase 6:6 11:14,20 15:18 18:13,15 23:25 24:3 27:22 28:2 51:5,7,8, 14,17 57:5 64:2 96:21 97:8 126:23 127:16 135:25 140:19 141:1,9, 14 149:16 154:10 172:5 210:12 223:13 228:23 229:5 230:23 234:19 235:7 245:18	indicating 130:5 261:13
	increased 25:13 40:1,7, 9,17,18 41:9,24 51:14 72:24 84:24 110:14 137:25 142:15 178:6 229:2	indication 6:11 8:7
	increases 26:8 62:1 77:19,20 80:20,22,24 140:9,24 141:3,12 172:5 233:8 260:11 279:19	indifferent 50:11
	increasing 16:18 81:14 116:25 133:18 136:2 245:16	individual 180:7 252:5,7, 12 253:7,13,21 260:4 262:7,10,15 263:25
	increasingly 37:19	individually 233:13,22 246:1 253:24
	incremental 66:12,13 67:20 94:4,12,15,22,25 95:7 97:8 113:12 114:4	industries 33:14
	incrementally 13:17 66:17	industry 42:12,14 47:16 65:24 77:11,25 84:19 87:8,11,18 93:7
	incurred 80:5 115:19 117:25 119:18 166:8 181:10 247:17,19,22	inequitable 166:14
	incurrence 116:19	inevitably 137:13
	incurring 12:3 18:4	inference 115:13
		infinite 50:6
		inflation 11:18 12:8,9,12 25:3,14 26:6,10,15 27:10,11,14 105:23 230:11 232:11,13 245:2 246:9,11,12,20,25 247:7 248:2 261:18,25
		inform 10:4
		information 70:7 129:18 136:11,12 264:2
		infrastructure 10:14 11:4,15 18:19 24:16 25:1,12 77:6,10,14,24 79:7 156:20 245:19

infrequently 263:21	interested 146:1	investor's 59:7 62:6 91:21 96:20 129:16
infuse 219:16	interesting 47:20 105:20 112:5 161:10	investor-supplied 169:21
infusion 269:5	Interestingly 174:21	investors 13:9 37:24 38:18 39:19 45:6 47:6,8, 21 48:12,22 52:25 54:20 58:23 59:4,14 60:3,4,8, 16,19 66:16,20 67:3,9, 12,25 70:8 73:9 76:2 92:15 94:13 98:9 111:8, 10,16,18 112:16,17 113:7,18,19,20,22 114:15,16,17,21,23,24 115:6,14 129:17 130:6,7 131:12 137:2,7,9,10,12, 17 138:2 141:13 146:12, 15 150:5 151:20 156:22 161:24 166:18 168:9,12 169:14 182:12,13,18 186:24 187:21,23 188:8 196:4,16 200:16 202:4, 18 212:10,11,15 213:7 215:5 217:19 220:1,15 221:5 222:11 224:2
initial 134:3 265:2	interferences 115:7	investors' 47:23
initially 24:25 25:2 255:12 256:3 259:11	internal 286:3	invests 119:7 246:7 260:7
initiative 46:9	internally 134:15	involve 259:24
injected 40:19	interplay 166:2	involved 34:2 120:16 203:4 270:18
injecting 40:23	interrelated 168:20	irrelevant 154:14
ink 282:17	interrupt 229:23	IRS 167:9
Insight 12:10 246:11	intervener 237:11	isolation 203:5
insights 64:17	interveners 8:4,7	issuance 99:14,19 116:19 117:8,13,25 118:3 119:18
installed 256:23	interweaving 238:9	issuances 99:12 115:22 270:17
instance 16:22 54:3,6	introduce 162:25	
Institute 63:9	introduces 248:12	
insulate 76:15	invest 67:9 129:21,25 130:10 137:21	
insurable 65:23,24	investing 155:12 184:9	
insurance 65:10,13,25 66:4,9,12,13 139:17,19	investment 11:21 17:13 47:16 67:4,6,7 79:4 84:6 137:16 138:6 145:17,23 146:1 159:19 160:21 161:4 172:10 173:12 184:6,8 195:21 202:14 212:14 213:7 215:6 219:23 220:19,21,23 229:5 245:21,24	
intend 21:6 152:21 272:17 274:8	investments 50:4 56:19 65:18 68:2 77:23 78:21 151:1 153:5 167:24 172:15,20	
intended 27:1,3 249:18	investor 38:5,13,15 60:11 69:13 70:3 130:6 137:8 150:8 158:22 199:23 209:2 220:18 223:2,16	
intending 239:11		
intends 6:25 269:4		
intent 241:1 252:1 264:20		
intention 40:21 240:24 241:16		
intercapital 97:5		
interest 31:10 37:25 38:9 40:21 49:16 50:3 51:8 92:15 167:19,20 172:3,6, 7 193:22 208:8		

issue 54:23 55:10 59:25
100:7,24 101:1,3 104:12
111:21 112:8 113:24
118:14 119:25 135:23
138:21 145:11 146:4
158:21 159:4,6 166:2,6
203:2 216:22 220:1
225:7,21 231:14,20
234:2 238:1 244:8 250:3,
4 256:14 260:2 285:24

issued 14:24 17:9 34:6
119:3 131:21 136:8
142:2,4 149:6 171:20,21
222:14

Issuer 14:17

issuers 267:14

issues 10:13 34:10,11,12
37:13 51:3 87:14 118:16
119:6,10,25 130:8
138:10 151:12 156:11
165:2 229:21 230:19
236:19,20 238:3,16
239:19,23 240:15 241:1
249:4 251:25 256:18
261:16 262:2 263:10
286:12

issuing 33:21 55:12

item 18:8 203:3 231:12,
15 260:5

items 17:23 49:11 128:2,
3 231:24 232:2,15,17,18
235:12 262:7,10,13,15,
21 265:24

J

January 12:23 14:21,24
16:14 17:18 22:2,15
30:20 76:3 131:13

Jeff 7:1

Jennifer 6:13

Jersey 100:10,14,15
101:5,6 105:15

Jetter 6:22 19:16,18,20,
22 43:24 44:1 62:15,18,
20 68:4,19,22,24 69:3,4,
8,10,11,18,22 144:18,19,
22 170:15,16 236:8
237:24 238:6,7 239:10,
17 249:10,13 251:6

Jetter's 237:6

job 283:10

joined 266:4

Jordan 6:18 226:24
227:4,12 228:7

journal 166:22 185:7,10,
11 187:6,18 188:4 258:6

judgment 72:6 183:1

July 18:12 73:7,20 142:6
143:3

jump 44:4 48:14 63:16

June 11:7

jurisdiction 155:22
220:22

jurisdictional 219:8

jurisdictions 40:12
158:25 159:1 165:4
185:13 203:10 219:15

justify 184:8 281:14

Justin 6:22

K

KCH-1F 273:17

keeping 20:20 206:20

Kelly 6:17 8:11,15,23

175:1 245:19

Kem 63:8

Kevin 8:2 273:18

key 13:18 18:10 22:23
31:7 79:23 167:15 220:7

kind 129:20,21 135:2
140:20 158:22,24 159:20
160:1 183:5 232:12
237:18,20 245:4 255:23
282:18,24

kinds 203:3 264:9,11,14

Kirk 7:18,19 21:20,21
84:14,16,18 123:10
148:21,22 170:23,25
237:1 265:9,10,13 270:6,
21

knew 66:21 115:25 183:9

knowing 207:16

L

labeled 9:5 35:18 227:19,
23 268:12

labor 276:11

labor-related 247:14

lag 230:13 231:3,9 245:1
258:24 259:9,11,19
260:12,16 261:7

Lake 8:24 227:13

language 133:4 158:17

large 46:8 145:7 158:5
234:18,19 245:15 247:12
248:18

largely 41:6 234:5

larger 280:6

lastly 36:22 42:24 133:8

late 53:10 54:8 85:18	23 8:3,12 9:19,25 13:1,3, 6 19:15 21:15,19,22 23:3 24:10 28:7 29:16,19,23 32:1,3,6,15 34:24 35:13 36:8,11,13 43:23 62:17 68:6,14,22,25 69:2,7,9 71:17,20 72:9 73:4 74:9 84:14 88:12 122:8,14,17 125:8,11 130:15 144:17 147:8 148:12,20,23 149:18,21,24 150:1,4 152:11 157:2 162:4,7,13 163:5 164:12 170:14,19, 23 171:1,3 175:17,22 176:4,10 188:17,22 189:15,20 192:21 194:20 196:24 198:14,21 199:7 208:12,17 213:14 215:21,25 216:2 218:8, 10 219:3 222:2 224:22 226:13,19 227:1 228:12 229:11 236:13,24 237:23 238:19 239:6,15 240:5 242:7,22,25 243:4,10,22 249:8 251:5,11,18 265:8 270:4,19,22 273:10 285:17	leveraged 22:4 30:14 43:10 levered 15:8 17:20 31:20 121:8 148:5 liabilities 193:22 liability 117:22 215:15,17 283:4 life 113:23,24 114:19 153:22 173:3 174:4 179:14,16,20 234:14 light 52:12 likewise 33:11 54:20 65:25 limited 13:15 117:22 270:9 limitless 270:11 limits 181:17 Line's 105:15,16 110:1, 13 111:11,18,22 112:10 lines 36:2 80:15 104:15 109:2,6 112:20 117:6,10 189:7 253:3,5 lion's 234:12 liquid 95:13,16 145:1 liquidity 93:19 list 11:6 123:4 253:10 254:4 lists 14:14 17:15 litigated 19:5 177:19 188:12 240:10 live 238:2 240:21 LNG 64:4,8 146:5 155:2 160:2 248:23 263:16 264:10 LNG-RELATED 248:16
latitude 182:1		
law 13:17		
laws 14:1		
Lawton 7:11 42:21		
lay 61:13 171:18		
layer 16:16 23:18,19		
layout 285:9		
lays 171:22		
LDC 76:10 129:6		
lead 17:22 18:24 127:21 128:10,20 132:9,14,25 136:5 160:6 183:6 230:13 231:2,9 245:1 258:24 259:9,19 261:6		
learned 42:5		
leave 135:8 162:10 270:10,15 274:6		
leaving 242:5		
led 36:15		
left 106:1,4 125:15,16 231:22 250:4 284:4		
left-hand 35:20 36:17,21		
legal 14:19 159:17 160:7 264:13		
legislation 57:2 153:6 154:3 156:12,18		
legislature 153:13 264:20		
lenders 55:13		
length 184:14 236:10		
lengthy 285:1		
letting 86:20 88:8		
LEVAR 6:3,20 7:3,12,17, 23 8:3,12 9:19,25 13:1,3, 6 19:15 21:15,19,22 23:3 24:10 28:7 29:16,19,23 32:1,3,6,15 34:24 35:13 36:8,11,13 43:23 62:17 68:6,14,22,25 69:2,7,9 71:17,20 72:9 73:4 74:9 84:14 88:12 122:8,14,17 125:8,11 130:15 144:17 147:8 148:12,20,23 149:18,21,24 150:1,4 152:11 157:2 162:4,7,13 163:5 164:12 170:14,19, 23 171:1,3 175:17,22 176:4,10 188:17,22 189:15,20 192:21 194:20 196:24 198:14,21 199:7 208:12,17 213:14 215:21,25 216:2 218:8, 10 219:3 222:2 224:22 226:13,19 227:1 228:12 229:11 236:13,24 237:23 238:19 239:6,15 240:5 242:7,22,25 243:4,10,22 249:8 251:5,11,18 265:8 270:4,19,22 273:10 285:17		
	level 10:14 11:20 12:16 16:23 17:6 18:2,3,17 19:11 21:8 42:15 50:18 67:10,11 72:19 82:7 94:12 97:13 119:4 155:13 156:15 168:14 247:2,24 254:9 257:16, 18 275:23 278:1 279:18 283:5	
	leveled 22:3 30:4	
	levels 19:8 23:10,20 99:22 111:24 130:5	
	leverage 22:10 43:6,11, 12 51:5,7 52:7,8 80:22 113:14 140:25 141:5,8	

local 129:6
locate 141:15
long 55:17,19 90:9
106:15 112:4 150:23
183:23 185:13 204:4,5,6
218:18 225:16 258:17
277:21 280:15 283:25
long-term 33:21,22
55:12 59:25 75:18 82:6
93:19 105:23 106:22,24
109:4,11,15 111:19,20
112:2,11 121:2 145:11
149:6 159:20 267:10
longer 13:19 40:22 70:24
226:18 285:12
looked 45:21 111:21
131:19 144:6 257:5,14
271:18,19
loose 138:14,15
losing 94:4,15
loss 13:24 53:24 63:9,10
107:13 167:24 172:10,
14,16,17
losses 172:24 193:23
lost 53:17 81:25 214:12,
24 215:2
lot 55:1 111:14 151:15,18
158:20 258:4 264:8
272:23 274:7 282:17
loud 63:5
low 53:1 59:13 76:8,9
80:1 89:19 90:10 102:13
105:25 106:3,12 107:5,
24 133:12 260:21
lower 13:18,23 22:5
23:10 24:7 26:10 40:1
41:11 53:2 57:25 64:1,2
70:18 74:21 76:16 85:2

108:16 129:6 130:4
134:9 137:20 143:12
166:16,21 169:12,15
182:17 184:20 185:18
186:5,25 210:10 211:23
212:1 215:7 231:4
232:14 247:25 280:17,18
lowering 31:6 166:19
186:2 210:12
lowest 83:16 110:25
lunch 122:13 157:8
202:7 208:24 212:5,6,9,
15,16,25 213:2

M

made 11:5,14 16:3 31:5
35:18 41:2 44:18 52:17
54:23 61:1 75:8 86:2
87:11 102:21 103:7
118:8 145:10 166:9
167:9 173:22 180:17
188:7 190:20 197:12
200:3,23 201:20 204:19,
20 205:16 213:22 214:3
217:18 220:5,13,15,24
221:18 236:21 244:7
247:16 259:24 273:23
280:24
magically 222:21
Magnesium 8:5
main 12:10 230:4
mains 25:15
maintain 18:21 93:18
103:18 160:17
maintaining 19:24 103:5
134:4
maintenance 232:5
247:2

major 7:18,19 21:20,21
33:9 84:14,16,18 123:10
148:21,22 170:23,25
193:20 237:1 265:9,10,
13 270:6,21
make 6:7 11:8,21 36:3
43:7,13 44:11 47:14,18
52:10,12,14 64:18 77:23
78:4 96:15,24 121:3
124:14 134:14 135:14
137:5 144:9 157:12
168:23 178:8 182:22
185:14 187:7 197:11
198:19 199:24 206:9
208:4 209:18 211:16
217:25 220:2,20 240:15
252:8 261:22 270:16,17
273:25 285:23
makes 47:20,22 200:15
212:4
making 67:7 97:24
165:15 181:17 186:9
197:13,23 225:7 239:9
253:11 259:9
managed 33:20
management 92:12
148:2 149:13 182:1
manager 227:16
managing 16:10 42:3,5
99:11 128:24 163:3,7
manner 168:10
mapping 11:7
March 115:23 116:7
margin 35:20 36:18,21
130:3
mark 25:25 62:19 69:18
marked 9:9,24 35:4
68:18 69:21 73:1 74:14

148:18 163:16 164:17 193:2 194:25 228:7,9,16 229:13 249:17 271:3	121:13 128:4 129:11 134:8 140:12 154:3 280:18	memorialized 271:25
market 29:2 37:20,23 38:11,14,16 40:22,25 41:21 47:18,19 53:16,21 54:1 55:15 84:5 85:13 95:11,16 97:5 119:10,11 183:4,18,22	meant 38:12 39:23 45:1 96:2 118:18 134:23 146:11 153:7 187:6 214:16 245:5 260:17	Mendenhall 6:18 8:11, 13,15,23 9:4 10:10 19:13,17 21:18 22:1 28:10 29:20 41:5 54:22 87:14 93:21 95:19 121:9 175:1 245:20
markets 40:20,23 54:15, 18 55:8 135:8	measure 46:8 47:22 65:14 112:24 113:17 114:8 115:2,4	Mendenhall's 97:6 121:6 130:12 149:3
Marshall 44:20	measured 56:22,24 64:14,15 120:21 172:6	mention 9:25 203:9 245:14
Massachusetts 159:5,7	measures 61:15,19,20 83:15	mentioned 14:8 17:17 21:9 22:1 42:3 72:17,21 85:13 124:24 151:15 153:24 180:16,21 181:13 185:6 218:15 241:6 245:15 272:19
master 11:6	measuring 171:22	merchant 31:9
match 272:9	Mecham 7:13,14 21:22, 23,25 23:4,5,7 28:5,9 88:13,14,16 116:10,13, 15,16 122:6 148:23,24 149:1 171:1,2 237:1 243:13 270:23,24 271:1	merger 10:13,17,18 15:14 16:17 22:9 30:15 31:3,22 119:17,19 177:4 191:20 192:1 193:10 196:1 221:13,15 222:7 225:3 270:14
material 30:15 55:15	mechanism 10:14 76:13, 14 78:1 157:23 158:6,9, 13	merits 281:14
materials 145:3	mechanisms 79:3,11 128:16 147:23 157:12,15	Merrimack 159:7
math 58:5 90:25 91:22 92:6 97:11 210:22 226:4 277:17 286:8	median 83:24,25 106:17, 20 107:2,5,7 111:1 124:16,25 142:22 143:1 147:1,3	method 41:18 47:1,3,13, 17,21,25 109:3,10 246:14,16
mathematically 51:2 197:21	medians 111:3	methodology 194:16 211:18
matrix 232:14 238:13 239:7,12 273:20	meet 29:2 75:14 166:23 167:11 223:1 231:6 245:24	methods 41:13 266:20
matter 34:15 119:13 121:17 134:3 141:4,5	meeting 10:22 141:2 183:2	metric 50:8
matters 6:10 50:7 70:24 189:5	meetings 69:13 70:4,6	metrics 11:2 13:18 14:12 15:5,7 16:11 17:17,23 21:5 23:9 42:19 93:11,14 94:8 102:24 127:4,23 128:25 132:17 133:16
MBA 33:11	members 37:12	
meaning 88:3 95:12 127:5 129:6 234:17,24 255:13		
meaningful 65:7		
meaningfully 87:6		
means 54:14 63:11 70:25 94:12 96:4 114:9 116:18		

134:5,11 135:3,16 136:4,
7,19 246:7
mic 32:25
Michael 7:21 62:23
138:12
microphone 23:4 32:16
72:10 163:6 251:19
mid 44:21
mid-2000s 178:2
midpoint 39:11
midstream 31:11
million 11:15,16,20 12:3,
6 15:14 16:2 17:1,3,5
18:15,20,25 25:3,14,24,
25 27:21,24 28:1,3 29:9,
12 57:4 62:10 63:13,21
65:12,13 95:22 96:10,14
97:6 107:13 117:1
135:14 154:11 155:9
163:22,23 165:7,8,10
178:15,17 179:3,6
180:22,24 181:6 183:11,
12,13,14,15 184:21,23
187:10,11,13,14,15,16,
17,20 190:9,10 192:2,15
193:11,25 194:12,13,16
195:5,10,12,13,16,25
197:15,16,17,23,24
198:1,3,5,6,10,25
199:14,15,16,17 200:3,
10 207:18,25 208:3,5,6,8
209:7,9 211:5,18,23
212:17,19 213:21 214:2,
3,7 217:13,14,18,25
218:21 220:9 221:14,19
222:5,9,15,19,22,23,24,
25 223:6,7,21,23,25
224:8,12,13 225:4,11,14,
16,19,25 226:2 228:24
230:22 233:15 235:18,19
236:6,7 245:18,21,23

247:14,15,19,20 248:9,
10 253:24 254:9,13,16
255:2,6,21,22 265:24
266:13,14 274:15,19,25
275:16,23,25 276:1,2,5,
10,13,15,16,21 277:3,10,
18 278:5,8,9,11 279:19,
20
mind 63:6 72:9 136:14
138:25 139:4 151:20
198:18
minds 60:8,10
minimize 103:3,16
minimizing 103:10,23
minimum 181:14,18,25
182:22
minus 187:13 277:18
minute 51:3 52:17
112:19 115:15,21 130:25
170:20 253:1 254:25
minutes 185:9 286:14
miscellaneous 268:20
mispronounced 191:15
missed 202:16 204:18
misspoke 61:20
mistake 75:8 190:23
232:10
mitigate 62:7 67:14
121:24 149:11,15 157:24
mitigated 67:16
mitigates 106:18 234:16
mix 268:3
mixed 90:22
mode 208:22
model 38:15 41:16,17
44:5 68:21 70:19 72:13,

14 82:20 83:11,13 109:2,
10,14 249:23 252:9
259:13 271:10,15,16,24
272:7
modeling 286:4
models 38:11,12,19
41:20 45:1 57:15,17,20,
21 72:5,6 75:3 82:19
150:23 161:23
moderated 110:21
modifications 6:7 236:21
moment 30:18 45:17
132:22 134:1 144:23
170:18,20 176:12 181:12
258:15 282:17
moments 248:5
monetary 63:10 96:12,17
money 16:4 55:1 65:10
137:21 161:13 184:3
197:5 199:6,23 203:21
206:14 217:20 218:23
221:5,19 266:15 267:16
269:2,13 279:24 284:24
moneys 197:12 199:20,
22 204:20 206:14,22
207:24
month 180:9 260:22
months 16:9 74:2 81:9
124:6 128:24 129:5
142:22 143:1 192:1
Moody's 12:23,24 13:9
14:1,13,24 17:9,12,18
22:1,7 30:8 48:22 71:8
73:9 76:2 78:2 79:17,18
93:10 94:7 102:21,24,25
121:7,10,12,17,23,25
126:19,25 127:6,7,9
128:5,10,18 129:11
131:12,15,24 132:5,8

136:4,18,20 138:7
147:16 149:2,9 150:12,
18 155:21,23 156:8
158:16 160:10

Moore 7:4,5 21:16 71:18,
19,24 72:1,11 73:3,5,18
74:7,15 76:1 120:3
147:8,10 148:9,19
170:18 189:1,14,17,23
190:1,4 191:6,7,12
192:19,25 193:3,7
194:18 195:1 198:12
208:18,20 217:25 218:8,
9,13 251:7

Moore's 198:18

morning 6:3,22 7:19
8:12,19,20 19:21,22
30:1,2 32:4,19,20 37:11
41:5 44:2,3 72:2,3 75:9,
17 87:15 89:2 90:9 93:23
94:3 95:25 96:23 114:14
121:7 122:19 123:11
129:23 141:10 148:7
151:15 286:16

motion 9:20,21 34:25
35:2 68:15 74:10 148:13,
15 164:13,14 192:22
194:22 228:13,14 239:7,
16 242:19 244:18

Mountain 246:16

move 9:15 10:8 13:20
17:21 27:23 34:22 43:17
45:25 46:11,20 52:20
58:17 68:4 96:1,9 97:12
132:8 134:18 148:10
164:9 230:10 236:24
238:4 242:7 243:6,23
244:21 256:11,13 257:9

moved 27:16 132:23

movement 46:23

moves 228:5

moving 39:14 96:20
234:3 240:19 246:8
258:5 272:23

multiple 38:18 49:18
92:19,24

multiplied 49:7 194:14

multiyear 156:21

N

named 260:4

narrow 114:9 240:15

narrowed 282:18

National 7:15 88:17
217:3

nationwide 81:8

natural 33:18 45:16
46:18 48:1,6 59:6 67:13
76:11 81:22 84:9 85:12
87:12 98:22 100:10,14
101:5 102:12 105:8,16
106:7 107:4,10,20 108:9
110:2,7,24 123:24 142:4
145:1 264:6

Natural's 108:15

nature 129:24 150:20
153:15,21

near-term 161:12,14

near-time 53:9

necessarily 53:22 99:13
121:19 152:7,8 161:5
180:14 242:2 266:23
267:4,20 269:17

needed 29:5 99:14
118:20 198:4 246:7
255:3

negate 119:5

negative 13:10,22 14:18
18:24 54:2 63:10 76:16
80:10 115:11 126:17
127:3 128:19 165:19
166:17 167:2 169:13
181:11 186:14,22,25
187:3,10 188:1,3 195:3,
19 196:8 205:22 208:9
209:23 210:17,19
211:12,21,24 212:1,7,23
213:11 214:2,3,6 215:6,
11,13,16 225:9,22 250:6
259:12 261:8,9 265:17,
24 274:19,21,23 275:15
278:17 279:6 282:11

negotiate 53:20 85:22

negotiated 53:22

Nelson 6:14

net 23:24 24:3 49:11,12,
13 92:19,22,23 117:7,12
118:16 133:15 135:19,
20,22 172:19 259:10

net-net 185:1

neutral 257:11

Nevada 124:2

nice 22:6

night 30:19

non-pension 248:8

non-plant 234:6,12
282:19,25 284:5,11

non-supportive 134:4

noncash 49:11 78:13
135:20

nonetheless 59:10 74:22
75:18 77:14 106:1

nonlabor 246:9 247:15

261:12 262:4,7
nonrecurring 263:20
nonutility 121:1
normal 220:11
normalization 79:6
North 100:10,15
northern 245:23
Northwest 102:12 105:8
106:7 107:4,9,20,25
108:1,9,15 109:18 110:2,
7,13,24
Northwestern 110:11
notable 85:14
notch 51:17 71:9 94:4,15
102:18 121:18
note 30:11 81:13 190:25
231:11,16 232:8 233:1
234:22 235:17 236:4
237:6,17 273:15 276:17
noted 28:10 121:11
145:24 146:15 177:4
219:7
notes 48:23
notice 230:9
noticed 115:10 193:15
notwithstanding 79:11
November 53:10 54:8
55:22 85:18
nuclear 153:17
Nucor 8:5
number 27:19,24 28:1
34:11 36:8,14 50:6 83:21
84:10 100:12 106:4
107:2 117:19 123:19
143:9 144:2,6 157:15
159:13 163:22,23 176:1,

5 182:7 189:13 205:11
208:5 211:9 218:24
223:13 236:3 243:14
245:5 250:15 254:11,24
258:10,11 263:8 266:5
268:14,16 271:19 273:15
274:20,21,23 275:10,17
numbers 26:14,15 84:8
98:24,25 99:1 107:16
131:2,4 142:3 152:2
178:17 230:18 236:16
237:16 243:21 250:18
252:13 256:2,5,9,17
271:4,9 273:19

O

O&m 229:4 246:9,24
247:5,24 248:1,8,11
252:16 261:14 262:13,
19,20
oath 122:18 191:18
object 68:6 74:10 198:12
238:21 239:11,25
objected 11:22
objection 9:20,21 35:1
68:8 74:11 122:10
148:15 164:14 192:23
194:22 199:8 226:20,21
236:9,12,14 237:2,6
239:7 242:12
objectionable 237:13
242:16
objections 244:13
objective 103:15
objectives 42:7,11
101:25 103:14
objects 34:24 148:13
164:12 192:21 194:20

228:12
obligation 37:21 140:14
172:5
obligations 80:20 113:20
140:9 141:1,3 166:24
167:11
observation 87:5 102:21
151:17
observations 93:10
observe 38:8,9
observed 46:17
obtain 116:17
obvious 79:10
occasioned 168:11
occur 56:23 63:15 97:8
115:24 145:14 151:2
157:25 232:7 248:19
260:10 281:10
occurred 14:20 172:24
190:1 200:7 256:20
260:20 269:6
occurring 245:16 248:24
263:21
occurs 41:8 47:2 260:7
OCS 11:22 73:2 74:13
75:20 81:4 126:7,13
141:15 146:25 147:11
148:10,17 165:16 166:15
169:11 175:6,7 176:1,7
189:10 191:10 192:19
193:1,4 194:18,24 196:8
206:25 217:3 221:11
275:2,5,11,18,20 277:6
279:13,15
OCS's 211:1
odds 261:1,23

offer 138:2	operating 42:14 70:14 71:11 81:23 82:6,11 87:12 88:1 98:6,22 104:2 119:4,24 120:5,10,20,21 121:14 133:24 213:10 232:4 247:2 279:4	organized 230:3 272:22
offered 109:20 202:23 228:20 240:25 284:16	operational 140:19	organizing 229:9
offhand 51:20 78:19 255:1 274:22	operations 31:12,16 33:20 80:1 92:12 93:3 120:21 121:1 246:13 248:25	original 44:19 230:21 231:3 232:20 253:12,14 256:5 258:25
office 6:23 7:5,6,8,11 188:18,23 225:23 231:13 232:8 234:9 236:15 246:19 251:24 252:12 258:23 261:17,23,24 263:5,9,19 282:22	opine 241:19	originally 26:3 228:22 229:17
office's 225:9 231:10 232:1	opined 220:23 238:16	Orton 7:2
offset 22:13 148:4 188:14 197:16 210:8 211:11 217:20 248:11 280:8	opinion 14:24 17:9 30:21 66:8 76:3 78:2 84:4 129:17 171:15	outcome 86:1 99:9 100:25 150:17 161:1,11
offshore 153:16	opportunity 65:20 129:25 137:5 241:13 242:9	outflow 259:24
Ohio 169:5	opposed 60:20 91:20 223:17 236:22 237:9 238:23 246:2	outlier 106:14
Oliver 7:16 12:16 18:2 39:10 89:3 120:7,12 272:10	opposing 39:4 40:2	outliers 106:18
Oliver's 39:9 40:4 89:23 272:2	opposite 149:9	outlook 12:24 14:17 126:15,16,17 127:3 133:9,11,13 150:8 158:14,22 161:4
one-fourth 109:19	optimal 103:21	outlooks 13:10
one-third 78:16	optimization 103:8	outpacing 11:17 12:12
ongoing 247:20 248:25 263:19	optimizing 103:11	overages 26:21
OPEC 190:20	Option 219:9	overfunded 203:20
open 156:14 279:13	order 23:16 58:11 135:23 152:19 159:3 167:10 172:17 178:8 252:8,23 257:3 267:5 273:5,23 284:11 286:2,6	overfunding 203:19
opening 72:17 101:24 103:7 171:13 185:6 235:16	ordered 16:16 19:5 266:18	overlap 285:13
operate 93:15 101:21	orders 142:2,4,6 274:1	overnight 258:18
operated 93:3		overpay 179:19
operates 98:11		overruns 26:18 27:14
		overspent 11:11
		overstate 136:23
		ownership 223:17
		<hr/>
		P
		<hr/>
		P.M. 6:9 286:17
		pace 16:18

packet 189:9

pad 258:6

pages 115:16 193:14

paid 172:4 173:14 179:15
180:6 197:19 201:3
203:15 218:2 224:1
268:20

paper 123:18

paragraph 13:21 15:2,3
16:12 18:12 23:8,14
30:18 31:4 81:6 126:15,
25 142:18 191:24

parameters 46:5 111:14
161:3

paraphrasing 277:9

parent 15:8 17:20 22:3
30:3,15,24 54:13 71:8,10
115:19 117:4 118:14
119:4,12,25 120:4,9,15,
19 121:8,14,18,25
134:21 135:9 148:5

parentheticals 23:17

parents' 22:10

park 184:6

part 15:13 23:14 25:16
33:22 57:16,19 74:22
94:5,6,17 119:2 120:25
131:25 135:20 139:14
145:7 153:11 174:10
175:15 176:22 178:3
179:11 184:11 185:11
194:6 195:16 197:8
221:13 237:22 248:25
271:11 277:6 279:14

partial 51:22 232:16
234:2

partially 221:10 232:17

participate 8:6

parties 11:9,12 16:22
20:17 24:2 53:20 71:21,
22 85:22 170:21 199:2
226:19 229:18,20 230:6
234:4 237:22 238:18,22
240:20 241:3,18 243:18
244:2,6 246:2 253:16
265:19 274:14 285:20

parties' 237:15 244:14
266:4

parts 258:5 272:23

party 9:19 68:6 89:3
148:13 202:16 242:2

pass 280:22

passed 16:3 76:11
249:15 264:19 283:11
286:1

past 20:21 172:4,24
200:11

pay 51:8 58:1,7,8,9 61:8,
11 121:15 135:2 140:13
179:11,17,22,24 180:6,7
181:9 182:9 183:25
186:11 187:15,21
199:16,22 201:5,14
202:22,24 204:1,11
206:15 213:2 217:15
248:9 267:21,25 268:4
285:13

payable 176:25

paying 50:10,24 61:2
180:1 204:22 205:7
209:1 212:20 217:11
280:7

payment 197:9

payments 173:11 183:5,
14 184:1 197:13 247:19

payroll 180:11 187:9,15,
16,21 197:16

pays 61:10 180:3 182:12

PDF 176:8 275:8

peer 137:19

peers 15:6 67:21 77:16
93:11 102:25 113:1
129:7,13,14,19 130:3,5
136:22,25 137:1,25
161:19

peeve 216:1

pension 163:10 165:6,7,
9,14,16,17,19,21,23,24
166:1,3,8,9,12,16,18,19,
20,23,24 167:2,5,9,13,
14,15,16,19,23 168:1,2,
3,4,5,6,8,11,12,14,15,16,
18,24 169:4,7,8,12,14,
15,20,21,22 170:1
171:12,21,22 172:9,11,
13,18,20,22,25 173:4,8,
11,12,13,20,25 174:3,9,
14,15,19,22 176:19,21
177:2,5,10,11,14,18,23,
24 178:2,6,9,18,21,22
179:3,6,8,13,14,15,18,
19,20 180:10,17,22,25
181:4,9,12,14,17,20,25
182:6,8,14,15,17,22
183:5 184:4,13,15,16,18,
20,22 185:4,5,7,10,15,
17,18,20,24 186:2,4,12,
13,16,17,22,23 187:3,5,
10 188:1,2,3,5,10,13,15
189:8 190:20,22 192:3,5,
6,10,12,14 193:10,20
194:1,4,5,10,13,14
195:3,7,13,18,19 196:2,
8,9,11,12,15,17,22
197:4,7,12,13,16,19
199:20,22,24 200:3,9,14

201:1,3,14,15,24,25	12,18,23,24 56:9,25	171:23 177:7 205:5
202:1,4,8,9,11 203:5,11,	57:1,9,12,18 58:2,16	228:24,25 229:5,7
12,19,20,21,25 204:1,5,	62:5 63:14,23 64:7 65:12	230:12,22 232:3,6,12,19
6,7,11,15,22 205:14,15,	70:15,16,18,25 72:23,24	233:1 234:6,8,9,10,11,
17,21,22 206:15,21,23	74:1,3,20,21,23,24 77:4	15,19,25 235:2,5 236:2
207:8,9,12,14,16,17	78:23 81:9,10,23 82:10,	246:4,10,20,22 247:3,5,
208:1,3,4,7,22,23	12,15,17,21 83:8,25	6,13,17 248:18,21,22
209:13,15,18,23,24,25	84:1,5,8,20,22 85:6,10,	255:10 256:21 260:12
210:16,17,18,19 211:4,6,	13 86:5,12,19 87:4,5,7,	263:3,5 264:16 268:17
12,18 212:7,23 213:21	12,15,19,20 88:2,6 89:4,	274:15 277:15 281:8
214:1,6,12,16,17,20,21	8,11,12,23,24 90:1,4,6,7,	282:19 283:8,9,25
215:3,7,9,11,13,14,16,17	8,9,22 91:12,24 92:2,21,	284:11,15,17 285:1
216:10,13,22,23 217:21	22,24 93:4,8,12 94:18	286:8
218:18,19 219:16 220:8,	95:21 96:1,2,13,19	periods 172:17 281:10
12,14 221:3,24 222:15,	97:13,15,20 100:11,19	perpetual 113:24 225:4,
20,25 223:6,7,8,21,22,	101:4,6,14,15,17,18	11
23,25 224:9,10,11,12,14	102:7,8,9 105:9,12,22,	perpetuity 192:7,16
225:15 226:1,6,7 234:13,	23,25 106:2,3,6,21,23	193:12 209:10 218:21
14 248:3,4,7,9 274:8,14,	107:6 109:19 110:8,11,	persist 16:9 128:24
18 275:15 276:7,8,20	12,14,25 111:2 119:11,	perspective 50:9 59:8
277:2,9,23 278:17 279:2,	12 120:20 123:15 124:4,	71:7 80:11 88:9 91:21
6,8,10,21,22 280:16	20 125:1,20,23 126:3	96:11,21 156:3 157:20
281:4,5,7 282:5,10	127:24 128:6,9 129:3,7,	perspectives 107:22
pension-related 165:6	13,15 132:17,23 133:17,	Phase 6:8 8:4
pensions 190:21 203:2	23,24 134:12,16,18,19	Phil 175:18
216:18	136:7 142:11,12,16,23,	Phillip 7:25
people 59:11 66:10	24 143:13 153:20 154:6,	phone 32:16
103:10 112:6 159:14	7,13 184:19 194:11	phrase 134:24
199:2 222:8	235:23 247:23 257:20	pick 125:15 130:20 187:2
perceive 161:4	262:20 267:1,2,3 268:5,6	picking 251:18
perceived 44:18 121:25	270:13 272:5,6,15	picks 140:2,4
percent 12:13,17,19	275:24 276:5	picture 280:4
13:23 15:25 16:15,20,23,	percentage 50:22 80:18,	piece 153:25 154:1
24,25 17:1,6,23 18:2,3,	19 110:5 140:8 270:13	190:22 278:5
16,17 19:3,11 23:19	271:15 273:2 275:24	pieces 153:25
29:8,11 31:10 38:25	performance 13:16	piggy 280:5,9,22,23
39:1,2,5,6,7,8,11,13,15	111:12 223:14	
40:15,17 41:10,12 42:1,	performing 129:19	
2,15,22,25 43:4 48:23	period 20:25 40:24 42:5	
50:13,14,21,25 51:15	46:23 124:17,18,19,25	
52:2,3,5,6,13 53:1,5,8,	125:2,3 129:8 132:24	
	159:24 165:16 167:7	

pilot 25:1	playing 159:23	portions 237:10
pipe 14:9 20:4,23 21:7	plenty 248:5	portrays 256:1
pipelines 20:7,8,14	point 14:6 15:9 18:25 24:23 28:20 30:12 38:21, 25 49:24 52:4,9 54:22 57:3 60:15 61:13 62:6 72:16 74:16,20 79:10 84:7 86:9 87:23 90:11 91:18 97:14 101:8,9 103:7 108:4 111:2 114:22 118:11 119:2 120:13 123:17 127:4,11 132:21 136:23 137:4,11 145:10,12 154:25 156:5 159:9 197:11 198:9,12 213:24 218:10 237:3,13, 20 239:15 240:6 241:7 243:11 244:10,18,20 247:11 261:1,23 269:20	posed 147:15
pipes 25:17	pointing 100:13	poses 115:13
place 11:1 29:1 31:22 65:25 77:10,22,23 79:3 81:22,24 82:4,11 87:25 95:17 118:13 121:11,23 122:3,4 140:15 153:22 157:24 158:6,14 246:22 268:17 269:8 281:15	points 14:4 19:11 39:2 40:4,5 56:25 57:12 58:15 70:22 77:20 87:10 89:21 105:17 110:5 118:7,10 132:15 143:8 148:7 153:18 154:6 186:20 231:23 240:23 274:9 286:4	position 8:25 75:10 98:18 113:21 114:18 136:15,21 139:21 163:10 165:13 166:15 169:3 205:8 216:12 227:15 231:10 232:9 237:9,15, 16 238:2,10,13,14,15 239:12,13,19,23,25 240:1 241:3 242:2 243:15,19 244:12 249:24 252:14 263:20 265:20,24 266:3 271:4 273:20 277:21 278:6,10,16 279:10,25 280:25 281:3, 11,13,14 283:14 285:6,8
placements 95:15	pointing 100:13	positions 238:18 244:14 263:23 266:4 271:6
plan 10:25 167:21 172:8, 24 173:14 174:4 181:25 182:8,9 186:9 192:12,14 193:24 194:1,2,5,12,15 195:2 196:13 204:11 226:6 264:18 269:3 285:18	policies 16:10 65:25 128:25 148:2	positive 18:21 19:1 31:14 96:25 177:5,10 179:18 181:11 185:21 186:22 202:9 204:4 213:11 215:9 279:9 280:2,17 281:6,7 282:11
plan's 167:24 172:10 193:22	policy 34:10,12 60:23 63:8 65:11,13 66:4 139:17,19 149:13 152:6 153:12 154:12	possibility 156:4
plane 226:17	policy-driven 151:10,12	possibly 92:24 274:24 285:6
planned 75:5 77:5 206:6 266:10	portion 49:14 51:4 58:18 76:6,7 78:15 79:19 144:4 191:23 193:14 194:4 201:15 205:4 216:15 217:20 222:6 237:7 247:21 272:9	post 116:5 156:14
planning 8:6 33:23,25 59:24 261:22		post-employment 190:21
plans 59:19 156:21 174:3		potential 22:10 76:16 108:23 219:11,24
plant 235:13,14 245:13, 17 253:1,6,10 254:2 256:22 257:1,6 264:1 276:5		potentially 161:8 186:9 236:10 239:21 240:1
plant-based 283:15,22, 24 284:1 285:2		power 31:10 44:22 154:4
plants 31:10 184:9		
Platt 62:24 63:20 138:12, 22		
play 158:2 160:4 281:12		

246:16
practical 37:17 66:11
95:14
practice 38:18 42:12,14
44:15,16 47:4 48:9,10,11
87:9,11,25 93:7 102:10
pre-approval 156:2,4,13
pre-credit 199:14
pre-file 227:18,22
pre-filed 6:19 9:8 228:6
274:5
pre-wc 16:19
pre-working 129:4
precedence 19:4,10
205:10
precedent 168:24 170:7
precedents 219:8
precise 152:23 209:20
preclude 108:19
predicate 219:22 220:20
predict 111:11
predictability 150:22
predictable 18:22 147:22
predictive 44:22
preferenced 154:13
preferred 154:13
preliminary 6:10
premature 85:24
premium 41:18
prepaid 165:6,7,21,23
166:3,18 167:12 168:2,4,
8,12,18 169:14,21
176:23 178:1 181:20
182:14 184:4,13,18,22

185:4 188:15 195:13
196:2 200:9 202:4,11
204:5 205:14,21 218:19
220:8 223:7,8,25 224:10,
11,14 225:25 226:1,6
prepare 136:12 189:19
190:2
prepared 37:6 164:4
229:10 256:6 276:25
281:11
preparing 240:9
prepaying 221:3
prepayment 221:2,3
present 6:25 70:7 83:10
104:16,24 106:16 112:7
125:22,23 155:4 167:17,
18 171:25 172:2,5
244:11
presentation 69:14
70:11 229:9
presented 93:1,5 111:17
115:18 165:3 238:18
252:5 253:16 256:16
presenting 163:8
presents 108:23
president 191:17
pressure 20:4,8 21:4
25:17 41:1 78:8 93:13
132:9 134:10,11 136:3
159:8
presume 32:8
presumes 155:13
pretend 166:1
pretty 106:3 158:21
160:23 243:19
prevalence 77:14

previous 64:21
previously 265:1
price 66:23 179:11,23
180:14
**Pricewaterhousecooper
s** 163:4,8
pricing 9:2 41:16 68:21
70:19
primarily 10:4 12:25
13:14 126:22 164:22
principal 37:13 127:11
principally 34:13 37:18
49:11 111:15 113:17
120:19
principle 65:19 137:15
principles 47:8 167:5
284:16
printed 69:15
prior 100:20 119:18
124:24 131:12,19 133:5
157:8 178:2 219:16
220:6,23 246:14 269:9
270:13
priority 113:21 114:18
private 95:15
privately 95:10
privy 221:16
pro 42:20
probability 59:13 63:14
64:1 141:2 152:1
probable 63:23
probe 134:1
problem 212:3 237:12
243:16,21 260:9
procedure 246:18

proceed 69:8 233:23
251:8

proceeding 37:4 38:2
40:10 41:14 56:20 57:6
86:10 89:18 91:7 101:2
112:1,4,12 117:2 135:22
136:13 138:22 139:4
143:11,18 155:14 160:14
161:11 163:14 164:1,2
169:10 177:23 253:16

proceedings 38:17 39:18
44:15 47:5 48:12 104:18
111:25 112:4 118:3
263:25 270:18

proceeds 117:8,13
118:15 233:7,14 257:24

process 42:17 44:22
59:24 99:18 121:17
232:24 233:18,25 238:5
239:3 240:10 242:17
244:11 257:22,25

processes 286:3

produce 41:20 183:13

produced 169:22

produces 109:14 169:23
184:19,20

producing 186:24

product 49:13 63:11 64:7

production 133:13

professional 33:7 129:17
183:3 248:14,17,20,23
263:12 264:8

profile 15:4 30:7 51:25
76:15 78:5,6,7 79:25
93:18 103:19 126:18
127:12 128:18 134:13
137:24 158:9,10,11,15
159:2 160:11,18 161:22

program 10:24 11:5,17,
19 20:18 25:1,16 26:3
76:25 245:19

programs 14:5 156:12

progress 31:5 252:2
256:22 257:19

project 27:15 62:8 64:12
117:23 121:1 153:10,11,
22 156:2,5,6 256:12
267:2 269:11

projected 76:25 229:4
235:13,14 245:13,17
254:14 268:16,18

projecting 16:24 255:5
268:4

projection 232:20

projections 70:7 262:19

projects 26:17 54:7 62:3,
4 153:20 154:20 232:7
245:16 246:1,2,5 248:19,
24 253:8,11,13,21,24
254:2 255:15 256:8
263:25 264:12,14,22,23,
25 265:4

prolonged 280:19

prolongs 280:1

promised 195:6 196:19
209:4

pronouncement 171:20

proper 43:1 47:11 94:18
107:8,23 108:19 140:25

properly 109:5

property 232:3

proportion 118:2

proposal 11:9,10,13,14,
23 18:1 20:3 230:21

proposals 11:5 12:15
231:7

propose 75:3 186:20
282:10

proposed 11:5,10 12:16
26:21 43:4,11,15 52:7
53:13 59:19 62:2 91:14
96:19 117:1 155:14
166:15 225:9 229:17
230:6 231:3 234:7,8,9
247:21 253:6 255:12
259:11 266:19 267:3
268:7,13,14 273:16
274:3 282:7

proposes 59:11 82:13

proposing 10:15 24:3
28:2 52:6 101:15 245:10
282:4

proposition 44:19

prospects 108:13

protect 22:9 178:8

Protection 178:6,18

protections 114:17

proved 221:5

provide 10:17 33:5 37:9
39:18,23 51:9,10 65:6
80:3 103:2 164:7,19
184:9 192:6,15 193:11
230:18 246:24 253:18

provided 10:20 11:16
12:1,7 38:22,25 69:15
112:9,18 164:5 168:13
177:21 178:12 236:23
246:11 253:15 254:2
256:3,7 276:18,23

providing 50:10 66:9
163:1 164:25 166:16

provision 121:23

provisions 22:8 30:25
31:3 53:15,23 80:4
121:11 127:25 128:12,13
148:4

proxy 98:8,9,23 104:12
105:10 106:9 108:19,24
120:9

prudence 156:16

prudent 182:1,24

prudently 80:4

PSC 100:1

PSCU 18:14 80:2

PSCW 80:3

public 6:4,9,21,24 29:1
95:10 99:21 100:17
153:12 242:11,15 243:8
249:19 253:20 286:14

publicly 33:18 42:4

pull 126:6 279:24

pulling 72:9

purchase 65:10 67:3,6,
13 76:11

purchased 66:16

purely 203:5

purpose 55:17 56:14,17,
21 57:10 58:10 70:6
104:7 240:8 272:21
273:16

purposes 23:21 37:15
87:23 104:1 139:9
140:19 170:1 186:12,15
197:15 203:23 222:10,11
286:2

pursue 246:5 264:21

push 233:3

pushback 59:5

put 10:25 21:4 23:16
41:1 59:15 91:8 93:13
95:13 115:10 126:7
132:11 137:21 141:20
155:3 157:24 159:13
178:5 182:25 183:11,17,
24 184:3,13 186:21
202:4 206:4 215:6
218:23 221:17 222:15
225:6,21 263:1 268:22
274:3

puts 14:11 77:21 218:22

putting 134:11 136:3
149:14 183:14 206:12
210:24 225:8

PWC 164:23

Q

qualitative 42:18

quality 29:3

quantify 15:22,24 59:3,9,
25 145:20 151:24

quantitative 46:9

quarter 82:9 100:10
129:5 142:11,12,14,16

quarters 142:21

Questar 14:17,19 15:4
16:14 17:10 18:12 23:24
30:6 76:3,9 79:25 80:3
88:20,21 115:20 119:16,
18 126:17,20 129:3,18
133:11 191:21 192:3,7
194:3,4,17

Questar's 194:15

question 19:16 24:15
26:25 27:6 28:6 30:12,22
31:18 40:6,16 45:18
46:16,25 47:7,13,21

49:20 50:16 51:1,16
54:25 56:4 59:1,8,15,17
60:8 61:6,23 62:12,14
66:6 67:8,9,22 72:21
77:9 78:14,19,22 85:5,6
93:6 99:24 100:2 105:2,
20 106:24 111:21
112:14,15 113:6 116:1
118:11 119:14,23 123:9
126:11 139:16 140:17
144:3 147:17 151:14
158:19 159:17 161:10
173:8 176:13,14,16,17
181:3 182:20,23 184:11
185:19 189:7 194:7
196:6 198:22,24 199:4,
16 201:12 202:21 206:16
210:11,15 211:15 218:14
220:17 221:9,18 224:23,
24 225:18 226:11 237:1,
25 244:8 252:1 260:25
261:20 267:15 277:8
281:1,2,5 282:3,4

questioned 258:23

questioning 124:24
157:8

questions 19:14 21:12,
21 29:20,21 31:24 68:20
69:24 71:12,14 84:12,15
88:10 125:9 133:20
138:21 143:24 144:15
147:6 148:22 149:20
150:2,6 151:6 156:25
162:1 170:16,24,25
171:2,14 189:23 196:23
198:18 205:25 214:10,
11,14,20 215:24 217:17
219:2 222:1 224:20
242:9,19,21 243:3 249:7,
10,14 251:1,17,22
256:18 262:24 265:11
266:9 270:5,6 285:22
286:12

quibble 44:9

quick 24:15 148:24
170:20

quicker 26:19

quickly 282:24 283:1
284:6,18

quo 158:14

quoted 109:6,9

R

Racer 31:11

RACS 153:4

raiding 280:21

raise 54:5,6,24 55:1,7,11
93:16 103:5 117:25
236:8

raised 10:21 18:19 34:1
238:1

raising 54:4 55:5

Ramas 7:11 231:17,22
233:12 255:17 275:3
278:14

Ramas' 175:16,23
178:25 233:17,20 253:5
261:10 276:19

range 38:21,23,24 39:1,
5,6,11 40:2,3 41:11
74:21 83:7 84:1,10,22
87:4,19 89:23 90:7,10,19
91:13 102:13 110:18
126:21 143:10,12

ranges 58:14 143:17,21,
22

ranging 101:17

ranking 111:14

rapidly 245:25

rate 11:18 12:1,5,13
13:23 15:6,10,13,14,16,
19,25 17:16 18:13,16
19:4 20:16,22 21:10
23:9,23,24,25 25:12
26:6,11 31:14 39:17
49:4,7,21 50:18,22,24
52:10,14 56:20 58:13,14,
24 60:3 61:14,19 64:21
70:18,21 73:20 81:5

83:12,14,16 84:20 86:10
88:25 90:22 105:23,25
106:21 107:19 110:20,21
111:22,23 123:4,24
124:12 125:18 126:23
127:8,16 128:15 129:20
133:14,15 136:11 137:7,
13 139:9 141:16,21,24
144:10,13 147:24 150:7,
13,17 151:2 152:19,20,
22 153:3 154:14,16,17,
19 156:7,21 161:6,11
164:25 165:5,21 174:13,
16,20 176:22 177:3,7,20,
23 178:23 179:2,4,7,12
180:1,12 181:1,4,21
184:4,7 185:17 186:23
187:9,12 188:12 194:5
202:1 204:23 205:10
209:19,24,25 210:1,18
212:8,24 213:8,9,11
214:13,21 215:12,18
219:10 225:7,8,24
230:25 233:1,4,16
234:23,24 235:10 245:9
246:14 252:18,21 257:12
260:20 271:6 272:12
281:4,13,17,22 282:12,
13,15 283:3 284:17

rated 121:2

ratemaking 23:21 37:15
39:22 96:3 104:1 163:10

165:18 166:15 168:17
169:6,25 186:12,15
268:7 286:1

ratepayer 97:16 180:1

ratepayers 61:4 91:4
92:9,15 97:22 103:4
179:17,19,22 182:15
184:25 187:18,22 196:10
197:19 225:5,12 278:4
284:7,25 285:12,13

rates 6:6 12:8,12 14:7
16:2 20:20 26:10 38:9
40:21 60:3 83:20 88:24
106:11,12,13,16 107:8
108:15 111:23 112:7,18
154:10,11,18 174:9,11,
12 177:15,24 179:3,6
180:13,20 187:19 205:4
222:19,24 278:2 281:4
283:8 284:19 285:10

rating 12:22,23 13:9,16
28:21,24 29:5 42:16
49:25 79:4,9 80:11
85:16,25 114:3 126:15,
16 127:5,6,10,12 133:8
134:12 156:3 157:20

ratings 13:13 48:24
102:16 112:25 113:15
115:4 122:1 126:18
128:19 132:10 159:20

ratio 14:2 29:8 42:25
49:22 50:13 51:14 52:2,
5,7 53:14 62:5 81:8,14,
21,22 82:11,12 89:7,11
90:1 93:12 94:19 95:21
96:1 97:12,20,21 98:25
99:8 100:12,18,25 101:4,
7,15 102:10 126:20
128:4,8 129:4,12,14
134:4,9,12 135:7,18,21
136:2 160:18 268:2

272:15	190:19 200:8 226:18 230:11,17 231:2	receives 212:5
rationale 13:13		receiving 168:13 212:20 214:5 216:12,23
ratios 50:17 87:22 98:7 101:17,21 103:25 130:4	reasonable 37:22 39:12 40:12 41:12,24 42:13,15 72:5 87:8,15 102:11 103:6 107:2 109:14 143:10 238:8	recent 14:1 41:22 86:16 142:15 152:19 154:23 189:7
raw 46:11		recently 86:11 160:12 169:5 177:17 178:16 283:11
reach 236:4	reasonableness 72:7,13 92:10	recess 286:13
reacted 53:16,17 54:21	reasons 26:20 40:8 44:19 56:15 58:11 71:10 156:16 235:4	recession 28:24
reaction 85:14	rebuttal 9:8 10:20 12:2, 14,21 13:4,5 17:8 19:2 34:15,19 35:7,9,14,23 36:25 37:3,7 48:18 52:22 61:5 62:23 82:9 88:23 98:2 110:12,15 111:5 112:20 115:16 117:6,10 120:7 130:12,23 138:11 163:14,25 164:4 227:22 228:9 231:22 236:11 237:10 239:23 240:11 245:15 246:23 247:1 253:2,17 255:11 256:7 271:12	recognition 43:2,9 60:2 121:10 172:22
reactive 161:9		recognize 160:6 172:4 238:23 239:24 240:3 261:12 272:19
reacts 54:1		recognized 109:3,10 121:23 260:9
read 13:13 15:3 16:14 22:7 23:22 48:22 63:2,5, 17 74:4 76:5 79:19 81:2, 12 82:1 124:14 126:14 127:22 129:1 132:15,22 133:9 140:2 142:8,18 147:21 158:16 175:1 186:7 191:23 193:14 194:7		recognizes 167:5
readily 240:22		recognizing 58:23 64:5 235:9 279:6
reading 52:24 63:3,6,18 209:5 212:18	recall 83:12 121:9 139:16 214:13,22,25 255:17 274:16	recollection 54:9 123:22 125:19
reads 15:4 16:14 76:9 79:25 126:16 129:3 142:10,19	recast 67:8	recommend 91:24
ready 71:24 162:7 226:13	receipt 207:9	recommendation 38:24 39:9,24 40:5 57:8 74:22 84:3 89:6,12 90:4,10,14 91:12 118:9 234:21 250:11 259:4
real 53:9 105:24 200:21 236:22	receive 187:12 195:4,9, 12,18,20 206:2,13 209:19,22 210:20 212:6, 22,24 216:7,16 218:2 260:18 264:6	recommendations 39:6 259:6,18
reality 257:21		recommended 56:5 74:21 84:10 88:24 89:4 90:10 92:17 143:14,17, 21,23 165:18 169:23 233:12
realize 67:25 160:17	received 16:15 23:25 123:10 156:2 214:7 218:5	recommends 39:13 42:1
realized 47:9		
realtime 53:25		
reason 26:1 44:17 45:9 58:6 65:16 78:24 84:23 112:17 131:25 186:6		

234:11
reconcile 272:11,13
reconsideration 286:8
reconvene 286:15
record 8:22 18:25 32:22
34:23 62:18 63:7 68:5,12
69:3,19 112:11 122:17
147:21 162:22 164:11
170:20 188:23 191:1,20
227:11 229:25 239:12
243:10 249:16 250:12,14
270:10
recorded 173:20
recording 186:11
recoup 260:17
recover 17:25 18:5,6
80:4 132:20 158:6 179:8
recovered 53:23
recovering 147:23
recovery 18:11,19,22
20:19 76:12 77:19,21
79:24 118:19 155:13,17
259:19 279:8
recross 144:18,19,21
147:9 148:25 208:13,15,
19 213:17 218:12
RECROSS-
EXAMINATION 28:8
redirect 29:17,18 71:19,
21 125:11,13 196:24
197:1 216:3 285:20
reduce 12:16 15:7 43:1
51:4 57:3 61:17 62:3,9,
13 66:9 71:8 121:18
133:24 166:21 172:18
184:15 187:3 191:2
194:3 198:25 199:15
207:19 208:3,5 210:5,13,

23 211:6,24 212:3,11
215:12,17 217:5 224:6
248:7 279:2
reduced 16:2 30:25
135:21 168:11 186:4,5
188:2,3,5 190:16 195:7
197:25 201:2,25 202:11
204:7 209:1,15 211:5
224:13 233:9 257:2
262:21
reduces 13:23,25 77:17
168:2,3 172:12 182:14
185:5 188:6 196:2 212:2
276:6 278:23
reducing 15:25 157:11
173:13 187:19 198:6
208:5,10 235:10 246:3
reduction 31:7 61:15,19,
20 64:8,22 66:18 92:22,
23 146:2,4 167:1 169:22
188:4 191:2,4 192:7
195:15 196:15,17,22
199:24 202:8 207:8
209:8 210:7 211:20
212:12 213:6 221:24
230:25 231:1 232:5
234:23 236:1 248:1
259:10 261:14,22 262:20
reductions 194:14
220:12
refer 27:3 37:14 51:21
59:12 75:12 103:10
126:13 128:14,15 131:18
154:1 235:15,22 257:6
272:22
reference 30:3,7 56:24
87:12 250:15 260:3
referenced 221:11
254:24
references 221:13 277:8

referred 22:20,24 33:22
71:9 153:3,14 172:15
248:15 262:18 277:11
279:15
referring 27:4 83:5,19
123:23 136:6 178:20
191:3 246:23 248:3
254:17,20 255:16
refers 56:16 78:3 190:5
reflect 52:10 69:15
208:24 239:13 261:13
262:10
reflected 98:24 265:20
reflecting 126:22 271:5
reflects 126:17 133:12
238:15 254:10 265:15
275:19
reform 12:25 13:22 15:6,
10,24 16:3 17:16 41:1,3
126:23 127:16 169:9
refresh 123:22
refreshed 273:6
regard 79:1 155:1 233:21
region 245:23
regulated 12:25 13:10,22
31:15 33:14 150:8
164:24 246:13
regulation 99:13,20
regulators 99:4,6,25
147:25
regulatory 9:2 17:24
18:10 22:23 31:16 34:12
38:17 44:14 47:4 48:12
54:1 73:7,20 75:6 79:2,3,
23 80:2,7,9 81:5 100:3,7,
22 127:25 128:12,13,14,
15 132:19 133:4 141:16,
21 150:20,21 151:1,3

155:22 157:12 158:17
165:2,4 191:17 220:18
227:16 263:25 270:17
reimbursement 180:10,
11
reiterate 244:24 248:6
relate 189:23 232:2
245:18 248:24 249:1
related 10:23 12:8 19:3
34:12 56:18 137:16
141:23 145:18 159:16
163:10 165:8 168:19
177:1 205:21 213:20
222:7 232:15,18 233:19
234:7,12,13,21 248:1,14,
22 254:2 260:17 263:15
264:1,10,18 270:14
276:3
relates 113:10,12 234:3
235:13 244:24 257:15
272:8
relating 139:8 189:17
relations 128:14
relationship 144:25
150:21 180:2
relationships 147:25
relative 40:25 46:5,7
50:1,2,3,7 51:20 87:25
93:11 97:18 102:25
114:4 127:1,18 129:13,
19 130:8 136:22,24,25
137:1,25 154:5 161:19
relevance 45:10
relevant 65:15 90:15
reliability 112:10 245:22
reliable 19:24
relied 44:14 104:25
111:8,10,15 170:7

rely 10:4 111:18 112:2,
16,17 248:19
relying 149:4
remain 23:9 233:5
257:21
remained 40:14
remaining 172:21 173:2
234:14 285:21
remains 107:6 111:2
132:22 140:15 232:25
remediation 10:25
remember 46:4 116:3
123:14,15 135:18 148:12
199:11 201:16 269:8
279:14
remind 176:5
removal 231:16,18
232:11,13 246:8
remove 107:4,5 261:4
removed 90:11 121:15
165:5 232:3 248:13,17
257:19
removing 248:7 256:20
264:15
render 66:8
rendered 85:20
renewable 153:8
repayment 80:21 140:10
repeat 56:4 176:14
198:22 261:20 281:25
rephrase 204:21 209:21
replace 20:4,7,14
replaced 26:10
replacement 10:24 77:13
79:7 245:19

replacements 21:7
replacing 14:8 20:22
report 11:9 13:8 17:10,
12,15 22:2,7,16 30:8,23
39:4 131:12,21
reported 83:20 87:21
reporter 191:16
reporting 111:2 276:23
reports 30:8 82:16
represent 63:19 69:13
73:6 88:17 109:5 191:13
193:8 231:13 241:15
242:3 246:21 249:19
250:10 268:15
representation 58:22
98:21 241:3 245:6
representations 252:13
representative 98:19
263:18
representatives 231:6
represented 222:7 254:3
273:20
representing 6:24 7:6,8,
14
represents 230:6,21
268:16 269:19
request 23:18 74:7
174:22,24 175:3,7,13
176:20 177:14,22 178:13
179:9,10 189:10 190:5
192:19 194:18 213:20
220:20 254:1,7 270:12
274:13 275:5,11 276:19,
25 277:6 279:13,15
requested 74:17 255:10
requesting 27:23

requests 18:14,18 179:8
253:19

require 39:19 68:2
116:19 129:20 130:9
137:3,13,17 235:25
264:14,24 267:14

required 74:18 134:16
141:13 166:14 178:19
181:13,18,24 182:22
201:4 204:10,15 207:22
223:15

requirement 78:18,23
91:20 92:18,20,21,23
139:3 165:10 166:22
168:18 169:8 178:23
179:12 180:23 185:8
187:13 195:4,20 196:9
197:25 198:5 199:1,4,15
201:10,22 203:7,9
211:21,25 212:2 217:6,
10,11,15 219:12 223:6
228:23 229:1,17 230:23
231:2 234:16,18 278:19
279:3 281:8 282:6

requirements 33:15
59:23 77:13 100:22
165:20 167:10 168:8
169:19 174:10 181:5
185:12,16 186:2 187:4
188:6 212:13 223:1
278:23,24

requires 38:5

Reserve 40:19

Reserve's 46:9

reside 241:5

residential 151:10

resolution 150:11,12,18,
24 161:20,23 238:23
251:24 252:1

resource 59:24 263:16

resources 105:16 153:9
191:17,21

respect 10:16 11:4
154:14 157:10 159:2
182:2 238:13 255:4
263:2,12 271:2,3 278:18

respond 198:14 240:2,6

responded 190:9

response 10:21 123:15
174:21 175:13 176:20
177:14,22 178:13 189:10
190:10,13 252:14 253:20
274:12 275:18 277:10,11

responses 213:20 240:7

responsibilities 33:25

responsibility 60:5

responsible 33:19,21,24
64:6 141:7 165:24

responsive 237:6

rest 154:14,16,17

restricted 55:16

result 11:19 15:15 20:15
21:1 26:7 28:15 49:5
51:10,11 54:10,16 63:10
83:23 106:17 107:1
110:25 111:1 121:19,20
166:14 169:23 182:13
194:10,12 195:14 205:20
211:6 234:17 244:8
248:10 257:13 261:6

resulted 15:17 22:9
57:22

results 41:20,24 49:3
60:6 65:6 72:7,13,14
83:10 211:1 213:11
231:1 233:15 259:10
262:6,13

retail 111:15

retained 21:8 116:25
117:3 149:5,10

retention 109:2,9,13,17
110:6,10,17,21 116:18

retire 183:10

retirees 166:11 173:14
179:15

retirement 167:6,11
194:5 232:20

retires 173:10

retroactive 173:1

return 16:4 37:14 38:1,5
39:3,17,19 40:14 43:1,8,
14 49:4,13 52:10,15 53:4
54:11 56:15,17,21 58:13,
15,25 60:3 65:21 66:24
67:1,5,25 68:1 84:4,20
88:24,25 90:23 96:4
129:20 130:10 137:3,6,
14,16,17,22 138:2,3
139:9,22 140:21 141:12
142:5,15 152:18 153:14,
17,18,21 154:12,21,23,
24 160:19 165:25 168:1,
9,13 169:21 172:12,13,
15,20 182:19 184:19,21
192:5 194:2,11,15
195:21 196:5 201:3,25
202:12,18 206:6 212:14
213:9,10 215:5 216:8,13,
14,18,25 218:4 219:24
220:15,19 221:7,21
225:20 226:3,6 230:13
234:24 235:1,10 249:2
252:20 267:14 271:6
275:24 276:4,23 279:17
280:5 284:18 285:19

returned 283:24,25
284:6,11,20,25

returning 283:12 285:14
returns 40:11 54:1 64:21
72:18,19 85:5 87:3 89:22
90:12 92:17 104:25
111:20 143:22 173:12
183:4 193:24 194:2
reveal 224:23
revenue 18:15 24:4
33:15 50:10 57:5 78:18,
23 79:5 91:20 92:18,20,
21,23 139:3 140:14,16
165:10,20 166:21 168:7,
18 169:8,19 174:10
178:23 179:12 180:22
181:5 185:8,12,16 186:1
187:4,13 188:6 195:3,19
196:9 197:25 198:5
199:1,3,15 201:10,22
203:6,9 209:14 211:20,
25 212:2,13 217:6,10,11,
15 219:11 228:23 229:1,
17 230:23 231:1 234:16,
18 249:22 250:10
260:16,22 265:16
278:19,23,24 279:3
281:7 282:5
revenues 57:4 229:2
review 21:3 56:23 57:20,
21 138:7 154:5,9,24
156:14 207:10 231:17
233:19 257:15
reviewed 45:7,11 133:19
136:11,12 145:3,6 231:7
255:25 257:14 261:10
reviewing 30:18 59:19
131:11 233:20 259:3
262:4
revised 143:16 179:5
revolving 55:14

rider 18:19 158:4 283:6
right-hand 124:15
ring 22:8,12,13 31:2
53:14 121:10,22
ring-fencing 30:25 148:4
rise 185:18 186:4 202:13,
14 203:12
rising 280:15
risk 17:20 20:8 30:24
31:6,12 41:18 43:5,12
45:6 47:6 51:24 52:11
56:2 58:21,23,25 59:8,
11,12,13 60:3,5,9,17,19
61:3,4,17,20,25 62:1,3,7,
9,13 63:12,20,24 64:1,3,
7,8,14,22,25 65:11,12,21
66:9,13,14,17,18,21
67:11,13,14,17,20,21,23
75:2,3,4,5 76:8,9,18
77:17 79:1 80:1,22,23
94:12 96:22 112:25
113:1,3,6,7,9,11,12,17,
25 114:1,8,9,16,20,21,22
115:4,14 121:20,24
130:1,2,5 133:12 137:12,
13,15,20,22,23,24 138:3,
6 141:4,6,9,10,11,12
146:2,4,11,16,19 148:5
151:22,24 157:10,11
158:15 159:2,10,24
161:5 183:5
risk-reduction 65:14
risks 51:6 59:3 64:20,24
65:18,23 113:18 114:23
115:5 149:11,15,16
151:19
risky 71:5,11 77:15
120:4,16 130:9 137:2,16
river 245:22

road 106:11
Robert 6:17 7:5 32:12,23
33:3 189:13,21 190:25
260:4
Rocky 246:16
ROE 18:16 23:17,19
50:12,14,17,23,25 53:1,
12 56:5,9 57:9 61:11
65:15 72:5,14 74:1,17,18
123:14,20 125:1,18,19,
22 126:2 137:6 142:2,10,
20,23 143:6 144:1,5,6
243:20 244:25 245:10
252:9 272:15
ROES 49:18,22 82:20
124:4 143:10,14
role 33:23 39:17
rolled 257:4
room 8:5 10:4 35:1 241:9
roughly 50:13 78:23
91:15 154:6 232:5
round 67:19 277:17
rounds 236:17,18
row 123:19 230:21
231:15 234:3 235:12,22
247:11,18 271:4
rows 232:18 249:1
rule 243:13 244:25
ruled 169:6 273:2
rules 174:2 283:23 284:5
ruling 123:13,24 124:3
rulings 124:12
run 25:5 183:23 259:12
runs 25:18 276:22
rushing 235:7

Russell 7:24,25 24:11,
12,14 122:11,20,22,24
125:9,10,16 149:19,20
171:3,4,7 175:8,14,19,25
176:7,15 198:17 201:12
203:18 208:14,16
213:15,16,18 237:2,4,5
238:1 273:10,11,13
275:4,7,11,13

Russell's 122:9

S

Sabin 6:15 32:8,18 34:22
35:5,22 37:1 43:21 68:8
116:11,14 125:12,14
130:16,18,22 131:8,10
149:23,25 162:9,18
163:12 164:9,18 170:12
175:5,11,18 189:12,21,
25 190:3,25 196:25
197:2 198:15,16,24
199:10 214:11,19 215:23
216:1,4 226:16 275:6,10

Sachs 54:9

safe 15:16 19:24 84:6
158:13

safety 111:14

sake 39:13 124:1 138:20
204:16 229:8 261:16
268:7

sale 34:4

sales 76:16 79:5

Salt 8:24 227:13

Sam 162:24

sample 98:19

sand 159:23

satisfied 53:1

satisfy 42:7,11

save 63:16

savings 232:6 247:8,13,
14,15,22,23

SCANNA 31:13

scenario 63:12 184:2
217:2

schedule 178:12

scheduling 26:17

scope 199:9

Scott 7:19

screening 104:13,15

screws 106:19

section 13:12 15:1 16:8,
13 17:21 18:9,12 30:24
31:4 52:21 127:21,22
129:2 131:18 132:2
133:9 171:11 230:5,20
232:14 245:12

sector 60:12 76:10
115:9,12 151:19

sectors 41:3

secured 121:1

securities 33:21 34:6
99:15,19 100:1,7,24
101:1,3

seek 99:12,14 101:6
155:12 199:23

seeking 81:16 279:8

seeks 259:19

sees 156:6 238:3

segment 47:18

self-sustaining 206:22

selling 31:9

Semantics 120:14

seminars 165:1

send 134:21

senior 191:16

sense 114:20 158:23,24
200:15 251:23 280:24

sentence 13:8,14 16:13
23:22 63:4 73:24 80:18
81:6 82:1 128:23 129:1
140:2,5 142:8,17,19
173:16 177:9 191:3,5

separate 177:5

separately 261:5

September 11:2 73:7,21
116:11,14 123:6 124:13,
21 142:7 143:2,3,17
253:19,20

series 214:25 283:11

serve 37:21

service 6:4 10:22 19:24
63:9 73:9 76:3 88:19
99:21 100:17 131:12
166:24 167:7,16,20
169:18 171:25 172:6
173:2 179:22 180:6,9
184:9 193:21 194:6
197:10 199:14 208:8
234:14 235:13,14
245:14,17 248:17 253:1,
6 256:23 257:1,6 264:5,7
276:6

serviced 75:14

services 7:6,9 13:9 44:13
48:22 179:23 188:24
202:24 248:14,16,20,23
263:13,14 264:8,10,11,
14,24

set 24:25 25:2 31:3 38:2

56:9,14 180:14 214:10
217:17 258:15
settled 19:7
settlement 26:9 53:20,22
85:23 86:17,18 88:4
191:19,20
settlements 19:8
severance 247:19
shaded 230:4
share 70:14,15,21
234:12 258:13
shared-type 264:11
shareholder 192:2
shareholders 17:2,4
61:2 66:19 119:16 186:3
195:20,24 215:2 219:17
221:20 268:22 269:1,20
278:7,12
shareholders' 221:19
shares 222:14
sheet 42:4,5 82:5 99:11
101:14 265:21 269:17
sheets 101:11
shift 252:20,23,24 273:4
shifting 256:8
shifts 256:1
shock 284:18
short 122:12 203:15
234:19 235:8 242:10
short-run 111:11
short-term 133:17
shortfall 63:21 64:25
217:9
shoulder 11:25 17:2,4

shouldering 12:4
show 98:7 106:16,20
119:15 205:20 235:23
245:4
showed 12:11 83:15
showing 11:16 131:14
261:10 262:16
shown 66:22 109:18
110:1 111:1,14 122:1
138:10 247:18
shows 25:24 100:11
109:25 110:16 112:2
116:24 124:3 178:14
247:1 275:22
shrunk 274:24
sic 110:11
side 16:6 34:4 124:2,15
184:12 202:25 210:24
284:22
sides 257:10
signal 150:19 161:24
signaling 160:21
significant 31:5 61:14
64:2,8,22 65:10 67:14
96:21 104:16 107:9,25
108:4 146:2 155:8
219:18
significantly 21:1 57:25
61:16 62:3,11 97:3
196:11 255:11
silence 250:2
similar 65:25 99:17
101:24 169:23 170:9
217:12 238:1 257:23
simple 187:7 243:19
simplify 240:25 241:23

simplifying 222:19 229:9
simply 38:5 53:1 55:12,
17 64:10,16 119:3
121:17 139:14 161:13
single 98:11 203:2,9
single-item 203:3
sir 35:14 84:16,19 147:12
148:22 162:6 265:10
sit 65:4 66:7 104:3
sitting 206:14 278:11
282:22,23
situation 28:23 66:3
95:25 96:6 102:7 115:8
120:25 121:8 136:1
161:16 222:13,18
size 14:4 95:11
sketch 33:6 163:1
slide 69:14
slightly 40:1 63:23 87:13
105:24 114:12 230:10,13
231:10 234:1 236:6
247:25 252:23 255:21
273:4 276:24
slip 100:15
small 88:18 94:5 178:3
Snarr 7:4,7 21:16,17
71:18 170:22 175:15,24
176:4 236:15 237:24
238:20,21 251:7,8,14,20,
21 258:17,21 265:8
282:21
some-odd 253:23 260:19
261:21
sophisticated 156:22
sort 15:18 66:23 75:17
155:3 184:5 222:21
241:19 284:16

sorts 59:23	76:19,25 235:21 254:12	227:10,12 264:21
sound 92:11 93:3	spent 26:3 27:16 42:3 235:18,19 266:14 269:13,16,18	stated 19:23 20:3 40:21 76:24 89:2 91:11 92:8 109:1 146:24,25 191:2 211:17 220:4 241:25
sounds 108:10 161:3	Spire 105:21 107:5,24 108:1,2 110:25	statement 72:17 101:24 103:8 146:21 174:1 191:1 225:2 250:2
source 55:19 166:18 168:8 169:14 210:9 213:7 220:7,8 222:12 223:3 224:1 225:19	spoke 87:14	statements 239:8
sources 187:22	spread 94:4,16	states 18:12 48:21 70:13 73:25 81:7 100:23 173:9 190:19
South 8:24 227:12	St 245:25	stating 179:22
southern 245:24	stability 150:22	station 245:22
Southwest 102:12 124:3	stabilizes 192:12	status 30:14 158:14
space 241:25	stable 13:10 14:18 20:20 31:11 40:14 133:11,12, 13 147:22	statute 155:11
spaces 249:25	stagnation 16:18	statutory 13:23 155:18
speak 39:10 62:4 150:13 156:12 182:4	stand 32:10 229:20 230:19 236:21 277:17	stave 16:17
speaking 73:16 100:1 120:24 121:10 155:23 156:17 161:21	stand-alone 71:3	stay 15:19 122:3 203:21 204:3,4
speaks 158:17	Standards 171:15	stays 225:25 279:22 280:9,11
special 154:20 264:7,24	standpoint 129:16 132:6 207:21	Steel 8:5 26:5,9
special-type 264:22	start 6:4,12 10:6 12:21 13:7 36:1 51:6 63:3 69:25 75:24 106:10 164:21 171:17 199:13 223:12 279:19	stemming 166:14
specific 63:12 118:8 120:24 145:14 153:4 180:15 202:24 229:16 230:9 258:2 264:2 265:4	started 190:16 223:20	step 12:18 28:16 118:5 121:15
specifically 50:20 56:18 69:24 190:5 233:15 246:12 268:19	starting 6:9 33:14 81:7 159:10,11 171:9 173:6 178:16 221:12	Stephenson 6:18 165:12 226:25 227:2,4,12,14,18 228:7,19 239:9 240:9 241:5,9 243:12,15,17,24 244:1,6,11 249:6,11,14 251:15 271:2 273:24 274:7
speculate 281:9	starts 10:5 193:16 223:13	Stephenson's 116:23 228:9 237:7
spell 191:15	state 8:21,24 32:21 63:11 64:7 100:6 112:24 141:22 159:1 162:21 188:12 204:4 222:9	steps 19:25 252:22
spelled 32:24 33:4		
spend 17:19 65:9 235:23 258:19		
spending 11:20 24:16, 24,25 25:2,13,22 33:17		

Steve 7:14	155:18 156:18 158:1	subtract 277:15
Steven 7:7	243:20 249:2 266:18	suffered 108:4
stipulation 191:25	267:1 269:25 270:1	sufficient 95:11 257:16
221:16	271:7,16 272:4,8 273:3	suggest 40:2 105:24
stock 111:12,24	structures 78:7 81:24	112:25 117:24 130:6
stocks 40:24	82:4 87:17 102:3	253:5
stop 21:6 173:9 186:8,11	struggling 239:3,18	suggested 199:1 210:3
stops 173:10 184:5	study 44:20 151:7	259:18
storage 107:12	258:24 259:9,19 261:7	suggesting 118:4 196:12
story 278:9	studying 151:13	203:1 264:3
strain 14:11 15:11 246:6	stuff 221:7	suggestion 211:1
248:12	sub-accounts 257:7	suggests 39:25 210:2
strained 135:5	subcategory 79:22	212:7
stranded 61:5	255:19	sum 250:17
strategic 33:24 34:10	subheading 76:8	summarize 10:10 88:24
Street 8:24	subject 42:6 99:13,20	144:24 228:19 229:19
streets 26:19	103:17 116:23 154:22	240:14
strength 38:3 161:19	155:10 241:9 261:3	summarized 171:13
strengths 147:15,19	265:5 272:10	282:21
strict 283:23 284:5	submit 192:19	summarizes 229:10
strikes 105:25	submitted 12:23 34:14	262:18
strong 37:25 121:3	163:13 164:1 177:23	summarizing 141:21
161:24	230:22	summary 15:2 19:12
strongly 53:17	subordination 71:10	37:7 43:19 44:5 63:20
structural 71:9 121:19	121:13,19	79:16 164:4,20 185:6
structure 19:6,9 37:15	subsequently 46:10	229:9 236:9,22 237:7,20
38:1 42:1,2 43:3,4,6,9,	53:19	239:8 240:9 243:25
11,12 49:14,19 50:22	subset 115:9	244:2,12,21 249:5 252:6
51:4,13 56:11 80:12,20	subsidiaries 98:8,10	262:18,25 272:22 284:14
81:17 82:14 87:8,18 88:6	117:8,13,18 118:2	285:22
93:4 96:3,19 99:13	subsidiary 56:2 118:13	supply 64:25
103:3,8,12,22 113:14	119:8,9,25	support 17:24 22:22 79:9
117:2 121:13 134:10,19,	substantial 230:7	103:20 128:17 132:19
20 135:25 139:10 140:9,	substantially 101:21	133:4 155:22 158:8
13,16,24 141:1 148:3	230:19	160:21 164:25 238:17
	subtle 240:3	239:20
		supported 78:3 128:1

165:12
supporting 110:15
160:20 163:9 238:9
263:3,4,5
supportive 18:10 79:23
80:2,7,8,9 122:2 128:13,
17 134:4,6,13 156:9,19
157:10,22,23 158:8
160:25
supportiveness 158:17
supports 78:6 158:14
259:10 261:7
suppose 284:22
supposed 85:19
surcredit 283:14
surcredits 283:12
surplus 249:22 250:10
265:16
surprised 252:11 258:10
surrebuttal 175:23,24
176:6 179:1 231:17
236:11 237:11 238:3,4
240:11,18,21 241:19
273:18 274:4
sussing 158:24
sustainable 106:22,24
127:24
sustained 17:24 128:6
132:17,24
switch 191:8
sworn 8:16 32:13 162:16
227:5
symmetrical 168:25
169:16,19 170:3 186:19
187:1 195:24 210:7
211:11 216:20 219:25

symmetrically 166:5
170:2 213:12
symmetry 219:9
sync 161:5
syndrome 202:7
system 14:9 159:8 233:6
245:24
system-wide 232:22
233:10,14,18
systematic 47:6
systemwide 257:22,24,
25

T

tab 271:16
table 25:18 98:2,8,18,21,
24 101:16 104:2 105:7
229:10,19 250:21 255:17
273:17,19 275:17,22
277:4
tail 59:12
takes 88:19
taking 19:25 60:5 61:16
91:15 106:11 119:10
134:20 152:16 173:3
186:19,20 196:14 201:8
242:12 280:8
talk 15:9,12 41:5 77:8
81:19 83:9 86:5 91:19
92:16,17 94:3 96:17
113:6 126:5 136:20,24
138:9 169:17 181:12
221:6 235:14 282:16,24
talked 19:3 21:4 46:6
51:3 81:20 85:9 90:8
94:2 95:24 107:19
110:23 114:13 127:17

129:22 136:10 141:9
146:3 148:6 156:9
159:14 203:18 225:2
talking 30:21 65:23
75:16 79:7 85:4,17 100:3
107:17 114:5 120:3
154:15 177:10 178:24
197:5 207:11,13 217:25
243:14
tallied 250:14
target 42:22,25 87:15
140:25
tariff 6:7
task 39:22 92:14
taught 109:3,10
tax 12:25 13:17,21,23,25
14:1 15:6,10,24,25 16:2
17:3,16 40:25 41:3 46:10
126:23 127:16 144:4
165:2,8 168:20 169:9
231:12 232:4 234:4,6,13,
23 260:3 283:3,4,10
285:14
taxes 91:16,19,25 144:1
168:19 205:21 259:20,23
261:6 282:17 283:2
285:10
tedious 112:6
teens 126:21 127:9 128:5
telecommunications
33:16
telling 224:17
temperatures 63:22
ten 33:17 142:20 165:4
282:23 285:5,6
ten- 242:13
ten-minute 188:18

ten-year 234:8 235:5	62:23 65:4 75:1 76:20	70:7,9 74:19 79:8 85:4
tend 38:18 42:11 87:25	80:16 82:10,24 83:4	92:16,25 159:20 160:19
term 55:10 70:24 150:14, 24 151:23 155:3	88:23 89:10 93:2 97:23	216:6 231:22 232:23
terms 33:13 37:22 54:25	98:2 103:3 104:10 109:1	239:5 241:23 251:10
59:5 101:25 103:6 113:4	110:12,15 111:5 112:20	257:4 260:2 282:19
114:18 151:4 160:4	116:23 117:6 118:21	thinking 159:6 223:4
203:8 219:10 221:17	119:2 120:2,8 121:6,22	286:10
262:1 263:10	130:12,20,24 138:12	third-party 276:22
terrible 183:18	139:25 140:6 145:21,23, 25 146:10,17 162:5	Thomas 191:14
territory 77:1	163:8,14,20,25 164:1,5	Thomson 7:1 259:5
test 57:10,11,13 58:12	165:4 169:17 170:2	thought 87:7 153:25
150:7,24 154:2,23	171:9,16,24 173:7,9	159:11 179:5
156:21 157:8 161:6	174:9 175:9,12,16 176:6	thousand 261:21
165:16 174:14,16 179:4, 10,24,25 180:3,25 181:1	182:11 189:18,24 190:6, 11 191:14,18 193:9	threshold 57:13
228:24 230:12,22 232:3, 5,11,19,25 234:25 236:1	196:1 197:11 203:10	tie 269:21
246:4,10,20,22 247:5,13, 17 248:18 255:4,10	205:19 207:1 208:24	time 11:8 38:14 42:3,8
264:16 268:17 274:15	213:19 220:4 221:10	44:8 45:15,22 46:3,11,24
277:15 281:8,10 283:8,9	226:12 227:19,23 228:3, 6,9,20 231:8,17,22	53:18 54:4 55:5 59:10
testified 8:17 20:17	233:17,21 235:15 236:9, 11,18 237:7,8,11,21	60:1 61:23 63:17 67:4
32:14 34:11 52:20,25	239:20,22,23 240:2,11, 12,14 241:4,6,22 245:14, 15 246:24 247:1,9	68:23 72:18,19 75:11
55:24 57:7 93:21 138:16	248:15 250:16,18,19,22	81:15 114:3 127:4,11,19
144:23 145:2 162:17	251:2 253:2,17 255:11, 17 260:1 265:1 266:10	132:25 137:25 146:2
195:17 208:21 227:6	271:11,12 272:3,9	154:22 159:25 161:3,13,
263:24	273:18 274:4,11,12	23 172:3 173:11,16
testify 7:16 95:20 162:10	275:3,6 278:13 281:24	178:22 179:5 180:21
testifying 126:10 138:22	283:18,20	185:16 189:4 205:5
testimonies 37:7 229:10	Texas 53:10 85:10,11,16	220:5 221:2 229:6
testimony 6:19 8:4 9:4,9, 13 10:2,11,12,16,20	theoretical 37:16	234:17,19 235:2,8
12:2,15 13:5 14:23 17:8	theories 160:7	242:10 252:16 254:2
19:3,23 24:19 28:10 32:4	theory 212:23	256:7 258:19 260:12
34:15,17,19,23 35:7,9	thing 19:2 46:20 83:22	269:20 280:2,19 281:15,
36:2,6 37:3,12 46:1	103:24 178:1 241:22	16 283:25 284:12 285:1, 2
48:18 52:21,22 53:6,7	270:8	timeliness 77:19,21
57:14,22 58:18,22 60:2	things 17:17 22:7 27:17	111:11,13
		timely 80:5 158:7
		times 28:22 29:6 34:11
		38:16 91:15 106:8 226:2, 6 239:1

timing 108:11 145:5,7,
12,19 182:3
title 12:24 17:10 175:5
229:24
titled 151:9 230:1
today 6:9,23 7:10,21
9:13 22:4 31:20 46:6
114:5 126:6 127:18
156:9 162:5,10 174:12
183:9,11 189:18,19
218:2 228:3 241:9 244:6,
16 245:13,20 263:24
264:25 277:17 278:11
281:12
Today's 13:14
told 146:14 152:17
190:22
tolerance 183:22
tomorrow 241:13 244:7,
9,16 251:9 265:6 273:9
278:15 285:19 286:11,15
tonight 162:11
top 79:20 104:4,6 116:1
131:1 132:1 142:1 175:6
230:4
topic 80:12 247:11
total 63:24 120:21 174:4,
5 233:6,10 246:24 247:1,
4 253:22 255:2,20
257:14 266:13 268:5
273:3 276:11 277:15,24
278:2,9
touch 262:25
Towers 276:22
trace 78:19
track 18:25 203:11
243:14,19 271:19,20

tracker 10:14 11:4,15
12:4 20:5,9,13,18,23
21:8 25:1,13 77:6 79:7
203:11
trackers 77:10,14,24
78:4 156:20
tracking 180:13
traded 33:18 42:4
training 165:1
transaction 34:12
transactions 34:3,5,7,8
transition 75:13 76:8,9
transmission 56:19
169:9
transponder 10:24
232:16,19,20 233:11,20
256:14,23 257:20 258:2
transponders 233:12,19,
22 256:20 257:3,8,15,17,
21
transportation 88:19
tread 274:7
treasuring 34:6
treasury 33:19
treated 166:4 170:1
171:12
treatment 165:17,19
169:6 177:8 196:4 205:9
230:11 231:12 232:19
234:5 281:22 283:7
trend 44:8,18 45:24
46:17 47:2 48:1,6 81:14
143:6
trends 46:25
triannual 56:23 154:2,8,
9,24

triggered 126:22 127:15
trillion 40:20
trouble 238:8
true 51:2 70:23 72:4,12
74:16 77:4 78:11 79:2
82:20 89:21 96:9 99:7
117:5 139:6 180:13
195:2 203:13,20 204:2
217:19 252:4,10,15
253:10 254:5,8 255:4,8
256:19,25 257:8 259:15,
17,22 262:17 265:22
280:10
true-up 180:13
truer 216:6
trust 165:14,16 166:9,12
167:9,14 168:1,5,14,24
169:4 172:12 182:9,14
197:7,13,20 199:20,21
200:4,15 203:25 204:6,
15 206:14,21,22 209:7
225:15
tune 16:1
turn 14:13,22 16:7 17:7
22:16 24:18 30:19,23
38:4 48:18 63:1 70:10
76:5,18 80:12 82:22
104:9,20 111:4 112:19
115:15 122:25 139:24
147:11 171:8 184:21
188:6 191:22 193:13
258:22 281:23
turning 41:25 82:19
235:12 273:14
turns 279:9
two-thirds 14:15
type 30:25 42:10 51:24
151:21,22 156:6,17,18

types 42:11 56:19 153:5
157:15 264:15,24

typical 151:12 256:10

typically 38:21 44:24
55:7 66:12 71:8 113:8,16
121:18 144:6 156:15
220:19

typographical 35:8

U

U.S. 7:20 12:24 13:22

UAE 165:16 166:15
169:11 217:4 234:8
246:19 263:4 273:15
274:3

UAE's 273:16 282:22
283:14

UEA 11:22

Uh-huh 205:2

ultimate 23:16 183:9
252:9 253:11

ultimately 236:12 244:25
247:8,25 266:6,22
272:24 273:5 276:8
280:1

unadjusted 45:18,21,24
46:19

unamortized 235:1,11

unappropriated 116:25

Unbalance 41:7

uncertain 61:7,12

uncertainty 60:24 75:19
151:22,23 152:3

unclear 177:2 270:10

underearned 204:17,25
205:5

underearning 21:1,2
204:24 205:7

underpinned 80:1

understand 27:9 28:12
29:7 42:17 46:13 55:3
56:10 65:5,19 67:9 85:21
86:1 89:6,8 92:1,4 94:11
95:20 98:6 115:2 117:24
121:22 123:3 124:14
126:24 128:3 129:9
132:5 137:6 141:18
142:3,13,25 146:4,9,15
152:17 155:4 157:13,17
166:2 167:3 177:9
198:17 199:7 201:16
202:15 206:9 207:7
222:11,13 224:15,17
236:20 243:22 244:12
258:4 259:5,8 262:1
280:25 281:2 285:8

understandable 158:3

understanding 24:25
39:10 48:17 77:7 86:4
87:24 95:9 125:17,21
126:1 133:2,6 144:12
157:9 166:6 174:18
182:6 183:3,4 198:19
200:2,22 204:9,13
207:11,23 241:2,16
272:14 285:19

understood 53:21 89:10
107:14 120:2 121:6
267:15

unduly 53:1

unfair 61:4 195:17,23

unfortunate 159:5

unknown 67:14

unlike 38:7

unmitigated 68:1

unorthodox 239:24

unpack 113:5

unpredictable 145:11

unquantifiable 75:18

unreasonable 12:6 17:5
20:5,11

unreasonably 105:25

unusual 285:23

up 26:14 27:16 46:7
54:12 66:22 72:17 77:20
82:17 91:25 92:3 96:4
99:10 103:7 106:13,19
110:4,20 112:3 117:4
118:4,5 125:15 130:20
132:12 134:21,24 135:1,
9,14,15,24 140:3,4,17
149:7,10 156:15 157:19
159:5 161:5 176:8
178:17,21 188:7 197:24
198:18 199:24 203:13
208:4 221:1 226:7
235:16 242:6 250:14
251:18 253:11 255:21
257:4 258:11,16 260:7
266:23 267:4,5 269:7
270:13 273:22 276:11,12
277:16,17 279:1 284:19

update 17:11 30:21 73:7,
20 81:5 131:15 141:16
232:6 233:22 250:20
255:22 276:17,20,24

updated 143:2 233:24
252:18 258:3 273:7

updates 256:8,11

upper 39:8 83:7 84:1

uproot 87:18

upshot 278:21

upstream 133:18

upward 43:8,14 52:11,19 97:24 143:5		108:13,18
usage 76:17 229:3		
Users 8:1		
usual 10:3 208:22		
Utah 6:6,14,23,24 8:1,9, 24 9:3 14:6,20 23:23 32:9 50:21 56:3 58:1,6 61:15 62:2,24 71:2,4 77:1 124:2 128:1 133:14 134:15 148:1 151:12 152:8,9 157:14 163:9 165:13 166:7 174:20,23 227:17 245:23 249:19,24 276:9		
utilities 6:21,24 12:25 13:11,22 37:19,21 41:2,4 42:9,10 45:12 46:18 48:1 54:23 55:7 66:14 70:4 72:15 74:1 81:8,23 91:4 98:19 101:20 102:17 103:13 120:20 142:5,11, 23 150:5 156:8 164:24 181:16 249:19 253:21		
utilities' 40:24 41:1 48:6		
utility 6:12 13:11 14:16 30:25 31:15 33:16,18 38:1 42:4,6 45:16 50:21, 23 53:10 54:4 60:21 65:9 66:3,11,16,21 67:13,15, 16,19 71:11 76:10 84:6,9 92:12 93:2 103:15 111:24 118:20 120:17 150:9 152:20 154:15 165:1 182:1 184:5 264:21		
utility's 14:2		
utility-specific 67:23		
utilized 232:21		
	V	
vague 214:18		
Vaguely 214:15		
Valley 159:8		
valuable 29:6 161:14		
valuation 54:16 111:24		
valuations 55:1		
valued 66:19		
values 167:18 172:2		
variability 113:10,11		
variance 26:14 27:1 230:17		
variety 27:17 101:16 107:22		
verbal 239:8 243:25		
verbally 258:5		
verify 272:25		
version 70:2 275:9		
versus 15:5 52:13 136:15 142:21,23 157:11,22 180:4 202:22 217:14 219:11		
vice 191:16		
Victor 32:24 33:4		
view 39:17,21,23 40:8 43:16 45:6 47:6,7,22 49:10 52:25 58:21 62:6 65:3 67:5 133:14 137:12 146:14,15 155:21 156:23 160:23,24 230:18 244:11		
viewed 56:1 79:3 80:10		
viewing 129:18		
views 39:10 47:23		
		Virginia 55:21 56:8 58:11 86:5 144:9 152:15,19 153:7 154:3,15 169:5
		virtually 120:15
		virtue 204:23
		volatile 40:25
		volatility 40:22 46:5,7 172:18 234:16 235:7
		volume 76:16
		voluntary 263:15
	W	
		W-O-H-L-F-A-R-T-H 191:16
		wait 76:20 285:12
		waiting 269:18
		walk 22:17 24:24
		wanted 110:24 146:23 171:13 173:15 235:15 237:25 240:4,15 247:12 275:14
		wanting 135:7
		warned 277:16
		wash 205:24 219:25
		watch 115:10 132:11
		Watson 276:22
		ways 38:7 41:3 83:11 161:21
		weak 15:5 93:10,13 94:9 102:24 126:18 127:4,5, 12 136:21
		weaken 17:17
		Weakened 16:9 128:23

weaker 137:1	word 27:1 44:9 202:3	4,10,24,25 180:3,25
week 86:17 88:4 190:24	words 96:14 143:20	181:1 183:7 204:24,25
weigh 84:2 236:14,15 237:2	149:5 159:23 166:24	222:21 223:1 236:6
weighed 127:9	203:4 205:22 219:23	255:4 256:11 263:19
weight 48:23 84:11	work 16:21 33:13 45:13	264:19 269:9 275:25
weighted 49:6,7 103:11, 23 184:6	60:23 163:2 171:18	280:10,22 284:19
West 169:4	232:24 233:18,25 236:17	year's 193:21
Wheelwright 7:1	251:9 252:2 256:15,22	years 12:12 17:19 20:21
White 29:20,21 157:2,4	257:18,22,25 264:13	33:14,17 44:25 107:12
176:9 219:4,6 242:8	286:4	108:11 126:21 131:9
243:1,2	working 14:3 66:11	133:17 145:9,15 153:23
wholly 218:5	230:25 252:17,19 258:22	156:21 177:16 178:20
widely 44:14 47:4 109:3, 10 111:8	273:25	181:8,10 201:13,19,23
willingly 16:3	works 185:15 203:17	202:17 204:18 223:13
win 192:10	211:20 268:2	234:14 235:21,22 278:1
win-win-win 192:11	worksheet 268:10	281:10 282:22 285:4
wind 106:13 132:12	world 200:22 205:25	years' 111:19 146:2
153:16	worry 280:18	yet-to-be-constructed
withdraw 15:14 241:19	worse 201:20	155:16
withdrawn 203:22	worth 34:8 212:16	yield 83:13 133:14
withhold 233:2	253:24 276:1	yup 23:13 268:11 272:16
witnesses 6:18,25 7:10	write 258:5,7,12	285:15
39:18 40:2,10 41:13	writing 127:2 258:19	<hr/> Z <hr/>
88:25 89:18 90:16 241:8, 12 249:3	written 193:9	Zacks 105:11,18 107:19
witnesses' 39:4	wrong 132:8 254:24	110:19
Wohlfarth 191:14,18	286:8	Zacks's 108:15
195:5 196:20 209:3	Wyoming 86:17,19,22,25	zeroed 205:18
221:10 225:3	88:5 128:1 148:1	zeros 265:25
wondering 220:21	<hr/> Y <hr/>	
277:12 282:8	year 11:3,11 12:4 16:2	
	18:20 25:6,22 26:13,15	
	27:5,11,16,17 55:22	
	62:10 70:15 87:3 96:10	
	150:7,24 161:6 167:18,	
	25 172:1,11,21 173:4	
	174:14,23 178:15 179:2,	