# APPLICATION OF DOMINION ENERGY

Docket No. 19-057-02

## PHASE I

## HEARING

December 17, 2019

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In re: Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Provisions.

Docket No. 19-057-02

PHASE I HEARING

Taken on Tuesday, December 17, 2019

at 9:00 A.M.

At The Public Service Commission of Utah

160 East 300 South

4th Floor

Salt Lake City, Utah 84111

Reported by: Kellie Peterson, RPR, CSR

A P P E A R A N C E S

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|---|---|
| THE PUBLIC SERVICE COMMISSION: | Chair Commissioner Thad LeVar<br>Commissioner Jordan A. White<br>Commissioner David R. Clark |
| FOR DOMINION ENERGY UTAH: | Jenniffer Nelson Clark, Esq.<br>DOMINION ENERGY UTAH<br>333 South State Street<br>Salt Lake City, UT 84145<br>Telephone: (801)324-5392<br>jenniffer.clark@dominionenergy.com<br><br>Cameron L. Sabin, Esq.<br>STOEL RIVES<br>201 South Main Street<br>Suite 1100<br>Salt Lake City, UT 84111<br>Telephone: (801)578-6985<br>cameron.sabin@stoel.com |
| FOR DIVISION OF PUBLIC UTILITIES: | Justin Jetter, Esq.<br>UTAH ATTORNEY GENERAL'S OFFICE<br>DIVISION OF PUBLIC UTILITIES<br>160 East 300 South<br>Fifth Floor<br>Salt Lake City, UT 84114<br>Telephone: (801)366-0380<br>jjetter@agutah.gov |
| FOR OFFICE OF CONSUMER SERVICES: | Robert J. Moore, Esq.<br>Steven W. Snarr, Esq.<br>UTAH ATTORNEY GENERAL'S OFFICE<br>OFFICE OF CONSUMER SERVICES<br>160 East 300 South<br>Fifth Floor<br>Salt Lake City, UT 84114<br>Telephone: (801)366-0380<br>moore@agutah.gov<br>stevensnarr@agutah.gov |
| FOR FEDERAL EXECUTIVE AGENCIES: | Major Scott L. Kirk, Esq.<br>AIR FORCE LEGAL OPERATIONS AGENCY<br>FEDERAL EXECUTIVE AGENCIES<br>AFLOA/JACE-ULFSC<br>139 Barnes Drive<br>Suite 1<br>Tyndall AFB, FL 32403<br>Telephone: (850)283-6347<br>scott.kirk.2@us.af.mil |

UTAH ASSOCIATION OF ENERGY USERS: Phillip J. Russell, Esq.
HATCH, JAMES & DODGE
10 West Broadway
Suite 400
Salt Lake City, UT 84101
Telephone: (801)363-6363
prussell@hjdlaw.com

AMERICAN NATIONAL GAS COUNCIL: Steve Mecham, Esq.
MIB PARTNERS
10 West 100 South
Suite 323
Salt Lake City, UT 84101
Telephone: (385)222-1618
mecham@milllc.com

# I N D E X

E X H I B I T S

December 17, 2019 9:00 A.M.

P R O C E E D I N G S

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

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

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

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

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

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

MR. JETTER: Good morning. I'm Justin Jetter with the Utah Attorney General's Office. I'm here today representing the Utah Division of Public Utilities. The Division intends to present five witnesses at this hearing: Douglas Wheelwright, David Thomson, Jeff Einfeldt, Eric Orton and Casey Coleman.

COMMISSIONER LEVAR: Okay. Thank you.

Mr. Moore or Mr. Snarr?

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

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

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

COMMISSIONER LEVAR: Okay. Thank you.

Mr. Mecham?

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

COMMISSIONER LEVAR: Okay. Thank you.

Major Kirk?

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

COMMISSIONER LEVAR: Thank you.

Mr. Russell?

MR. RUSSELL: Phillip Russell on behalf of

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

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

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

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

COMMISSIONER LEVAR: Good morning, Mr. Mendenhall.

DIRECT EXAMINATION

KELLY MENDENHALL,

called as a witness, having been first duly sworn,

was examined and testified as follows:

BY MS. CLARK:

**Q. Good morning.**

A. Good morning.

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

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

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

**company?**

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

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

A. Yes.

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

A. Yes.

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

A. I do.

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

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

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

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

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

BY MS. CLARK:

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

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

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

And in my rebuttal testimony, I provided evidence, in response to concerns raised by the Division, that the company is meeting all of its customer service goals, with the exception of two goals that are related to the transponder replacement program. And a remediation plan for those two goals was approved and put in place in Docket 19-057-25, and the company expects those two metrics will be in compliance by September of next year.

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

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

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

The OCS, DPU and UEA objected to that proposal. Their arguments were mainly based around the fact that they determined that the company should just be able to shoulder those additional costs in between the general rate case.  And I provided evidence in my rebuttal testimony that the company is currently already incurring capital expenditures of about $90 million per year outside of a tracker and is shouldering those costs in the general rate case.  And so to add an additional $10 million to that just seems unreasonable.

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

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

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

COMMISSIONER LEVAR: 1.02R?

THE WITNESS: 1.02R, yes.

COMMISSIONER LEVAR: To your direct?

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

COMMISSIONER LEVAR: Okay.

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

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

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

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

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

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

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

So I would like to turn next to my exhibit in my direct testimony, which is DEU 1.05. And DEU 1.05 was a Moody's credit opinion that was issued on January 30th of 2019. And if you go to page 1 of that exhibit, there's a section at the beginning, a section called "Summary." If you go down to the second paragraph, I'm going to read that paragraph.

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

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

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

I think something that's a little easier to quantify is the impact of tax reform on customers. Reducing that tax rate to 21 percent has definitely been a benefit to customers and to the tune of about $20 million per year in reduced rates.  The company, when tax reform was passed, willingly came forth, made the appropriate filings to return that money to customers and it's been a benefit to customers.

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

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

So we were able to depreciate the work of the other parties, in this particular instance, to allow the company to go over 55 percent level of equity.  So currently, we're at about 60 percent.  We are projecting about 60 percent.  And the difference between 55 percent and 60 percent is about $8 million. And so we're asking right now shareholders to fund that, to shoulder that cost. And so now if you look at $20 million of tax benefits to customers, asking shareholders to shoulder $8 million of equity, I think it's unreasonable for the company to not be allowed its 55 percent level of equity.

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

And so in this report, Moody's downgrades the company from A2 to A3, which is still investment grade, but I would like to direct your attention to page 2 of that report, where it lists, "Credit challenges. Base rate freeze through 2020 and tax reform impacts will weaken financial metrics." So the two things I mentioned earlier in January are still a concern to Moody's. "Elevated capital spend over the next three years." And "Highly levered parent that carries higher credit risk."

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

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

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

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

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

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

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

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

COMMISSIONER LEVAR: Thank you.

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

MR. JETTER: I do.

CROSS-EXAMINATION

BY MR. JETTER:

**Q. Good morning.**

A. Good morning, Mr. Jetter.

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

**accurate?**

A. Correct.

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

A. Correct.

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

A. Yes, we did.

**Q. And was that unreasonable?**

A. No, it was not.

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

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

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

A. Correct.

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

**significantly underearning as a result?**

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

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

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

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

A. Thank you.

COMMISSIONER LEVAR: Okay. Thank you.

Mr. Moore or Mr. Snarr?

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

COMMISSIONER LEVAR: Thank you.

Major Kirk?

MAJOR KIRK: No questions.

COMMISSIONER LEVAR: Mr. Mecham?

MR. MECHAM: Just a couple, thank you.

CROSS-EXAMINATION

BY MR. MECHAM:

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

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

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

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

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

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

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

A. Okay.

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

A. 1.01R, the downgrade?

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

A. Yes.

**Q. 101R.**
A. Yes.
COMMISSIONER LEVAR: I'm not sure your microphone is on, Mr. Mecham.
MR. MECHAM: I think it is just not close enough.
BY MR. MECHAM:
**Q. Under the paragraph entitled, "Despite current rate case, financial metrics expected to remain lower than historical levels."**
A. Correct.
**Q. Do you see that?**
A. Yup.
**Q. And then the second part of that paragraph, it says, "However, we also think it likely that the ultimate order of this Commission," I put that in parentheticals, "will authorize an allowed ROE and equity layer that is less than the company's request of 10.5 percent allowed ROE and 55 percent equity layer, since these levels are high for what the Commission has allowed for ratemaking purposes."**
A. Correct. And if you read the first sentence, it says, "We assume that the Utah rate case will boost Questar Gas' rate base, net income and cash flow since the company has not received a base rate increase since

2014."

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

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

A. Yes.

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

COMMISSIONER LEVAR: Thank you.

Mr. Russell?

MR. RUSSELL: Thank you.

CROSS-EXAMINATION

BY MR. RUSSELL:

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

A. Sure.

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

A. Sure. Page 21?

**Q. Yes.**

A. Yes.

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

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

A. Correct.

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

A. Yes, it did.

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

A. It did, yeah.

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

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

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

A. Right.

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

A. Yes, it is.

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

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

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

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

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

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

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

**intended to ask.  I used the word "variance" --**
A.   Okay.
**Q.   -- which was not intended to refer to that last column there.  I was actually just referring to the changes in the budget from one year to the next.**
A.   Sorry.  So will you ask me the question?
**Q.   You're fine.  I will ask it again.**
**The changes in the budget from, you know, 2014 to 2015 to 2016, I'm trying to understand whether that's just because of inflation in any -- you know, inflation changes from one year to the next or if there is some other --**
A.   Honestly, I don't know.  It probably -- it could be inflation.  It could be cost overruns.  It could be -- we had a project that had to be accelerated, and so we moved it up one year and then spent less the next year.  It could be a variety of things.
**Q.   Okay.  Fair enough.  And then do you know what the number in that "Budget" column would be for 2019?  I know we are not quite done with it yet, but --**
A.   I think it is around 70 million.
**Q.   Okay.  And then finally, the increase that you are requesting in this docket is to move that budget number to 80 million?**
A.   Correct.  Well, so if everything were kept

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

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

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

COMMISSIONER LEVAR: Sure.

RECROSS-EXAMINATION

BY MR. MECHAM:

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

A. That's correct.

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

A. You mean on the cost of debt?

**Q. Yes.**

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

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

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

A. Correct.

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

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

**Q. Thank you.**

COMMISSIONER LEVAR: Thank you. Any redirect?

MS. CLARK: No redirect. Thank you.

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

COMMISSIONER WHITE: No questions. Thank you.

COMMISSIONER LEVAR: Commissioner Clark?

EXAMINATION

BY COMMISSIONER CLARK:

**Q. Good morning.**

A. Morning.

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

A. Right.

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

A. Okay.

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

A. Sure.

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

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

So if you turn to page 4 of that report, there's a section that says, "Parent contagion risk reduced by utility ring-fencing type provisions and de-risking events in 2018."

So I think everyone is familiar with the ring fencing provisions that were set in the merger, but if you go to the second paragraph of that section, it says, "Moreover, Dominion Energy made significant progress toward lowering its business and financial risk in 2018. Some of the key features include the reduction of holding company debt by around $8 billion, 5 billion on a consolidated basis, by way of selling three merchant power generation plants and its 50 percent interest in Blue Racer, Ba1 stable, midstream gas business with higher risk operations.

"Furthermore, the acquisition of SCANNA Corp., Ba1 positive, added over $800 hundred of rate regulated utility cash flow to the consolidated operations and provides more geographic and regulatory diversity going forward."

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

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

A. Yes.

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

A. Yes.

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

A. Thank you.

COMMISSIONER LEVAR: I don't have anything.
THE WITNESS: Great.
COMMISSIONER LEVAR: Thank you for your testimony this morning.
THE WITNESS: Thank you.
COMMISSIONER LEVAR: If you can call your next witness.
MR. SABIN: Sure. I didn't want to presume.
Dominion Energy Utah calls Mr. Hevert to the stand.
DIRECT EXAMINATION
ROBERT HEVERT,
called as a witness, having been first duly sworn,
was examined and testified as follows:
COMMISSIONER LEVAR: I think someone may have a cell phone too close to the microphone. We are getting a little feedback.
BY MR. SABIN:
**Q. Good morning, Mr. Hevert.**
A. Good morning.
**Q. Would you please state your full name for the record?**
A. My name is Robert Hevert, last name is spelled H-E V, as in Victor, E-R-T.
**Q. I don't think your mic is on.**

A. How is that?
**Q. That is better.**
A. There we go. Robert Hevert, last name is spelled H-E V, as in Victor, E-R-T.
**Q. And Mr. Hevert, would you please provide the Commission with a sketch of your background, education and your professional experience, please?**
A. Yes. My educational background includes a bachelor's degree with a double major in business and economics, with a concentration in finance. I also hold an MBA, likewise, with a concentration in finance. And I hold a chartered financial analyst designation.
In terms of my work history, I have about 30 years of experience in regulated industries, starting first as a revenue requirements analyst at a telecommunications utility.
And then spending about ten years at a publicly traded natural gas utility. There, I was responsible for much of the company's treasury operations. So I managed its day-to-day cash flow, was responsible for issuing all long-term securities, common equity, referred equity, long-term debt. And as part of my role as the planning function as well, I was responsible for the company's financial and strategic planning. I advised the company and had responsibilities

for the allocation of that capital that was raised.

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

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

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

A. Yes, I have.

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

A. Yes, that is correct.

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

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

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

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

BY MR. SABIN:

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

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

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

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

COMMISSIONER LEVAR: Is this your direct?

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

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

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

Going to page 57 --

BY MR. SABIN:

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

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

**Q. That's okay. Let's start over. Just identify, in your direct testimony, those same lines and we will make the correction.**
A. Yes, I apologize.
**Q. That is okay.**
A. So my direct testimony, page 53, line 992, Equation 6 should be Equation 7.
COMMISSIONER LEVAR: Say the line number again?
THE WITNESS: 992.
COMMISSIONER LEVAR: 992?
THE WITNESS: Yes, 992.
COMMISSIONER LEVAR: I'm looking at a different page number, I'm sorry.
THE WITNESS: That's okay. I led you astray, I apologize.
Next, the page 54 line 1,000, left-hand margin, Equation 6 should be Equation 7. Also on page 54, line 1,008, Equation 6 should be Equation 7.
Page 57, line 1,070, again, toward the left-hand margin, Equation 7 should be Equation 8.
And lastly, on page 58, line 1,084, Equation 8 should be Equation 9.
And you will be happy to know I have no changes to my rebuttal.

BY MR. SABIN:

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

A. Yes, I do.

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

A. I have.

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

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

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

And as a consequences, both investors and customers have an interest in a financially strong utility. And the return on equity and capital structure set in this proceeding will have a direct bearing on that financial strength.

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

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

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

Now my recommendation is within a range of 9.9 percent to 10.75 percent, and I provided a point estimate of 10.5 percent. My range is within 5 basis points of the company's currently authorized 9.85 percent return on equity.

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

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

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

In my view, it is the Commission's difficult task to apply gradualism in the context of ratemaking. I view the cost of equity as what we are meant to provide you in this case. So whereas my recommendation, my cost of equity estimate suggests the cost of equity has slightly increased, if we look at the lower end of my range, since 2013, 2014. The opposing witnesses suggest it has fallen, perhaps in the range of 60 to 85 basis points, or if we were to take Mr. Oliver's recommendation, by 35 basis points.

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

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

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

Over that period, utilities' stocks have become more volatile relative to the overall market. Tax reform has put downward pressure on utilities' cash flows, and it made utilities less attractive to other sectors that could take advantage of tax reform in ways utilities could not.

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

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

Turning now to the company's capital

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

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

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

And lastly, what I would say is because 55 percent is an appropriate equity ratio target, I do not think it would be proper to reduce the company's return on equity in recognition of it. When we think about the fact that the company's actual capital structure is 60 percent, its proposed capital structure is 55 percent, actually includes more financial risk, it includes more leverage than the actual capital structure.

If we are going to make any adjustments to the return, it would have to be an upward adjustment, in recognition of the fact that the actual capital structure is less leveraged -- I'm sorry, the actual capital structure has less leverage, the proposed capital structure would have more leverage, more financial risk. And therefore, any adjustment that we would make to the return on equity would have to be an upward adjustment.

I have not proposed one in this case, but if we were to consider an adjustment, in my view, that is the direction it should move.

And thank you. That does conclude my summary.

**Q. Thank you, Mr. Hevert.**

MR. SABIN: Mr. Hevert is available for cross-examination.

COMMISSIONER LEVAR: Thank you.

Mr. Jetter?

CROSS-EXAMINATION

BY MR. JETTER:

**Q. Good morning, Mr. Hevert.**

A. Good morning.

**Q. Well, let's jump around a little bit here. Is it an accurate summary of your CAPM model or the way that you have calculated it, that you apply an adjustment factor to the betas because your belief that betas of companies trend toward 1 over time?**

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

**Q. Okay.**

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

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

A. It's two reasons: The original proposition was that that was based on Marshall Bloom study in the mid '70s. Since then, it has become apparent that the adjustment process is -- has more predictive power. If you were to look at beta coefficients, they're calculated, typically, on historical data, either two or five years. But the beta coefficient, like every other elements of cost of equity models, is meant to be forward looking.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. To what question?

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

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

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

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

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

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

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

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

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

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

**natural gas utilities to trend toward 1?**
A. I didn't say that, no.
**Q. No? So you don't know that that's the case or not?**
A. Don't know what's the case?
**Q. Whether natural gas utilities' betas trend toward 1.**
A. As I said, I do not, but what we do know is that it is the practice to use adjusted beta coefficients. And I'm sorry, when I say "the practice," I should be more clear. It is the practice among investors and in the regulatory proceedings, with which I'm familiar.
**Q. I'm going to jump around a little bit here to a few different areas.**
A. Okay.
**Q. So is it your understanding -- I would like to turn -- this is in your rebuttal testimony, and I'm looking at line -- beginning on line 147 to 149.**
A. Yes, I'm there.
**Q. Okay. And that states that -- tell me if I read this correctly, that "Moody's Investors Services, for example, notes that 32.5 percent of the weight it gives to various factors considered in its ratings determinations are focused on cash flow."**

**Is that correct?**

A. It is.

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

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

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

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

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

A. Yes, but the important point here is that when the companies -- excuse me, when the rating agencies look at cash flow, it is always relative to something. So here it's cash flow relative to debt. It's cash flow relative to interest. It's cash flow relative to capital investments.

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

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

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

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

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

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

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

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

**Q. Yes.**

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

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

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

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

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

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

**Q. Yes.**

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

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

A. Yes, I'm there.

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

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

A. Yes, that's correct.

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

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

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

So we know -- we have a near realtime example of how the market reacts to returns to a regulatory decision it considers to be negative.

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

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

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

So go back to a point that Mr. Mendenhall made. With utilities, the issue is not often: Can you raise capital. You can often raise capital. The question is: At what terms? Here, the company would have to raise a lot of money at the depressed valuations, which in the end would be expensive to customers.

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

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

**Q. Okay.**

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

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

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

A. I am.

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

A. I did.

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

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

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

A. I did, yes.

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

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

**Q. Well --**

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

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

percent.

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

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

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

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

A. For the most part, yes.

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

A. Again, for the most part.

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

A. That's correct.

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

**are asking Utah customers to pay?**

A. I'm sorry, 9.2 percent --

**Q. Yes.**

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

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

A. Pay more than what?

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

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

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

A. Okay.

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

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

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

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

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

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

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

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

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

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

A. I am sorry, that what?

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

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

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

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

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

A. I'm sorry, who pays?

**Q. Customers pay for higher ROE?**

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

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

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

**Q. Risk reduction measures. If I misspoke, I apologize.**

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

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

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

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

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

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

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

COMMISSIONER LEVAR: Yes.

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

BY MR. JETTER:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**costs calculated by the company.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A.   Okay.  So it's not faced by anybody else. It's something investors realize, then the return, if unmitigated, would be higher than the return they would require on other investments.

**Q. Thank you.**

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

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

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

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

(Hearing Exhibit DPU 1 was
marked for identification.)

BY MR. JETTER:

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

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

MR. JETTER: That seems like a good idea.

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

(Whereupon, a break was taken.)

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

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

COMMISSIONER LEVAR: Yes.

MR. JETTER: Is it okay if I proceed?

COMMISSIONER LEVAR: Yes.

MR. JETTER: Thank you.

BY MR. JETTER:

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

A. It does, yes.

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

(Hearing Exhibit DPU 2 was marked for identification.)

BY MR. JETTER:

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

**Have you seen this before?**
A. Not this particular version, no.
**Q. Okay. Are you familiar with investor meetings that utilities would hold?**
A. I am, yes.
**Q. And the purpose of those meetings is to present information on things like financial projections to investors; is that correct?**
A. Among other things, yes, I agree with that.
**Q. Okay. And I would like to have you turn to page 6 of this presentation.**
A. Yes, I'm there.
**Q. And looking at page 6, it states that 2019 operating earnings per share were $4.15 to 4.30 per share, and EPS growth is 5 percent for next year, 5 percent plus thereafter; is that correct?**
A. Yes.
**Q. And 5 percent is lower than the growth rate that you applied in your capital asset pricing model; is that correct -- or excuse me, I apologize, your discounted cash flow earnings per share growth rate?**
A. I think there are probably three points. One is, yes, I would say on average that's true. Second, what matters here would be the longer term. It says 5 percent plus, so we don't know what the "plus" means.

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

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

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

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

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

A. Thank you.

COMMISSIONER LEVAR: Thank you.

Mr. Moore or Mr. Snarr?

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

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

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

CROSS-EXAMINATION

BY MR. MOORE:

**Q. Good morning, Mr. Hevert.**

A. Good morning.

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

A. Yes. I agree with that.

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

BY MR. MOORE:

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

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

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

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

MR. MOORE: May we approach?

COMMISSIONER LEVAR: Yes.

BY MR. MOORE:

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

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

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

A. Okay. I appreciate the heads-up.

(The witness was handed the appropriate exhibit.)

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

BY MR. MOORE:

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

A. Yes. Yes, I agree.

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

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

**Did I read that correctly?**

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

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

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

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

(Hearing Exhibit OCS H1 was
marked for identification.)

BY MR. MOORE:

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

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

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

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

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

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

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

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

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

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

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

A. Okay.

(The exhibit was handed out.)

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

BY MR. MOORE:
**Q. This exhibit is a copy of Moody's Investors Service, Questar Gas Company, credit opinion, January 30, 2019.**
**May I ask you to turn to page 4 and read the highlighted portion?**
A. Yes. Page 4, the highlighted portion falls under the subheading of "Low carbon transition risk." And it reads, "Questar Gas has low carbon transition risk within the utility sector because it is a gas LDC and natural gas commodity purchase costs are fully passed through to customers with an effective cost recovery mechanism.
"Moreover, the company's decoupling mechanism helps to insulate its financial profile from the potential negative impacts of lower sales volume, should usage decline."
**Q. Let's turn now to the "Associated risk of capital spending," on page 28, 512 to 513 of your direct testimony -- I will wait until you get there.**
A. Sorry, what line?
**Q. Line 512 through line 513.**
A. Yes, I am there.
**Q. I believe that you stated that the company's projected capital spending program is nearly 1.10 billion**

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

A. Correct.

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

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

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

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

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

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

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

A. I hope so.

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

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

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

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

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

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

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

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

A. So this is AGA summary?

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

A. The Moody's, okay.

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

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

And it reads, "Questar Gas' credit profile is underpinned by its low risk gas distribution operations and very supportive of regulatory environments. The PSCU and PSCW provide Questar Gas with cost-recovery provisions that allows the company to recover prudently incurred costs on a timely basis."

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

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

A. Okay.

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

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

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

**Is that correct?**

A. Yes, that's correct.

**Q. I read that correctly?**

A. You did.

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

**Did I read that correctly?**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Q. Yes.**

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

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

A. Okay.

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

A. Yes.

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

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

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

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

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

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

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

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

A. Thank you.

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

MAJOR KIRK: Yes, sir, I do.

CROSS-EXAMINATION

BY MAJOR KIRK:

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

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

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

A. For the company, yes.

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

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

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

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

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

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

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

understand the likely outcome of those discussions.
**Q. But they haven't made any announcement yet. Right?**
A. That is my understanding, yes.
**Q. Let's talk about 9.2 percent in Virginia. That's another case where it is below the 9.7 average. Right?**
A. Right. And, again, I won't belabor the point, but it is a fundamentally different case. It is not a base rate proceeding as we have here.
**Q. And in Colorado, recently Excel Energy of 9.3 percent?**
A. I cannot comment on Excel Energy's case. I was not in that one. I don't know whether that was electric or gas. I cannot tell you.
**Q. That's okay. Let's look at a very recent gas case settlement last week. The Wyoming Commission approved a settlement in that case with Black Hills Wyoming Gas for 9.4 percent. Are you aware of that?**
A. No. Thank you for letting me know.
**Q. Would you say that -- I mean, Dominion-Questar Gas Company does business in Wyoming too, doesn't it?**
A. It does, yes.
**Q. And is Black Hills Wyoming Gas also a gas**

**company?**

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

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

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

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

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

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

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

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

**Q. No further questions. Thank you.**

A. Thank you.

COMMISSIONER LEVAR: Thank you.

Mr. Mecham?

MR. MECHAM: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. MECHAM:

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

A. Yes.

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

A. I do, correct, No. 1.

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

A. That's correct.

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

A. I do.

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

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

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

A. Just to be clear.

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

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

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

**equity ratio at 52 percent, not 55 percent?**

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

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

**Q. 9 percent.**

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

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

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

A. I am sorry, you --

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

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

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

A. Yes, I agree with that.

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

A. Yes. I address that, yes.

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

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

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

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

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

A. Yes, I understand that.

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

A. I understand that.

**Q. You agree?**

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

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

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

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

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

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

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

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

A. Yes, I am aware of that.

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

**or is?**

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

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

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

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

A. Yes, I agree with that. It is on the incremental amount. The debt that's already existing would be there. Now --

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

A. Let me finish.

**Q. Okay.**

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

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

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

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

A. I do, but I don't -- I also have to wonder -- for example, we talked a little bit this morning about the situation with CenterPoint. If the company were to have to move to a 55 percent equity ratio from 60 percent, it had meant to align its actual capital structure with the ratemaking capital structure, that means it would have to somehow return, dividend up, equity.

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

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

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

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

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

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

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

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

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

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

A. Impact relative to what?

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

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

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

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

**Q. It is page 96 of 105.**

A. Okay. Yes, I'm there.

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

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

**Q. Which one is that?**

A. ONE Gas.

**Q. Oh, I'm sorry.**

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

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

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

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

**equity numbers?**

A. Yes.

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

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

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

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

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

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

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

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

**speaking. You have Securities and Exchange or PSC.**
A. Oh, I was following your question. I assumed you were talking about regulatory commissions.
**Q. I am.**
A. And that is my answer, that in my experience, companies often need to get the approval of their state regulatory commissions to issue securities.
**Q. But let me just, as an example --**
A. Sure.
**Q. So North Jersey Natural Gas Company Quarter 2, 2019, shows 61.04 percent. Is that an actual common equity ratio number for that company?**
A. It is. And thank you for pointing something out. That should be New Jersey Natural Gas Company. I'm actually from North Jersey, so that was probably a slip on my end.
**Q. And did they go before their public service commission and get an equity ratio approved at 61.04 percent?**
A. I am going to go back to my prior answer. To the extent any of these companies -- and I cannot tell you what the regulatory requirements are in each of these states. I can just tell you what my experience was. To the extent they need approval to issue securities, then the equity ratio would be an outcome of the approval to

issue securities.

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

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

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

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

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

A. Yes, I agree with that.

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

A. It depends on each company's circumstance. As I said in my opening statement, companies are similar in terms of the objectives and constraints they face but they are not identical. No two companies are the same, and therefore, you would not expect their capital structures to be identical either. I cannot tell you why one is higher than another.

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

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

A. They are.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Okay.

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

A. Yes, I'm there.

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

**Did you use that criteria in other proceedings?**

A. I do, yes.

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

A. Okay. I'm there.

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

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

**Q. Yes.**

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

**Q. On 5, 6 and 7?**

A. Yes, I am sorry.

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

A. Yes, I agree with that.

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

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

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

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

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

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

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

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

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

A. No, nor do I think 2.82 percent is sustainable in the long-term. The question is: When we look at these companies in aggregate, when we calculate the aggregate discounted cash flow result and we look at the mean or the median, is that number reasonable?

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

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

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

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

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

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

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

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

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

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

A. It --

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

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

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

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

A. Okay.

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

A. Yes, that's right.

**Q. And then as stated in your direct testimony at lines 956 to 958, "The retention growth model is a generally recognized and widely taught method for estimating long-term growth."**
**Did I properly represent that?**
A. So I think what you quoted were on lines 956 and 957, and it goes on the says the alternative approach to the use of analyst --
**Q. Yes, I just quoted that "The retention growth model is a generally recognized and widely taught method for estimating long-term grown."**
A. Yes, I agree with that.
**Q. And is it your assessment that the retention growth model generally produces a reasonable estimate of long-term earnings growth?**
A. It can. It doesn't always but it can.
**Q. Am I correct that the retention growth estimates shown, in 2.01 for Northwest Holding Company, is 6.42 percent or about one-fourth of the 25.50 earnings of the growth Value Line offered for the same company?**
A. Yes, that's right.
**Q. Okay. Now let's take a look at 2.01R again on page 1.**
A. Okay. I'm there.
**Q. Thank you. So 2.01R shows -- well, what is**

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

A. That's 27.

**Q. So it is up from the 25.5?**

A. Yes, 2 percentage points.

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

A. It is.

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

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

I agree, the Value Line growth rate went up, the retention growth rate went down, moderated the effect a little bit. But, again, if you were to go through the exercise we talked a little bit earlier, which is to eliminate, if we wanted to, Northwest Natural Gas and then the lowest result, which is Spire. The 9.98 percent median result shown on page 1 does not change. It remains 9.98 percent. That is the point of reporting the medians.

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

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

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

A. I do.

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

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

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

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

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

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

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

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

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

A. Yes.

**Q. Are you there?**

A. Yes, I am there.

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

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

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

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

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

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

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

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

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

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

Does that help you?

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

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

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

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

A. Yes. Yes, I am there.

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

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

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

A. I knew you were going to ask me that

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

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

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

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

A.   Right.

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

A.   Right.

**Q.   Well, I will ask another --**

MR. MECHAM:  Go ahead.

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

MR. MECHAM:  When?

MR. SABIN:  September of 2016.

MR. MECHAM:  Okay.  Thank you.

BY MR. MECHAM:

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

A.   Yes.

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

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

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

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

A. I'm sorry, where are you?

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

A. Yes, I'm there.

**Q. And so it addresses the allocation of the net proceeds from equity issuance to its subsidiaries. Correct?**

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

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

A. Oh, a fair number.

**Q. Would you say over 100?**

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

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

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

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

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

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

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

A. Well, when you say "distributed," the flotation costs are associated with the equity balance before the company, but the flotation cost adjustment is on the cost of equity itself.

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

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

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

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

**Q. Okay.**

A. The question is, generally, when the company -- the company, whether it is the operating subsidiary or the parent, issues equity. Does it issue equity at a discount? The answer is: Yes, it does.

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

A. Yes.

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

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

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

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

There may be, for example -- and I will just give an example, and I'm not speaking about a specific company. There may be a situation where part of the nonutility operations may be a project that is secured by a long-term contract with a counterparty that's rated, you know, a strong A. So I think it is just hard to make a general comments like that, to draw general conclusions like that.

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

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

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

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

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

A. Right. Which is shown in its credit ratings and still with the other credit supportive aspects that the company has in place and, I think, we all hope stay in place.

**Q. Okay. Thank you.**

MR. MECHAM: That is all I have, Mr. Chairman.

COMMISSIONER LEVAR: Why don't we take a break and then come back at 1 o'clock for Mr. Russell's cross-examination? Any objection to that?

MR. RUSSELL: My cross-examination will be very short, but we are not going to get through the witness before lunch anyway, so...

COMMISSIONER LEVAR: Okay. Let's break for an hour and come back at 1:00.

(Whereupon, a break was taken.) COMMISSIONER LEVAR: Okay. We are back on the record.

Mr. Hevert, you are still under oath from this morning.

We will go to Mr. Russell for any cross-examination.

MR. RUSSELL: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. RUSSELL:

**Q. Mr. Hevert, I would like you to turn to DEU**

**Exhibit 2.09R.**

A. Yes, I'm there.

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

A. Yes, that's correct.

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

A. Okay.

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

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

A. I do see that, yes.

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

A. Yes, it does.

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

A. Yes, those were in 2018 as well.

**Q. Right. But within the last 12 months. Correct?**

A. Yes. Correct.

**Q. If only barely?**

A. If only barely.

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

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

A. For the entire period. Correct.

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

A. Through September 2019. Correct.

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

**is 9.6 percent ROE; is that correct?**
A. Over the entire period. Correct. Yes.
**Q. Yes, for the period that is encompassed in this chart. Right?**
A. Yes.
**Q. Okay. That's all I have.**
A. Okay.
COMMISSIONER LEVAR: That's all your questions, Mr. Russell?
MR. RUSSELL: It is.
COMMISSIONER LEVAR: Okay. Any redirect?
MR. SABIN: Yes, please.
REDIRECT EXAMINATION
BY MR. SABIN:
**Q. I'll pick up where Mr. Hevert left off -- or sorry, Mr. Russell left off, Mr. Hevert.**
**Do you have an understanding of what the average ROE was from the last rate case in 2013?**
A. My recollection -- the average authorized ROE in 2013 was 9.68 percent.
**Q. Okay. What is your understanding of what the average ROE is at present?**
A. Present, it's about 9.7 percent.
**Q. Okay. So fairly comparable?**
A. Quite comparable, yes.

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

A. Correct.

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

A. Yes.

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

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

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

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

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

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

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

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

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

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

And second, "If regulatory provisions in either Utah or Wyoming were to become less supported."

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

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

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

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

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

**Could you just read the first sentence there of that section?**

A. Yes. It reads, "At about 14 percent, Questar Gas' ratio of CFO pre-working capital of the debt, through the last 12 months of the third quarter 2018, is much lower than 82 LDC," LDC meaning local distribution company, "peers that averaged around 23 percent over the same period."

**Q. Okay. Can you explain what you understand that to mean?**

A. It means that Moody's looks at the company's cash flow to debt ratio not only on an absolute basis but also relative to the company's peers. And at 14 percent, that ratio is well below the company's peers at about 23 percent.

**Q. So from an investor's standpoint and based upon your professional opinion, how might investors be viewing this data or this information about how Questar Gas is performing relative to its peers when they consider the kind of rate of return they would require to invest in this kind of company?**

A. Well, we talked a little bit earlier this morning about the fact that the cost of capital is comparative in nature. It is based on the forgone opportunity to invest in another company of equivalent risk.

If now you see a company with higher risk than its peers, if you see a company that at the margin is going to have cash flow ratios that are lower than its peers indicating higher levels of risk, that would suggest to an investor, certainly debt investors and equity investors as well, who, again, look at these issues on a relative basis, the company would be comparative more risky, and therefore, you would require a comparatively higher return to invest in it.

**Q. Okay. Could I now have you, in your binder there, look for Mr. Mendenhall's rebuttal testimony? And there is an exhibit attached to it, which is Exhibit DEU Exhibit 1.10R.**

COMMISSIONER LEVAR: Did you say 1.10R?

MR. SABIN: That's correct -- excuse me, I apologize, 1.01R. I apologize, yes, thank you.

BY MR. SABIN:

**Q. It should be right after the end of the testimony there where the exhibits pick up.**

MS. CLARK: The very first --

BY MR. SABIN:

**Q. The very first exhibit following his rebuttal testimony.**

A. I'm sorry, it's going to take me a minute.

**Q. At the very top right corner, you will see there are some Exhibit numbers, if you're in the exhibits?**

A. Exhibit numbers? And I'm sorry, the exhibit was?

MS. CLARK: May I approach?

THE WITNESS: 1.01R?

MR. SABIN: 1.01R.

THE WITNESS: After all these years.

BY MR. SABIN:

**Q. There you go. We were just reviewing the prior Moody's Investors Service report that was dated January 30, 2019.**

**I'm now showing you this Exhibit 1.01R that is the update from Moody's as of August 19, 2019. Do you see that?**

A. I do, yes.

**Q. I would like to now refer to the same section that we just looked at on the prior exhibit and have you focus in, flip over to page -- well, I guess, first on page 1, this report was issued in the context of a downgrade; is that right?**

A. It was, yes.

**Q. Okay. And then on page 2, Moody's addresses part of the reason that there was a downgrade. I would**

**like to focus at first at the top of page 2, where there is the "Credit challenges." Do you see that section?**

A. I do.

**Q. In particular, can you describe what you understand Moody's to be highlighting from a credit standpoint? What do you mean by that?**

A. Credit challenges are generally factors that Moody's will consider that if they move the wrong way, if they create pressure for the company, it could lead to a ratings action. It could be ratings action such, I think, that they put the company on watch or that they actually wind up in a downgrade.

**Q. Okay. Let's look down at, again, the factors that could lead to a downgrade. Do you see those two points? Would you please read those?**

A. Yes. The first of the two factors is "Cash flow to debt metrics below 16 percent on a sustained basis."

And the second is "If regulatory support or the ability to recover costs were to decline."

**Q. So on the first bullet point there, the one we just read a moment ago was if cash flow remains below 20 percent, now they've moved it down to 16, and indicated if it is below 16 for a sustained period of time, that could lead to a further downgrade.**

A. Correct.

**Q. Is that your understanding?**

A. That's right.

**Q. And then regulatory support language appears to me to be the same as the prior document; is that your understanding?**

A. It is.

**Q. And then lastly, let's look at the "Rating outlook" section just above that. Would you read that, please?**

A. Yes. "The stable outlook for Questar Gas reflects the company's low business risk and stable cash flow production. The stable outlook also incorporates our view that the current rate case in Utah will yield a higher rate base and net income, helping the company to generate cash flow to debt metrics between 17 and 19 percent for the next two years, and that short-term debt and upstream dividends will be increasing."

**Q. Okay. So now having reviewed those two documents, I would like to discuss some of the questions you were asked by several of the attorneys.**

**There was a discussion about why couldn't you just, if you're DEU, take your 60 percent equity and reduce it down to 50 percent on an operating basis? Why wouldn't you and why couldn't you do that? I would like**

**to probe that for a moment with you.**

A. Okay.

**Q. As an initial matter, has the high equity ratio been supportive or non-supportive to maintaining the current credit metrics?**

A. It has been supportive.

**Q. What do you mean by that?**

A. It means that if the company were to have a lower equity ratio, if it were to have more debt in its capital structure, there would have been more pressure on its cash flow metrics, putting downward pressure on its credit rating. So the 60 percent equity ratio has been supportive of the company's profile.

**Q. So if one were to make the decision internally at Dominion Energy Utah to take and go from 60 percent down to 50 percent, what would be required to do that?**

A. If you were to move down to 50 percent and have your actual capital structure be 50 percent, it would mean taking equity out of the capital structure. You would have to send equity up to the parent in the form of a dividend.

**Q. Is that what you meant earlier when you said or used the phrase "dividend up"?**

A. It is, yes.

**Q. And how does one come up with the cash -- the ability to pay that kind of a dividend to bring your metrics down?**

A. Well, in this case, you have a company that -- whose cash flows are strained. You certainly could not get more equity because that would be counterproductive to wanting to bring the equity ratio down. That would leave you to go into the debt markets to get cash that then could be sent up to the parent.

**Q. So let's assume we did that. Let's assume we went out -- and you had a couple of attorneys ask you about, isn't the cost of debt cheaper than the cost of equity. Why don't we just go borrow whatever, you know, $100 million or $200 million to dividend up, to make that up, what would we -- what impact would that have on the company's -- on the company's credit metrics, do you think?**

A. Well, if we remember that the ratio is cash flow to debt, and cash flow is, generally, net income plus noncash elements. Net income is a big part of cash flow. If the equity ratio were to be reduced in this proceeding, the company's net income would fall.

If you had to issue debt in order to dividend up equity, then the denominator, the amount of debt in your capital structure would increase. You would face the situation where cash flow is falling, debt is increasing, your ratio of cash flow to debt would be going down further still, putting downward pressure on the metrics that Moody's has identified as an important factor that could lead to a further downgrade.

**Q. And when you say that, are you referring to the cash flow to debt metrics below 20 -- or 16 percent issued?**

A. It is.

**Q. Okay. Now having talked about all of that, you have reviewed information from the rate case in 2013. You reviewed information from -- to prepare your documentation for this proceeding.**

**In your mind, what has changed between the company's position in 2013 versus the company's position in 2019?**

A. Well, I think we can just look to what Moody's has said. We can see the degradation in the important cash flow metrics. Cash flow to debt, we have seen it fall, and importantly, we have seen Moody's talk about the fact that the company's position is weak relative to its peers.

And, again, not to overstate the point, but when we talk about the cost of equity, it is a relative exercise and so we look at it relative to its peers. If the company's becoming weaker relative to its peers, it is becoming more risky and, therefore, investors would require a higher return.

**Q. Let's emphasize that point at the end. I want to make sure you have an opportunity to clearly understand that. ROE, or the return on equity, is the rate at which investors -- it is the rate at which investor are compensated?**

A. The equity investors.

**Q. The equity investors. Correct. And could you please explain that last point, where you said if the risk -- if investors view the company as being higher risk, that that would inevitably require a higher rate of return on equity?**

A. The basic principle in finance is that risk and return are related. The more risky an investment, the higher the return investors require to commit their capital to it.

If we were to look at a group of peer companies whose risk is lower than this company, they may put their money there. The only way they would invest in a higher risk company is if the return is high enough to compensate them for that additional risk.

So if the company's risk profile has increased over time relative to its peers, the only way you would be able to reasonably attract capital is to offer a return that compensates investors for that additional risk. So the return would have to be higher than it otherwise would be.

**Q. So in your estimation, is Dominion Energy a higher risk investment than it was in 2013?**

A. I think if we review the Moody's documents, we have to come to that conclusion.

**Q. Okay. Thank you. I want to talk about a couple of other issues. You were shown an exhibit, Exhibit DPU Cross Exhibit 1, which is some rebuttal testimony of Michael L. Platt, from Docket No. 19-057-13.**

A. Yes.

**Q. It is probably going to be a loose -- it is going to be a loose exhibit there.**

**And I know you testified you don't know anything about that, so I'm going to ask these in a hypothetical.**

A. Okay.

**Q. I want you to assume for the sake of my questions that the facility at issue in this particular proceeding that's in -- Mr. Platt was testifying about is not constructed and will not be completed until 2022.**

A. Okay.

**Q. Do you have that in mind?**

A. I do.
**Q. I also want you to assume that the aspects of that facility are not included in the revenue requirement in this particular proceeding. Do you have that in mind?**
A. I do.
**Q. Given those two -- if those are both true, does anything you have to say here or -- would anything relating to that facility have any bearing on what you're saying for purposes of the rate of return -- return on equity in this case or the capital structure in this case?**
A. No.
**Q. Why not?**
A. It is simply not part of the case we are looking at right now.
**Q. You recall you were asked a question about an insurance policy.**
A. Yes.
**Q. If that insurance policy doesn't yet exist and won't exist until 2022, should you or anybody in your position be factoring that in when you are calculating the return on equity for this case?**
A. No, I have not. It's beyond the case.
**Q. Could you turn to line 798 to 800 of your direct testimony, which is on page 43?**

A. Yes, I'm there.
**Q. Could you just read the sentence that picks up there, right at the bottom -- excuse me, on 798? It picks up at 798 and goes over the page.**
A. There's a sentence that goes -- of my direct testimony?
**Q. Yes.**
A. Yes. "As the percentage of debt in the capital structure increases, so do the fixed obligations for the repayment of that debt."
**Q. So what do you mean by that?**
A. It means that as you add more debt into the capital structure, you have to pay that debt regardless of your revenue. It is a contractual fixed obligation that remains in place regardless of what other elements of your revenue structure, your cash flow, change.
**Q. So I want to follow up on a question that was asked by another attorney. If you were to go out and increase your debt for any of these operational purposes, whatever they happen to be, what kind of -- how would what you are saying here factor into the company's return on equity?**
A. Well, to the extent the amount of debt in the capital structure increases in the -- what you consider to be a proper target, when you have more leverage in the

capital structure, you increase those fixed obligations, and, therefore, the probability of not meeting those obligations increases.

It's a matter of financial risk. It is a matter of leverage. The effect of leverage is it tends to concentrate risk on the equity holders because at the end, it will be the equity holders who are responsible.

So as you add amounts of financial leverage, you increase financial risk. And I think we talked about earlier this morning the two general categories of risk are business and financial risk.

As financial risk increases, the return required by investors, equity investors, also will increase.

**Q. Thank you. Could you now locate OCS Cross Exhibit H1? It's the "AGA Rate & regulatory update."**

A. Yes, I have that.

**Q. First off, what do you understand this document to be?**

A. It is a document put out by the American Gas Association summarizing rate and regulatory activity by state.

**Q. And this is only related to gas cases. Right? Rate cases?**

A. Correct.

**Q. So at the top, there's two boxes. One says, "Orders issued," and one says "Average ROE." What do you understand the numbers in those boxes to mean?**

A. That would be the orders issued for natural gas utilities across the country and the average return on equity associated with those orders from July 1, through September 30, 2019.

**Q. Would you read the first sentence that is right below those two boxes?**

A. Yes. It reads, "The average ROE authorized gas utilities was 9.94 percent in the third quarter of 2019 compared to 9.69 percent in the second quarter."

**Q. And what do you understand that to mean?**

A. That quarter over quarter, the average authorized return increased and in the third most recent quarter, it was 9.94 percent.

**Q. Let's go down to the bottom sentence of that first paragraph, and if you would read that as well?**

A. The bottom sentence reads, "There were only ten gas cases that included an ROE determination in the first three quarters of the first 2019, versus 40 in 2018. In the first nine months of 2019, the median authorized ROE for gas utilities was 9.72 percent, versus 9.6 percent in 2018."

**Q. So if I understand correctly, in 2018, the**

**median there was 9.6, the first nine months was 9.72, and updated through September 30th is now -- or 9.94 was from July 1st through September 30th?**

A. Correct.

**Q. And would you characterize that as an upward trend in ROE, at least according to the AGA?**

A. At least according to the AGA and those data points, yes.

**Q. And the 9.94, is that number within your range of reasonable ROEs that you have determined in this proceeding?**

A. It is. The lower bounds of my range is 9.9 percent.

**Q. And are the ROEs recommended by any of the others who have appeared in this case within the -- are any of the averages over the 18, 19 or 19 revised through September 30th, within the ranges recommended by anybody else in this proceeding?**

A. No, they are not.

**Q. In other words, they are all above those ranges recommended by the others?**

A. The authorized returns are above the ranges recommended by others. Correct.

**Q. All right. So two other questions. You were asked about the effective -- you know, when you add**

**income taxes after the ROE is determined, you were asked about what that would -- the cumulative number would be.**

**My question for you is:  Do we take into account what the income tax portion will be when we determine ROE in a case?**

A.   No.  The ROE number is typically looked at on an aftertax basis.

**Q.   And then finally you were asked about a Virginia case.  I want to make sure I'm clear, was that a general rate case?**

A.   It was not.

**Q.   So is it your understanding that this is a general rate case?**

A.   It is.

**Q.   Okay.  I have no further questions.**

A.   Thank you.

COMMISSIONER LEVAR:  Thank you.

Any recross, Mr. Jetter?

MR. JETTER:  I do have a bit of recross. Thank you.

RECROSS EXAMINATION

BY MR. JETTER:

**Q.   You just testified a moment ago that, I will summarize here, the Commission should ignore known events in the relatively near future in relationship to the**

**liquid natural gas facility; is that accurate?**

A. I testified that it's beyond this case. It is beyond the materials we reviewed in the context of this case. Correct.

**Q. Okay. But is the timing of that the basis or is it that you have not reviewed that?**

A. The large part is the timing, yes.

**Q. Okay. And do you expect decarbonization to happen in the next three years?**

A. Well, that is the point I made earlier. It is a long-term issue, and it is unpredictable in both its effect and timing. I agree with that point.

**Q. We should consider that factor but not a very specific known factor that will occur in about three years?**

A. Well, what I said was if you look at what we've seen -- for example, in the investment community, there are concerns related to decarbonization. Now I was quite clear the effect and timing are extraordinarily difficult to quantify.

**Q. Okay. But it is your testimony that that should be considered?**

A. It is my testimony that the investment community has noted that that concern.

**Q. Okay. And is it your testimony that the**

**investment community would not be interested in significant risk reduction in three years' time?**

A. Again, I will go back to what we talked about earlier. I don't understand the issue of risk reduction in the context of that LNG analysis, so I just can't comment on that.

**Q. Okay. So you are not sure whether it should be considered or not?**

A. No. What I said is I don't understand -- I don't know this testimony. I don't know that analysis. I don't know what is meant by risk.

**Q. Okay. So you don't know whether investors should consider this?**

A. I told you my view on that. I have told you my view is that I understand investors have noted the risk of decarbonization and electrification, and I have explained to you that I don't know this testimony. I don't know the analysis. I don't know the discussion of risk or even the definition of risk.

**Q. Okay. So that's a little bit different than a statement that the Commission shouldn't consider it?**

A. I can only tell you what I can do.

**Q. Okay. Thank you. I just wanted to clarify something that was stated earlier, I think, just in error. On OCS Cross Exhibit H1, I believe it was stated**

**that the 9.94 was a median. And is it accurate that that's an average?**

A. If I said "median," I didn't mean to. It does say "average" here.

**Q. Okay. Thank you. Those are all of my follow-up questions. Thank you.**

A. Thank you.

COMMISSIONER LEVAR: Mr. Moore?

RECROSS EXAMINATION

BY MR. MOORE:

**Q. Can I turn your attention to OCS Cross H2?**

A. Yes, sir, I'm there.

**Q. The front page?**

A. Yes.

**Q. There were some credit strengths posed by Moody's too, weren't there?**

A. What was your question?

**Q. The last highlight heading, "Credit strengths" --**

A. Oh, yes, absolutely.

**Q. -- can you read those into the record?**

A. Sure. "Stable and predictable cash flow derived from cash recovering mechanisms on around $1 billion of rate base."

"Cooperative relationships with regulators in

Utah and Wyoming."

"Management financial policies are improving the capital structure."

And "Ring-fencing like provisions help offset some of the risk of its highly levered parent."

I think we talked about all four of those points throughout the morning.

**Q. Thank you.**

MR. MOORE: I'm not sure, Chairman, that I move for admission for OCS Cross H2. I will move for admission now to double-check that.

COMMISSIONER LEVAR: I also can't remember, but if any party objects to that motion, please indicate to me.

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

(Hearing Exhibit OCS H2 was
marked for identification.)

MR. MOORE: That's all I have.

COMMISSIONER LEVAR: Okay. Thank you.

Major Kirk?

MAJOR KIRK: No questions, sir.

COMMISSIONER LEVAR: Mr. Mecham?

MR. MECHAM: Just one quick one.

RECROSS EXAMINATION

BY MR. MECHAM:

**Q. Mr. Hevert, weren't the concerns that Moody's expressed in the -- I guess it's Mr. Mendenhall's 1.01R, expressed in the context of the company relying heavily on equity, including retained earnings? In other words, if they had done -- issued more long-term debt, wouldn't that have freed up more cash for cash flow?**

A. No, I think it's -- I think it's the opposite. I think what Moody's is saying, the company retained cash to build up its equity cushion so that it could mitigate some of the risks associated with its cash flow.

It is that financial management policy of putting additional equity in and creating an additional equity cushion that helped mitigate some of those risks. And absent that cushion, the risks would increase.

**Q. Nothing further.**

COMMISSIONER LEVAR: Okay. Thank you.

Mr. Russell?

MR. RUSSELL: No questions. Thank you.

COMMISSIONER LEVAR: Anything else from Dominion Energy?

MR. SABIN: Sorry?

COMMISSIONER LEVAR: Anything further?

MR. SABIN: Nothing further.

COMMISSIONER LEVAR: I have one or two questions.

EXAMINATION

BY COMMISSIONER LEVAR:

**Q. When investors are looking at utilities, we have had some questions about how far into the future they look. I mean, does the test year of the rate case have much impact on investor outlook on a regulated utility?**

A. Yes, it can because if you are to look at the resolution of a case -- and I think a good example are some of the comments by Moody's. The resolution of a rate case will speak to the cash flow that would be expected over -- at least the near term and going a little bit into the future.

So that's certainly one element, that the outcome of a rate case will affect cash flows. But secondly, the resolution of a case, as Moody's says here, will be a signal to the financial community regarding the nature of the regulatory environment, the company's relationship with the Regulatory Commission, the stability and predictability of the Commission.

So while I agree many of the models are long term, the current case, the current test year, resolution of the current case is important.

**Q. Regulatory approval of capital investments that aren't going to occur until after the rate case would affect that regulatory environment, wouldn't they?**

A. Depending upon the terms, yes, I agree with that.

**Q. One or two more questions. In your direct, you cite to the study by the American Gas Association, I assume Commission through ICF, on decarbonization and electrification. It was titled "Implications of policy-driven residential" --**

A. Correct.

**Q. Were the policy-driven issues typical of Utah that the AGA was studying?**

A. It is a good question. It is very broad, and I think I mentioned this morning, a lot of concerns regarding electrification, at least based on my observation, now are focused on the coast and that is what we are seeing a lot of discussion. But when we think about the risks generally to the sector, it's something investors would have in mind.

I do think that when we look at this type of risk and, perhaps, this type of uncertainty is the better term -- and I say "uncertainty" because the implications are very difficult to quantify. When you say "risk," you normally have some history, and you can look at the probability of something happening and you can associate numbers with it.

But here, we have uncertainty. We don't know what is going to happen, when it's going to happen, what the implications are going to be.

So I agree with you that the policy implications are not necessarily what they are here in Utah, the circumstances might not necessarily be what they are here in Utah but the broad concern is there.

**Q. Thank you. That's all I have.**

COMMISSIONER LEVAR: Commissioner Clark?

COMMISSIONER CLARK: Thank you.

EXAMINATION

BY COMMISSIONER CLARK:

**Q. Back to Virginia for just a second, I apologize for taking us there but I'm just curious. What I think -- at least what I understand you to have told us is that the return on equity that was approved in a recent order in Virginia does not apply to the rate base of the utility or at least not the general rate base. It might be applied -- the Commission might intend for it to apply to certain components of rate base.**

**But can you give me a more precise explanation there as to what it is applying there?**

A. Yes.

**Q. Thank you.**

A. There are two components. The first has to do with what are referred to as the rate adjustment clauses, RACs, and they have to do with specific discrete investments in certain types of assets, generally generating assets. And it goes back to legislation in Virginia that was meant to encourage the development of in-state generation and the development of renewable resources.

So when a company would develop a project and commit equity to that project, because it was, in part, in furtherance of achieving a public policy goal, the company would be eligible for what the legislature referred to as an enhanced return. And depending upon the nature of the asset, whether it's coal -- carbon captured-type asset, whether it is offshore wind, whether it is nuclear, the enhanced return would be from 100 to 200 basis points over the base return.

So that would mean it would be anywhere from 10.2 to 11.2 percent for those projects, depending upon their nature. And I would say that that return would be in place -- not for the life of the project but for, in some cases, the first 10 or 15 years.

And I'm sorry, I mentioned there were two pieces. The second piece was -- I should have thought about this. The second piece was for what they refer to as the triannual earnings test. So the evolving legislation in Virginia means that in 2021 for Virginia Electrical Power Company, they will -- the Commission will review the company's earnings relative to the 9.2 percent plus 70 basis points, so roughly -- so 9.9 percent.

The Commission, in that first triannual review -- easy for me to say, triannual review in 2021 will not be able to increase the company's rates and can only decrease the company's rates by $50 million.

**Q. So this enhanced return is applied to policy preferred or preferenced assets. The 9.2 percent, is it irrelevant with respect to the rest of the rate base of the Virginia utility that we're talking about, or is it applied to the rest of the rate base?**

A. It is not applied to the rest of the rate base. The company's current rates are in effect the general generation distribution rate base, not including those special projects, will go on earning their existing return.

The only time those assets will be subject to a test, under this most recent return, will be in 2021 in the triannual review, if the return is beyond that 70 basis point debt bend.

**Q. Okay. Thank you. Now with regard to -- and I'm really asking about the LNG facility, but I'm going to put in this in sort of a hypothetical term so I can understand -- or present it to you in a way that I think you can fairly consider it without being familiar with the case itself.**

A. Okay. I appreciate that.

**Q. But just assume that a significant asset, by that, I mean, say, costing in excess of $100 million, is the subject of an application that comes to the Commission under a statute which allows the company to seek advanced approval for investing in the asset and which presumes a level of cost recovery, that is whatever the proposed cost is in the application proceeding, if it's approved, and assume that it is approved and so there's this approval of a yet-to-be-constructed asset with some assurance of cost recovery that comes via this statutory structure --**

A. Yes.

**Q. -- is that approval going to -- how is that approval going to be assessed in Moody's view of the degree of regulatory support and the jurisdiction?**

A. And without speaking for Moody's but just based on my experience dealing with them?

**Q. Right.**

A.   What I would say is that if there was a project that had received pre-approval, I think from the rating agency's perspective, they will look at pre-approval, the possibility of some disallowance at some point, but if the project is in line with what it sees elsewhere, if the project is the type of project that would normally go into rate base as it would in other utilities, I think Moody's would look at that, as we've talked about here earlier today, as a supportive arrangement.

One of the issues we sometimes see is while some legislation -- while some programs will speak to pre-approval, in the final analysis, there's always some element of post hoc review, which might open the company up to some level of disallowance but, typically, for prudence reasons.

But I think, generally speaking, that type of legislation, that type of structure would be something that would be -- would be supportive, much like we see with infrastructure trackers in some cases.  Forward looking test years in some cases, multiyear rate plans.

**Q.   And so sophisticated investors would have the same view, would you expect?**

A.   I think so.

**Q.   Thank you.  Those are all my questions.**

**Thank you.**

COMMISSIONER LEVAR: Mr. White?

EXAMINATION

BY COMMISSIONER WHITE:

**Q. Good afternoon.**

A. Good afternoon.

**Q. I just want to go back to a line of questioning prior to lunch. I just want to test my understanding, which wasn't that great, of what you were saying with respect to the concept of risk supportive versus risk reducing and I think in the context of regulatory mechanisms, so I want to make sure I understand that, how that affects it. I mean, you deal with it in Utah. You are probably aware that we have a number of those types of mechanisms --**

A. Right.

**Q. -- so help me understand.**

A. Sure. So I think the conversation had to do with the distinction between -- and I'll back up. This is from the perspective of the rating agencies, had to do with the distinction between something that is credit supportive versus something that is credit enhancing.

A credit supportive mechanism would be something that is put in place that would mitigate the downward effect that otherwise would occur but for that structure. So one example that I sometimes use, and it doesn't have -- it doesn't come into play here but I think it is easily understandable, is company with a bad debt rider.

If a company has a large bad debt expense and then they have a mechanism in place to help recover that expense on a more timely basis, that is credit supportive. What it does is support the credit, the company's credit profile, because absent the mechanism, its profile would be diminished. It does not improve the company's credit profile beyond what it otherwise would have been. So that is the distinction we try to draw.

**Q. Is it safe to say that the current mechanism in place supports the status quo of the outlook of the company's risk profile?**

A. Yes, I think when we read Moody's, the language speaks to the supportiveness of the regulatory environment, which is good.

**Q. The question I had -- I know you have had a lot more than you were anticipating on electrification but it is a pretty fascinating issue right now.**

**Other than the investor outlook, kind of these general -- my sense is that it is more of a general, kind of, sense of, you know, sussing the future.**

**Are you aware of any jurisdictions, court or**

**state jurisdictions, that actually applied this concept with respect to a risk profile that flowed through an equity, you know, order?**

A. Not yet. I know it's an issue that has come up. It's come up in an unfortunate way in Massachusetts, for example, because what began thinking about the issue in Massachusetts was the incident in the Merrimack Valley, where there was a high pressure system that destroyed, you know, many homes. And at that point, the risk associated with gas were starting to be considered and electrification was starting to be thought about.

But it is too early yet. It is not something that anyone has put a number on. It's a concept that people have talked about, but it is just too soon to come to a definitive conclusion.

**Q. And maybe related to that, and I apologize if this is a legal question and maybe I should know this already but I'm just trying to figure out, I get the concept of how, you know, the investment community looks at, you know, kind of long-term ratings and things like that.**

**But, you know, I'm trying the figure out the sand blocks that we should be playing -- in other words, when we should be applying risk elements to what period of time.**

**And I think we kind of danced around this with LNG and maybe the decarbonization efforts, but is that the -- in this case, what should we be looking at in terms of what is currently in play that we should be applying to this case?**

**And, again, I recognize that may lead into legal theories, but --**

A. That's okay. I think in this case, we have -- it's fairly clear with the companies we see downgrade and with Moody's concerns about the company's credit profile, I don't think we have to look that far into the future because this just recently happened with the company.

So in this proceeding, I think we just don't have to look very far into the future. We've seen what happened, and I don't think we have to think too far into the future to realize that it's important to maintain the company's credit profile. And the equity ratio, the return on equity are two things that are very important, not only in supporting the company's cash flow but also in signaling to the investment community the support of the Commission.

So in my view in this case, we have a pretty defined view, and we can look right to what has happened and what likely would happen absent the supportive outcome.

**Q. Let me circle back to this. So if I hear you correctly, it sounds like the general time parameters or outlook of the investment community and how they perceive risk and cash flow, etc., don't necessarily sync up to, for example, a test year or a rate effective year. It is, again, these two concepts sometimes conflate and can potentially bleed over into each other but they are counter reactive?**

A. Well, it's an interesting question. The outcome of a current rate proceeding, of course, is very important because it will affect the near-term cash flows, simply because of the time value of money near-term cash flows are more valuable, so it will be of more importance.

But here, because we have a situation where the company's been, again, downgraded -- and to me, equally important is the commentary about the company's financial strength relative to its peers.

The resolution of this case, I think, will go some ways to speaking to the financial community about the company's financial profile going forward. Yes, some models look forward in time, but here, the resolution of the case will give a strong signal to investors as to what they might expect looking forward.

**Q. Thank you. That's all the questions I have. Thanks.**

A. Thank you.

COMMISSIONER LEVAR: Thank you for your testimony today.

THE WITNESS: Thank you, sir.

COMMISSIONER LEVAR: And we are ready for your next witness.

MR. SABIN: We are going to we have an expert testify next, who needs to leave today on a flight tonight. And so we're going to take Mr. Alan Felsenthal as our next witness.

COMMISSIONER LEVAR: Good afternoon.

DIRECT EXAMINATION

ALAN FELSENTHAL,

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

BY MR. SABIN:

**Q. Mr. Felsenthal, good afternoon.**

A. Good afternoon.

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

A. My name is Alan Felsenthal, F, as in Frank, E-L S, like Sam, E-N-T-H-A-L.

**Q. Mr. Felsenthal, would you please introduce**

**yourself to the Commission, providing a brief sketch of your background and work experience?**

A. Okay. I'm a managing director at PricewaterhouseCoopers.

COMMISSIONER LEVAR: I'm not sure your microphone is on.

THE WITNESS: I'm a managing director at PricewaterhouseCoopers, and I'm presenting testimony on behalf of Dominion Energy Utah, supporting the company's ratemaking position on pension costs and related components.

BY MR. SABIN:

**Q. Mr. Felsenthal, you submitted in this proceeding some rebuttal testimony; is that correct?**

A. Yes.

**Q. I have that marked as DEU Exhibit 6.0R, with Exhibits 6.01R through 6.03R; is that accurate?**

A. Yes.

**Q. Do you have any corrections to your testimony?**

A. Well, I have one. It's on page 7, line 177, there's a number there that says 8.18 million. The correct number needs to be 5.16 million. And that's it.

**Q. With that correction, Mr. Felsenthal, do you adopt the rebuttal testimony and the exhibits you have**

**submitted in this proceeding as your testimony for this proceeding?**

A. I do.

**Q. Have you prepared a summary of your rebuttal testimony you provided in this case?**

A. I have.

**Q. Would you please go ahead and provide that to the Commission --**

MR. SABIN: Before we do that, I move to admit exhibits DEU 6.0R, 6.01R through 6.03R into the record.

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

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

(Hearing Exhibit DEU 6.01R, plus Attachments
Were marked for identification.)

BY MR. SABIN:

**Q. Mr. Felsenthal, go ahead and provide your summary now.**

A. Okay. Thank you. Let me start off by saying I have had an over 40-year career, primarily at Arthur Andersen and PWC, and I have been focused during that career on audits of regulated utilities, as well as providing consulting, rate case advisory support and training, various seminars, on utility accounting, income tax and regulatory issues.

Over the course of my career, I presented testimony in ten regulatory jurisdictions and at FERC. In its rate case application, the company has removed all pension-related components, which are the prepaid pension costs, a prepaid pension asset of 112.5 million; the related accumulated deferred income tax, 27.8 million; and pension expenses, which in this case is a pension credit of 5.5 million from the revenue requirement determination.

The company went to Stephenson, supported this position on the basis that Dominion Energy Utah did not contribute to the pension trust in 2017 and 2018 and does not anticipate making cash contributions to the pension trust during the test period. Both OCS and UAE disagreed with the company's treatment of pension expenses and recommended an asymmetrical ratemaking treatment by including the negative pension expense in revenue requirements, while excluding the other components, the prepaid pension asset from rate base and the ADIT.

That is the asset, the prepaid pension asset, that is responsible for the pension credit, denying any return associated with this amount. I'm not going to pretend that pension accounting is easy. It's a complex issue, but it is important to understand the interplay between pension cost and credits and the prepaid pension asset to conclude why these components must be treated consistently and symmetrically.

My understanding is that this is an issue of first impression for the Utah Commission. Historically, the company has always incurred a pension expense and has always made cash contributions to the pension trust for the benefit of its employees, both current employees and retirees.

Now the company has a pension trust that is fully funded and, accordingly, no contributions are required. The inequitable result, stemming from the proposed ratemaking position advocated by OCS and UAE, providing customers the benefit of the lower pension expense, in this case negative, without compensating investors the source of the prepaid pension asset. It is lowering pension costs.

The existence of a pension credit does not reduce funds to lower the company's overall revenue requirement. It is a journal entry. Earnings on the assets in DEU's pension fund can only be used to meet DEU's pension service obligations. In other words, DEU does not have discretionary use of such earnings which contribute to a reduction in or sometimes, like in this case, a negative pension cost.

So what's important is to understand there are two concepts: Generally Accepted Accounting Principles, GAAP, pension expense, recognizes the cost of employees' retirement benefits over the employees' service period. It has several components that are determined on an actuarial basis. However, contributions are made to a pension trust to comply with ERISA and IRS requirements in order to ensure that the funds are available to meet the retirement obligations.

These two concepts are different. A prepaid pension asset is the difference between contributions to the pension trust in excess of the cumulative GAAP pension expense. The key components to determine the GAAP pension expense are service cost, which is the actuarial present value of the benefits for employees for a given year, and because present values are used, the second component of pension expense is the interest cost.

Conceptually, service cost and interest cost are generally independent of how or even if the plan is funded by the employer.

The third component of pension expense is the expected gain or loss on the plan's investments in a given year. To the extent that that asset exists in a pension trust, applying an expected return on such assets reduces pension costs.  This is important.  The prepaid pension asset reduces pension costs.

As I've explained, the prepaid pension asset is the amount of contributions to the pension trust in excess of cumulative pension expense.  Because pension expense is included in determination of revenue requirements, the source of the prepaid pension asset is investors should earn a return.

In this manner, customers benefited from a reduced pension cost, occasioned by the existence of the prepaid pension asset, and the investors are compensated for this provided benefit by receiving a return on contributions to the pension trust above the level of pension expense.

So these are the pension factors that need to be dealt with in the context of ratemaking and the revenue requirement, prepaid pension assets, pension costs, and the related accumulated deferred income taxes. These tax factors are interrelated.

The company's exclusive -- has excluded all of these components in their filing because they are not currently or expected to make further contributions to the pension trust.  This approach follows FERC precedent and is symmetrical and that all components are eliminated.

This approach is also consistent with the position taken by other affiliates of Dominion when the pension trust is fully funded. Hope Gas in West Virginia, East Ohio Gas in Ohio, and more recently, FERC ruled in and affirmed this ratemaking treatment to eliminate all pension components, including the exclusion of a pension credit from a revenue requirement calculation in a Dominion Energy transmission tax reform proceeding.

The approach advocated by OCS and UAE provides customers the benefit of the lower pension expense, in this case negative. Without compensating investors, the source of the prepaid pension asset gets lower in pension expense.

An alternative but symmetrical approach, which I talk about in my testimony, could be to include all elements in the cost of service. And in the fair and equitable and symmetrical approach, revenue requirements would include all components, the pension credit and a return on the investor-supplied prepaid pension asset, which produced the reduction of pension costs. This approach produces a similar result to that recommended by the company in its filing.

The bottom line is that for ratemaking

purposes, all pension factors should be treated symmetrically. So what I've done in my testimony is I've said is to be symmetrical, you can exclude all these components or include them all, in both cases, you get close to the same answer.

The company has advocated for the exclusion of everything. They relied on FERC precedent for that. An alternative approach is to include everything, which gets you to a very similar answer.

Thank you.

**Q. Thank you, Mr. Felsenthal.**

MR. SABIN: Mr. Felsenthal is available for cross-examination.

COMMISSIONER LEVAR: Thank you.

Mr. Jetter?

MR. JETTER: I have no questions, Mr. Chair. Thank you.

MR. MOORE: Excuse me, can we have a moment?

COMMISSIONER LEVAR: Do you want us to go off the record for a minute or is it just a quick moment? Should we go on to one of the other parties?

MR. SNARR: Go on to the others.

COMMISSIONER LEVAR: Major Kirk, any questions?

MAJOR KIRK: No questions.

COMMISSIONER LEVAR: Mr. Mecham?
MR. MECHAM: No questions.
COMMISSIONER LEVAR: Mr. Russell?
MR. RUSSELL: Yes, I do. Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. RUSSELL:

**Q. Mr. Felsenthal, I would like you to turn to page 9 of your testimony, please, starting at line 230.**

A. Okay.

**Q. In that section, you include a discussion of pension expense and how it's treated under GAAP, some of which you summarized in your opening here. And I wanted to ask you a couple of questions about Financial Accounting Standards Board Opinion 87, or FAS 87, which you also discuss in your testimony.**

**Maybe I'll start out by asking you to explain what that is, just to lay the ground work here.**

A. Okay. As I said, we will call it FAS 87, is the pronouncement issued by the FASB to cover the accounting for pension cost. It was issued in 1987. It lays out the factors to include when measuring pension expense for the period.

As I said in my testimony, the first component is the service cost. That's the actual present value of the benefits for employees for a given year. Since present values are used, the second component is the interest cost. As time grows closer to when the benefits recognize from the past will be paid, the present value increases. This increase of the obligation is measured as interest cost. Conceptually, service cost and interest cost are generally independent of how or even if the plan is funded by the employer.

The third component of pension expense is the expected gain or loss on plan's investment in a given year. To the extent that assets exist in a pension trust, apply an expected return on such asset reduces pension cost. And since it is an expected return, the difference between the actual gain or loss on investments, the expected return is referred to as actuarial gain or loss. And FAS 787 allows this gain or loss to be deferred into future periods in order to reduce the volatility of the pension expense.

The net effect of this deferral is to include the expected return on investments and the pension expense for the given year, and the remaining components of pension expense are, essentially, the recognition through amortization of the deferral of actuarial gains and losses that occurred in the past, such as plan amendments or other changes in the pension benefit.

FAS 87 allows these retroactive benefits to be deferred and amortized over the remaining service life. Taking collectively, these component comprise the pension cost for a given year.

**Q. Thank you. I want to direct your attention to line -- to the discussion starting on line 257 of your testimony.**

**The question there is: When does the pension accrual stop? And your testimony states, "Once the employee retires, his or her expense accrual stops and pension payments begin. Over time, pension expense, which considers investment returns on pension assets reducing such expense, will equal the pension benefits paid to retirees, less expenses of the plan, if any."**

**And I wanted to focus our attention on this second sentence, "Over time." Now FAS 87 -- under FAS 87, expense is based on an accrual and not a cash basis. Right?**

A. Correct.

**Q. And the amount of pension costs recorded is generally different than the actual amount of annual contribution made; is that correct?**

A. Yes, they are done on two different basis.

**Q. Right.**

A. There is GAAP that covers the pension expense, the income statement amount, and the contributions are based on the government rules for funding your pension plans.

**Q. Now over the life of the plan, however, total contributions are expected to equal the total FAS 87 expense. Right?**

A. Yes.

**Q. Okay. Now you acknowledge, I think, in your testimony, that current rates, in effect, include pension expense as part of revenue requirements. Right?**

A. The current rates --

**Q. Rates that are applied today, right now.**

A. In the company's last rate case, there was a test year pension expense.

**Q. And the pension asset was not included in rate base in that last test -- excuse me, that last rate case. Correct?**

A. That is my understanding.

**Q. Okay. And do you know whether pension asset has ever been included in rate base in Utah?**

A. Interestingly, and we said this in response to a data request, the company had a pension asset included in Utah, in -- let me get the right year. It's Data Request 11.04.

**Q. Whose --**

A. Kelly Mendenhall. Want me to read from it?

**Q. Well, can you tell me who asked the data request, so you and I are on the same page? And you have something in front of you --**

MR. SABIN: He is looking for the title at the top of the page. Is it OCS --

THE WITNESS: OCS Data Request No. 11.04.

BY MR. RUSSELL:

**Q. Okay. Is that in the testimony so he and I can both look at it?**

MR. SABIN: No, I don't think it's in his testimony. I think it's a --

THE WITNESS: It's a data request response.

MR. RUSSELL: It's not an exhibit? Okay.

MR. SNARR: It is an exhibit that is part of Ms. Ramas' testimony, if you want to look there.

COMMISSIONER LEVAR: Okay.

MR. SABIN: 2.07, I think, Phil.

BY MR. RUSSELL:

**Q. If you can give me just a second, Mr. Felsenthal.**

COMMISSIONER LEVAR: It is connected to Ramas' direct or surrebuttal, do you know?

MR. SNARR: Surrebuttal.

BY MR. RUSSELL:

**Q. And, again, the number was OCS 11 what?**

A. 04.

**Q. Thank you, I'm there.**

COMMISSIONER LEVAR: Mr. Snarr, could you remind me again what the exhibit number is connected to the surrebuttal testimony.

MR. RUSSELL: It is OCS 2.7S, and if you have it up electronically, it is page 20 of 26 of that PDF.

COMMISSIONER WHITE: Thank you.

COMMISSIONER LEVAR: Okay. Mr. Felsenthal, if you can go ahead and answer. Thanks for giving us a moment.

THE WITNESS: What is the question? Can you repeat the question?

BY MR. RUSSELL:

**Q. I think the question that I asked you --**

A. The question was, have they ever included --

**Q. Yes, if you are aware if they've ever included the pension asset in --**

A. The response to the data request says, "The company can confirm that the pension asset was included in the 1999, 1995 and 1993 general rate cases as part of the 165 account, which is prepaid expenses.

"Following the 1999 case, the company changed the account from 165 to a payable to affiliates account.

Following the 1999 case, the account related to the pension changed and it is unclear why the company excluded the balance from rate base.

"Following the merger, Dominion Energy noted the positive pension balance should include a separate asset account, and the company has included that account in its base period rate base consistent with the 1999 treatment."

**Q. Do you understand that last sentence, when it says, under the positive pension balance, is that talking about the pension expense or the pension asset?**

A. I don't know.

**Q. Okay. I don't either. So at least from the looks of this response to a data request, the pension asset has not been included in rates, at least in the last 20 years; is that right?**

A. Not recently. Yes.

**Q. Okay. But it seems that pension expense has been included, at least, through the last two litigated rate cases; is that right?**

A. Yes, there's an -- I think they provided a response -- or in response to a data request, they submitted how much pension -- or which rate proceeding and what the pension expense amount included in rates was.

I can add just one thing, that this prepaid pension asset, prior to, like, mid-2000s, the pension asset was a small amount because for the most part, the expense and the contributions were not that far off. What happened then in 2006, the government put in what they called the "Pension Protection Act," which increased the amount of contributions that the companies had to include in order to protect or make sure there was enough -- that there was more on hand to fund the pension cost when they became due.

So if you look at the contributions, and there's a schedule that has been provided and I believe -- I'll find it. The response to Data Request 11.05 shows that the contribution amounts have gone from a couple million of dollars a year from, let's say, 1998 until more recently, it's starting -- in 2006, it's 12 million, 10 million, 8 million. So the numbers went up considerably because of this Pension Protection Act which required more contributions.

**Q. And in those years that you're referring to, where the pension contributions went up, that's also during the time that pension expense was included in revenue requirement during these rate cases that we are talking about. Right?**

A. Well, again, this is in Ms. Ramas'

surrebuttal. In the 19- -- depending on where I want to go, in the 2008 base year, with a 2010 rate case, there was 5.9 million of pension expense in rates. In the 2012 base year, 2014 test year rate case, there was -- at the time we thought it was 8.18, but it has been revised. It is 5.6 million of pension expenses been in rates.

So there has been, and those rate cases, those are requests to recover pension expense.

**Q. And that request was granted. Correct?**

A. The request -- in the test year, that amount was part of the price that customers were asked to pay in revenue requirement based on that rate case.

**Q. Okay. And as we said earlier, the pension expense over the life of the pension asset should equal the pension benefits paid to retirees. Right?**

A. Over the life.

**Q. Yes. And if ratepayers are only asked to pay pension expense when pension expense is positive, doesn't that mean the ratepayers will overpay pension expense over the life of the pension asset?**

A. See, I disagree with the concept that you're stating. Ratepayers pay for service.

The services -- the amount, the price they pay is based on a test year estimate of costs, but as soon as that test year is over, the costs -- what the ratepayer is paying in rate -- I won't say no relationship, but there is very little relationship between the amount the customer pays after the test year versus the cost the company is incurring.

So I don't think I would argue -- I would not argue that the customers paid -- they pay for service. They don't pay for individual costs. I don't know if you can go to a customer's bill and say, "Well, here is your $100 bill for service this month, of which $6.25 is reimbursement of pension expense and $6.50 is reimbursement of payroll expense."

In a general rate case, where there is no tracking and true -- tracking or true-up, once rates are set, that determines the price but is not necessarily based on specific costs.

**Q. And, in fact, you mentioned earlier that the company has not made a pension contribution since 2017. Correct?**

A. Correct.

**Q. And yet, the rates that have been in effect since that time have included -- I think you mentioned $5.6 million of pension expense in the revenue requirement. Correct?**

A. I'll say it again. 5.6 million was the pension cost included in the company's test year, in its

2014 test year, in its last rate case.

**Q. So "yes" was the answer; is that right?**

A. What was your question? The question was, in the last rate case, pension expense was one of the costs included in the determination of revenue requirements, it was $5.612 million and that is all I know.

I can't say whether, and I wouldn't say, whether in years after 2014, that the company is -- that that amount has been used to handle to pay the pension expense that has been incurred for those years afterwards, whether positive or negative.

**Q. Let's talk for a moment about the pension asset. There are, as you mentioned earlier, required minimum contributions to a pension fund. Right?**

A. Correct.

**Q. And utilities have some discretion within limits, of course, in making pension contributions above those required minimum amounts; is that right?**

A. Yes.

**Q. And do you believe that a prepaid pension asset should be included in rate base?**

A. Yes, definitely.

**Q. Okay. So how should the Commission determine whether excess contributions, those above the required minimum, whether excess contributions to the pension plan**

**are prudent, given the latitude that utility management has with respect to the amount of contributions and the timing?**

A. Well, I won't speak for the company. The company can probably do it better themselves. But my understanding is they have a pension committee. They decide, based on a number of factors, how to fund the pension plan. They want to ensure that there's enough in the plan, in the trust, to be able to pay the benefits when they became due.

And what I say in my testimony, the amount that the company pays comes from investors. I think the investors -- as a result, the amount that is in the pension trust, in the prepaid pension asset, reduces pension expense to the benefit of ratepayers. And what I'm saying is, to the extent that the customers are getting a benefit of lower pension expense, brought about by contributions by the investors, they are entitled, they should get a return on it.

**Q. My question was not about how the company goes about determining how to exercise its discretion to make pension contributions above the required minimum. My question was how the Commission would determine whether that decision was prudent.**

A. Like I say, the Commission would have to put its own judgment, I would guess, over that of the company in determining what's -- the company meeting with its actuaries, professional advisors, understanding of the market, understanding of returns, understanding of pension benefit payments, what kind of risk they want to take, I think all those factors lead into how much -- how much the contribution can be for a given year.

If you think about it, and I will just use an example, if today we knew that the ultimate benefits the company's employees would need once they retire was $3 million and you could put in $1 million today or $2 million or some amount which will, with earnings, accrete or produce income to get you that $3 million. You could fund the $3 million benefit payments by only putting in 2 million or 1 million or whatever it is. So I think that is one of the factors that goes in there. The more they can put in, the greater it will grow unless something terrible happens like 2008, where the market just craters.

But I think that is another factor that needs to be considered when they are determining how much to fund. What is the tolerance for declines in the market? But over the long run, the factors that the company considers is: How much can we put in that will grow so there will be enough in there to pay the benefit payments.

**Q. In that scenario that you just described with the company exercising its discretion to put in money, if the prepaid pension asset is included in rate base, what stops it from becoming sort of a fund where the utility can park investment dollars that will earn its weighted average cost of capital in a rate case without having to justify the investment as used in useful as it would have if it were investing it in plants to provide service to its customers?**

A. No, that's a fair question. The part that -- you're looking at one side of the equation. However much they put in the prepaid pension asset, however it grows to, whatever length it grows to, the earnings on it reduce pension expense.

And in my -- what I calculated -- or pension costs. What I calculated in the company's case is the prepaid pension asset which will earn at Dominion's expected return of 8.75 percent. That produces what -- that produces a lower pension expense of around $10 million. If you then turn around and allow a return on that prepaid pension asset, it is less than or very close to the $10 million.

So I would think that the way you would determine that this is a bad deal for the ratepayers, that that's -- I guess that's possible, is if the net-net is harmful for the customers.

But right now, it is a benefit for the customers, having this prepaid pension asset which reduces pension expense.

**Q. You mentioned in your opening summary that pension expense is -- I think you called it "a journal entry." It doesn't really effect revenue requirement. Is that an accurate -- it's been a few minutes anyway.**

A. No, it's a journal entry. Pension expense is a journal entry, but the debit part of it, if it is an expense, that should enter into revenue requirements. Either way, normally, in many jurisdictions, as long as companies are continuing to make contributions, accrual basis of accounting works, you get the pension expense or credit in revenue requirements, but at the same time, I believe, you ought to include in rate base the pension asset which is giving rise to that lower pension expense.

**Q. This will be my final question, perhaps, but isn't it asymmetrical to include pension expense only when the expense is positive but never when it is a credit?**

A. What I have said here is the company's included a credit, a pension credit, and it's only including the credit which I characterize as asymmetrical because you've only included the credit in revenue requirements, the lowering of pension expense, without including the asset coming from shareholders that gave rise to that pension -- that reduced pension expense, which, in this case, is reduced lower than zero.

But what I said is the reason I -- I have read the FERC decisions, and they're -- FERC has had a concept that when there are no contributions, you stop making contributions, potentially, because the plan is fully funded or somebody believes there is enough in there to pay the benefits, that you stop recording any pension expense for ratemaking purposes.

You still are a pension expense for GAAP and it would be negative. You would still have that. But for ratemaking purposes, they would say, "No, you don't have any contributions. No pension expense, no pension credit, no pension anything."

So FERC is -- and what the company has done by taking everything out, is symmetrical. They are taking all the points out. What I propose -- my alternative approach is to put everything in. Put it in the pension expense, whether positive or negative, but also factor in to rate base, let them earn on the pension asset contributed by investors that's producing that negative expense or that lower expense.

What is not symmetrical is to just include -- just pick out and say, "Well, I will take that negative pension expense, I like that. We will reduce revenue requirements for it and not consider any of the pension asset."

And when I said "journal entry," what I meant is this, and this is an example. I will make a simple example. Let's just assume that the company has filed a rate case and they have two costs: They have payroll of $10 million and they have a negative pension expense of 2 million.

So they file the rate case. They receive a revenue requirement of $8 million, the 10 minus the 2. They collect 8 million from customers but they have 10 million in payroll expense. How are they going to pay the 10 million in payroll expense? Answer, they need 2 million extra dollars. From whom? It's not going to come from the ratepayers. This was just a journal entry reducing the rates.

The way I'm going to get the extra $2 million to pay the payroll is to get that from investors. There is only three sources of funds: the ratepayers, customers, the investors or the government, and the government is not helping, no disrespect. But in this case, it is just those two

So that's why -- negative pension expense or reduced pension expense -- it doesn't have to be negative, a reduced pension expense, which would -- which, again, it's a journal. That reduction has to come -- the reduced pension expense which doesn't turn in -- which reduces revenue requirements, has to come -- has to be made up somewhere else and that has to come from investors.

**Q. What do you call asymmetrical, including a pension expense but not including the pension asset? Do you agree that that's exactly what has been done in the last, at least, two litigated rate cases in the state?**

A. It looks like there was no -- the pension expense was included. There was no offset for the prepaid pension asset.

**Q. Okay. Thank you. That's all I have.**

COMMISSIONER LEVAR: Okay. Why don't we take a ten-minute break and we will go to the Office for cross-examination. So we will come back at, let's say, 2:50.

(Whereupon, a break was taken.)

COMMISSIONER LEVAR: Okay. We are back on the record, and we will go to the Office of Consumer Services for any cross-examination of Mr. Felsenthal.

CROSS-EXAMINATION

BY MR. MOORE:

**Q. Hello, Mr. Felsenthal. Sorry I butchered your name.**

A. Happens all the time.

**Q. Just some housekeeping matters first. You have access -- I'm sorry, I don't have the exhibits here.**

**These lines of question deal with your recent changes through the pension expense, so I'm just going to wonder, in your packet, do you have the Dominion Energy response to OCS Data Request No. 11.12?**

A. I think so, yes.

MR. SABIN: Hang on, I have to find that.

Robert, what was that number again?

MR. MOORE: It was 11.12.

COMMISSIONER LEVAR: Is that an exhibit that we would have too or --

MR. MOORE: No. This is just relating to his change in his testimony today, so I wasn't able to prepare it today.

COMMISSIONER LEVAR: Okay.

MR. SABIN: Sorry, Robert, what did you just say?

MR. MOORE: These questions relate just to the change in his testimony.

MR. SABIN: I see.

MR. MOORE: That just occurred, I wasn't able to prepare an exhibit.

MR. SABIN: All right.

BY MR. MOORE:

**Q. This data request refers specifically to the line in your testimony that you changed; is that correct?**

A. Yes.

**Q. Do you know why -- and you'll see in the answer that $8.1 million figure was responded -- the response contained the $8.18 million that you had in your testimony, that has been changed. Correct?**

A. Correct.

**Q. Do you know why this data response wasn't corrected?**

A. I think what you are asking is when I adjusted it, I started with 8.18 and I reduced it be 2.468, not the 3.805. Right?

**Q. All right.**

A. And the reason is, the 3.805 clearly states it was made to pension and OPEC expense. So it combined pensions and other post-employment benefits, and the pension only piece, I have been told, is the 2.468.

**Q. When did you discover this mistake?**

A. This week.

MR. SABIN: Robert, I will note for the

record, the answer actually includes the statement about the reduction, that you need to reduce the 1.8, stated in the sentence below the one you were referring to. So it doesn't need to be corrected. It has the reduction in the next sentence.

MR. MOORE: I see, thank you.

BY MR. MOORE:

**Q. Okay. We are going to switch gears here. I'm going to hand you -- we are going to hand you a copy of OCS Cross Exhibit F1.**

(Exhibit was handed out.)

BY MR. MOORE:

**Q. I will represent to you that this is the testimony of Thomas P. Wohlfarth -- I might have mispronounced his name, so I will spell it for the court reporter, W-O-H-L-F-A-R-T-H -- who is the senior vice president of regulatory affairs of Dominion Resources.**

**Mr. Wohlfarth gave this testimony under oath at the hearing to approve the Settlement Docket 16-057-01, a settlement record of approval of the merger between Questar Corporation and Dominion Resources.**

**I'm going to ask you to turn to page 18 and 19 and read the highlighted portion.**

A. "Paragraph, I think that's 11, in this stipulation deals with the commitment to within six months of the completion or the approval of the merger. We will, at shareholder expense, contribute $75 million to the pension -- Questar pension fund.

"And the benefit of that will be, you know, obviously a function of pension expenses is return on pension assets. And that will provide a -- an expense reduction benefit for Questar Gas customers in perpetuity in essence.

"The -- you know, so I think with this pension contribution, this is really a win for -- it's a -- it's, I'd say a win-win-win. It's good for the company because it really stabilizes the pension plan, and, of course, it's good for customers as well because they are the beneficiaries of the pension plan. And most importantly as well, it will provide about $3.3 million, our estimate, annual benefit in perpetuity for customers."

**Q. Thank you.**

MR. MOORE: Request to submit to OCS Cross Exhibit F1.

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

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

MR. MOORE: Thank you.

(Hearing Exhibit OCS F1 was
marked for identification.)

BY MR. MOORE:

**Q. Now I'm going to hand you a copy of OCS Cross Exhibit F2.**

(Exhibit was handed out.)

BY MR. MOORE:

**Q. I will represent to you that this is a copy of David M. Curtis', of Dominion, written testimony in the merger case, explaining how the pension contribution will provide customers with approximately $3.3 million in annual benefits in perpetuity.**

**I will ask you to turn to page 4 and 5 and read the highlighted portion. There are two pages 4, which I noticed, so could you go to the page 4 that starts with line 70?**

A. I have only one page 4 but that's okay. I have line 70.

**Q. All right.**

A. "Yes. The major components of pension costs include service cost for the current year's accrued benefits, interest costs on the plan's liabilities, amortization of actuarial gains and losses and a credit for estimated returns on plan assets.

"An additional contribution of 75 million to the pension plan would change the calculation of estimated returns on plan assets.  The higher return on assets would directly reduce Dominion Questar Gas' portion of pension expense from the Dominion Questar retirement plan.  The pension expense is included in rate as part of cost of service."

Should I read the question?

**Q.   Yes, please.**

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

"A.  Based on a 7 percent expected return on plan assets, the 75 million contribution would result in approximately 5.2 million in annual pension expense reductions, (pension contribution multiplied by expected return on plan assets.)  Applying Questar's current allocation methodology, 3.3 million in annual benefit would allocated to Dominion Questar Gas customers."

MR. MOORE:  Request to admit OCS Cross Exhibit F2?

COMMISSIONER LEVAR:  Okay.  If anyone objects to that, please indicate to me.

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

(Hearing Exhibit OCS F2 was marked for identification.)

BY MR. MOORE:

**Q. Isn't it true that under Dominion's plan to exclude the negative pension cost from the revenue requirement, customers will now receive the approximately $3.3 million in annual benefits that Mr. Wohlfarth promised and explained by Mr. Curtis?**

A. The pension expense will be reduced by that amount, yes.

**Q. But the customers will not receive the approximately $3.3 million in benefits; isn't that correct?**

A. They will receive it. It's -- the 75 million is a component of that $112 million prepaid pension asset. As a result, even in my calculations, when I'm figuring out the benefits to the customers, the reduction in expense, it's -- this 3.3 million is part of it.

**Q. You testified that it would be unfair for the customers to receive the benefits, including the pension expenses, the negative pension expense, in the revenue requirement without allowing the shareholders to receive return of investment in the -- of the asset; isn't that correct?**

A. What I said is, it is unfair to not be symmetrical. And the shareholders contributed amounts, some of which -- 75 million of which comes from this

testimony -- this merger agreement.
But the entire prepaid pension asset reduces expense, which is what I said, and all I said is asymmetrical treatment would be that the investors should get a return on their assets.

**Q. Well, let me ask you this question in another way. Assuming, hypothetically, the Commission agrees with the OCS and includes a negative pension cost in the revenue requirement and doesn't include the pension asset, that would benefit the ratepayers to a significantly more degree than if the pension -- if, as Dominion is suggesting, both the pension expense and the plan asset are excluded; isn't that correct?**

A. Sure, because you're only -- you're taking the good, the credit, the reduction in pension expense, without compensating the investors for the assets they contributed causing that reduction in pension expense. Of course that's better.

**Q. And isn't that what was promised by Mr. Wohlfarth and explained by Mr. Curtis?**

A. I don't know. They just said, "There will be a reduction in pension expense," and there is.

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

COMMISSIONER LEVAR: Any redirect?

MR. SABIN: Yes, thank you.

REDIRECT EXAMINATION

BY MR. SABIN:

**Q. Mr. Felsenthal, I want to get a couple of basics so we are all on the same page. The pension asset we are talking about, that is a fund of money that is held where?**

A. In the pension trust.

**Q. And is that part of the company -- can the company access those funds to use them for its payment of its cost of service?**

A. No, and I make that point in my testimony. I should have made it earlier. The moneys in the pension trust can only go to making the pension payments. It can't be accessed and used for general corporate purposes, which is why in my example with my $10 million payroll expense, offset by $2 million of pension credit, it's not like there's $10 million -- the 2 million that has to be funded, because I don't have access to the amount that the ratepayers paid, that's in the pension trust.

**Q. So let me approach it mathematically this way: Let's take that credit amount, whatever it happens to be, let's just say it's $3 million, just making that up. If that credit is $3 million, and we took and gave customers -- and reduced their revenue requirement of the**

**company by $3 million, what is the impact of that on the company?**

A. The company has less cash of $3 million.

**Q. So if its expenses we're -- if it needed to add a revenue requirement of $17 million, and you took the credit and applied it to that $17 million, reducing it by 3 so that there's now -- the customers have got that benefit, what does the company have to do at that point?**

A. The company has to find $3 million to fund its --

MR. MOORE: I'll object at this point because it's outside the cross.

COMMISSIONER LEVAR: Do you want to respond to that Mr. Sabin?

MR. SABIN: Yes. I don't think so. I think we need to understand this, and I think Mr. Russell and Mr. Moore's questions -- in my mind, I want to clear up and make sure everybody is understanding what is going on here, but --

COMMISSIONER LEVAR: And I apologize, but for my benefit, will you repeat the last question you just asked?

MR. SABIN: Sure. My question was: If you take the $3 million credit and you use it to reduce revenue requirement, as is being suggested by the two people -- the two parties that are challenging the company's exclusion of that credit from the revenue requirement analysis, my question to him was, "What do you have to do -- what would the company have to do to cover that money that is taken out by the credit?"

COMMISSIONER LEVAR: I understand the objection, but I think I'm going to allow this as within the scope of cross-examination.

BY MR. SABIN:

**Q. And I actually don't remember if you had anything more you were saying on that, Mr. Felsenthal.**

A. I will start again. So if there's a pre-credit cost of service of 17 million and you apply a 3 million credit to reduce the revenue requirement to 14 million, the question is: How are you going to pay the $17 million of cost when you have only 14 million from the customers.

Okay. If that credit came about by earnings on the pension trust, those moneys are in the pension trust. I can't access them. I can't access those moneys. They have to go to pay the pension benefits. So I'm going to have to go borrow or seek investor money to make up for the credit, the reduction in the pension expense caused by this.

**Q. Okay. Thank you. Do you have an understanding, one way or another, whether the company made a $75 million pension contribution to the pension trust?**

A. I believe they did. I don't know that for sure but I think they did.

**Q. Will you take it as fact that that occurred?**

A. Yes. The reason I'm saying that is because there's a pension -- a prepaid pension asset of a 112 million, and then the contributions that I've seen in the past, the contributions and the expense, it doesn't come close to that.

**Q. Okay.**

A. So the extra contribution to the pension trust makes sense to me that it came from -- clearly from the investors, directly from the investors.

**Q. So when there is a credit as there is now, how does that benefit customers?**

A. The credit -- well, it depends on whether there are contributions or not.

**Q. Well, let's take what is going on now, real world. My understanding is there are no contributions being made and there is a credit. How are customers benefited, if at all, from the fact that there is a credit?**

A. The customers are benefitted because pension expense is being reduced by the amounts -- the earnings on the expected return of paid pension assets.

**Q. So the customers are not being required to pay otherwise expenses that would exist absent there being a credit?**

A. Correct.

**Q. Is the company taking, in that circumstance, any benefit from the customers by not including the credit in the revenue requirement?**

A. No.

**Q. Mr. Russell asked you a question earlier about, in those years where there was an expense, a pension expense, and customers were being asked to pay a portion of that pension expense, I want to -- do you understand -- do you remember when he was asking you about that?**

A. Yes.

**Q. Can you tell me, during those years, by not including the asset, were customers being made worse off by the fact that the asset was not being included in the revenue requirement calculation?**

A. No. In those -- in those years, for whatever -- because the pension -- the pension expense was reduced by the expected return on the pension asset, but the pension asset was not included in rate base or didn't get earnings. The customers were benefiting at the -- I hate to use the word "expense," of the investors, who put the -- who funded the prepaid pension asset.

In other cases, I have called that the "free lunch" syndrome. They get the free lunch. They get a reduction in pension expense. There's still an expense. There's still a positive pension expense, but it's less than what it otherwise would have been because the earnings on the prepaid pension asset reduced it.

But the company did not ask for a return on, at least since 1999. The assets that gave rise to it, the investment that gave rise to it.

**Q. So in that circumstance, if I understand you correctly, you are saying that the party that missed out, if at all, in getting the benefit in those years was the investors who did not get a return on the asset itself being included?**

A. Exactly.

**Q. Okay. You were asked about -- the question was when customers pay this expense versus don't pay this expense, and you offered an explanation that customers don't pay specific expenses. They pay for services.**

**If you were to do what the other side is**

**suggesting -- well, let me ask it this way:  Do we have an issue with pensions where they are handled on a single item -- as a single-item expenditure in these kinds of cases you have been involved in?  In other words, were they dealt with purely in isolation as a pension expense or were they dealt with in the overall revenue requirement?**

A.   They are almost always dealt with in terms of the overall revenue requirement.  The single -- I mention in my testimony that certain jurisdictions have a tracker, a pension tracker, where they keep track of the pension expense, the assets that gave rise to it, and they true it up annually.

So that way, everyone is even.  No one is out.  No one is short.  The actual expense is paid for by customers, the customers get the benefit of the credit and it all works out.

**Q.   Thank you.  Mr. Russell talked to you about the impact of, perhaps, overfunding the pension asset. Is it true that if a pension asset is overfunded, the excess money would stay in the pension account for the employee benefits and can't be withdrawn by the company for other purposes?**

A.   That's correct.  The asset, once it goes to the pension trust, the funds in that trust can only be used to pay the pension benefits.

**Q. But it's true also, isn't it, that the funds that stay in that account will defer future expenses as long as they stay in a positive state -- credit state?**

A. As long as there is a prepaid pension asset, as long as there are funds in the pension trust, the calculation of pension expense is reduced -- is credited for the earnings on -- expected earnings on those assets.

**Q. And do you have an understanding of whether customers have been required or have not been required to pay pension expenses or whether there have been plan contributions since 2017?**

A. My understanding is since 2017, there have been no contributions, no further contributions to the pension trust. None were required.

**Q. Let me ask you, if you assume for the sake of my hypothetical that the company has underearned in every one of those same years, would the customers have missed out from a benefit from any contributions they made, any moneys towards contributions they made?**

A. Not sure. Could you rephrase that or --

**Q. If customers were paying for pension expense by virtue of some rate case in 2013, and the company is actually underearning every year -- let's say the company underearned in every year since 2013. Okay? Are you**

**following me?**

A. Uh-huh.

**Q. Have customers been hurt in any way in the contribution portion that was included in rates, during that period of time, if the company has underearned?**

A. Definitely. I mean, the customers aren't paying for some costs if they are underearning.

**Q. Is it your position that the company's treatment of the asset and the credit in this particular rate case is consistent with FERC precedence?**

A. Yes, there have been a number of FERC cases, which I cite, where -- when there is no contribution, FERC -- and the companies have attempted to use accrual accounting and get the pension expense and the prepaid pension asset. And FERC has said, "No, in this case, because you have made no contribution, no expense, no pension, anything."

So they just zeroed everything out, which is what I said in my testimony, and I also did a calculation to show that excluding everything as a result of zero, including the prepaid pension asset related to FERC taxes and the negative pension expense, in other words all components, also has a basically -- it's basically a wash.

**Q. So two more questions. In the world we are**

**in right now, where there is a credit of some amount, are customers going to receive, either now or in the future, the full benefit of that credit?**

A. If you put everything together, the customers -- like I say, if you take the credit, you take the assets, the asymmetrical, return on planned assets and include it all it, basically all of that would ignore to the benefit of the customers.

**Q. Right. So let me make sure you understand what I'm asking. If we do what the company is doing and you take everything out, or we do the alternative of putting everything in, in either case, will the customers receive the benefit of -- the full benefit of the credit money -- the moneys that are sitting in that trust account, to pay for that pension -- those pension expenses as they arise? That is my question.**

A. Absolutely.

**Q. Okay. Is the company getting some benefit from the customers by having that credit in there? Are they keeping some benefit from the customer?**

A. No, the -- like we've said, the pension trust is a self-sustaining trust. The moneys that go into it can only be used to fund pension benefits.

**Q. And finally, you were handed two exhibits, OCS F1 and F2. I just want to know if in that**

**testimony -- I see in F2, which is -- I'm looking on page 4, I guess the second page 4, line 79, if you can find that.**

A. Sorry, I do have two page 4s.

**Q. Go to the second page 4.**

A. Yes. Okay.

**Q. The benefit that I understand him to be discussing is a reduction in pension expenses, not the receipt of a pension credit.**

**Would you review that and tell me if you have an understanding of whether he's talking about giving customers the benefit from a pension expense or whether he's talking about giving customers the benefit of a pension credit?**

A. I'm not sure you can tell that without knowing the other components of pension cost. I just know that the pension cost calculation itself is going to benefit by the 5.2 million or the 3.3 million, with allocations to reduce it.

**Q. So whether the customers would be -- if the account was not in the credit standpoint, if there were expenses that were required, or in a circumstance when there is a credit, is it your understanding then that in either case, the moneys that were contributed by, in the $75 million contribution, would defray that amount, at**

**least of the pension expenses?**
A. These amounts, the earnings on the 75 million, reduce pension costs. And if the other components of pension expense were -- I will make up a number, $10 million, reducing it by 5.2 would reduce the expense down to -- 10 million less 5.2 -- 4.8.
If the other components of pension expense, service cost and interest, was a million dollars, then applying this credit would get you to negative. In either case, it is reducing the cost.
**Q. Thank you. I have nothing further.**
COMMISSIONER LEVAR: Okay. If anyone has recross, please let me know.
You do, Mr. Russell? Do you have any recross?
MR. RUSSELL: Yes, I think I may.
COMMISSIONER LEVAR: Okay. Anyone else? Okay. Let's go to Mr. Moore first.
RECROSS EXAMINATION
BY MR. MOORE:
**Q. You testified that if the Commission keeps going in the usual mode of including the pension expense and excluding the pension asset, the customers would have a free lunch; doesn't that reflect your testimony?**
A. I think I said the customers will get the

benefit of the reduced expense without paying for the investor contributions that contributed to it.

**Q. But isn't that what Mr. Wohlfarth and Mr. Curtis promised them?**

A. I think all -- again, just reading what you sent me, what you gave me, it says that they will benefit from the 75 million contribution to the trust. And they are getting a benefit. There's a reduction in expense.

**Q. But they said it would benefit by 3.3 million annually and in perpetuity?**

A. In expense.

**Q. And that is going to happen regardless of whether you include the pension asset -- the pension expense in the revenue or not?**

A. The pension expense is reduced by that amount.

**Q. Is that going to happen regardless -- so then what difference does it make if the pension expense is included in rate base or not, if the customers receive the precise same benefit?**

A. Can you please rephrase that?

**Q. Do the customers receive the same benefit from including the pension -- the negative pension expense in the rate base without including the pension asset in the rate base, as they would if all pension**

**assets were taken away from the rate base as Dominion suggests?**

A. I am not saying Dominion suggested it, but obviously, I said earlier, if on one hand, you are going to reduce expense by some amount and that's it, there is going to be a benefit of that amount. If you are more symmetrical, like I think you should be, the reduction in expense is offset by the -- or should be offset by the funds, the source of the funds that contributed to that lower expense. So obviously --

**Q. But my question was --**

A. -- if you have a lowering and an increase combined, that's going to be less than if you just reduce it by the expense.

**Q. My question was: What benefit -- will there be a difference in benefit assuming that the pension expense is included -- negative pension expense is included in rate base and the pension aspect is excluded and when the pension -- negative pension aspect is excluded, would the customers receive the exact same benefit?**

A. The math would agree with that. It's not as -- you're going to get a benefit if you only reduce expense without putting the other side in, yes.

**Q. Well, then why does Dominion care? Why don't**

**they just go with OCS's suggestion if the same results apply either way?**

A. I didn't say that -- we are not communicating. I'm saying that the pension expense is reduced because of the 75 million. That will reduce -- that will result in less pension expense. Okay?

**Q. Right.**

A. Okay. So that's one number. That is a benefit to the customers. What I'm saying is if you are symmetrical and include, as an offset, the funds that contributed to that negative pension expense, it's less of a benefit, for sure.

**Q. Okay. Let me try this another way. I don't think you're answering my question. Let me try it another way, see if I can make it clearer to you.**

**Mr. Curtis stated that applying the current allocation methodology, $3.3 million of annual pension benefits would be allocated to Dominion Energy Gas customers. Now that works as a reduction in the revenue requirement when the expense is negative. Correct?**

A. I don't know if it says -- the expense is lower by 3.3 million.

**Q. If the expense is negative, does it reduce the revenue requirement?**

A. If the expense is lower or negative, it reduces the revenue requirement, yes.

**Q. Does it reduce the -- I'm having a problem to see how it makes a difference. Why don't you explain to me what is a "free lunch" and what the customer receives as a free lunch and what the customers receive if, as Dominion suggests, the pension -- negative pension expense is excluded from rate base?**

A. Okay. What I mean by a "free lunch" is that the investors contribute assets. Those assets -- the investors contribute assets. Those assets reduce an expense. And I only consider the reduction and expense in determining revenue requirements. They are -- without considering the return on the investment that the investors have contributed. It's a free lunch.

**Q. And that free lunch is worth about $3.3 million, isn't it?**

A. Based on reading the second page 4, line 78 to 82, it looks like there was a $3.3 million benefit to the customers that they are receiving without paying for the assets -- the asymmetrical asset that caused it.

**Q. And they won't receive that under Dominion's theory that negative pension expense should be excluded from the rate base; is that correct? They won't receive that free lunch?**

A. They don't get a free -- right. No one should be entitled to a free lunch. You should pay for the --

**Q. Thank you. Go on, I didn't mean to cut you off.**

A. I was going to say, if there was a reduction and expense due to an investment source to investors, you should handle both. That's why we have a rate base earnings. Right? That's why there's a return on a rate base and there's operating expenses. The return on the rate base results in positive or negative expenses. They should both be handled symmetrically.

**Q. That's all I have. Thank you.**

COMMISSIONER LEVAR: Thank you.

Mr. Russell?

MR. RUSSELL: Thank you.

RECROSS EXAMINATION

BY MR. RUSSELL:

**Q. Mr. Felsenthal, are you aware of testimony or responses related to data request that identify what the pension expense would have been without the $75 million contribution made in 2017?**

A. You have to -- I have seen that somewhere.

**Q. Okay. I don't want to belabor this point, just come with me for a second.**

**If the pension expense, absent that $75 million contribution, would also have been negative and the $75 million contribution made it more negative, and then the company is saying, "Well, let's zero it out," the customers are not receiving the benefit of the negative pension expense that they would have otherwise received, absent the $75 million contribution. Right?**

A. Yes.

**Q. Okay. And then I want to ask you one other set of questions. It may only be one.**

**Mr. Sabin asked you some questions about who benefited and who lost from -- not including the pension expense since the 1999 rate case. Do you recall those questions?**

A. Vaguely.

**Q. I may have said "pension expense." I meant to say pension assets, my apologies.**

A. That is why it was vague.

**Q. Yes, I'm sorry. Mr. Sabin asked you some questions about -- including the pension expense but not including the pension asset since the 1999 rate case; do you recall that?**

A. Yes.

**Q. And he asked you who lost out from that series of events; do you recall that?**

A. Yes.

**Q. And your answer was that shareholders lost out because the pension assets were not included; is that right?**

A. Yes. The investors did not get a return on the investment they put in, which caused that negative pension expense, that lower pension expense.

**Q. But doesn't your answer assume that the pension asset was positive?**

A. It could go either way. I agree. If it's a negative pension -- if it's a negative pension expense, it should reduce rate bases. It should go either way.

**Q. So a negative pension expense?**

A. Pension assets. Well, then it is a pension liability.

**Q. Right. If it is a negative pension asset or a pension liability, by including it, it would reduce rate base. Right?**

A. Correct.

**Q. Okay. That's all I have. Thank you.**

COMMISSIONER LEVAR: Okay. Does Dominion have anything else?

MR. SABIN: Can I ask a couple of clarifying questions?

COMMISSIONER LEVAR: Yes.

MR. SABIN: Unless it would peeve you.

COMMISSIONER LEVAR: No.

FURTHER REDIRECT EXAMINATION

BY MR. SABIN:

**Q. Okay. I want to be clear on a couple of things. Is this truer than not, that the company is not asking to include the asset in this case and receive a return on that asset?**

A. The company is excluding all elements, all components of pension.

**Q. Okay. So if the Commission were to adopt the company's position, the company wouldn't be receiving any return on its pension asset, regardless of how we want to look at it, there just wouldn't be a return on that portion?**

A. Correct. They would receive -- there would be no compensation, one way or the other, with expense or return on anything to do with pensions.

**Q. Okay. Now if the Commission went with your alternative, which was to go and be symmetrical the other way, include the credit, include the asset, include all components of the pension issue, the customers would still be receiving the benefit of the pension contributions in the form of defrayed expenses and the company would be earning a return on the asset itself?**

A. Correct.

**Q. Okay. Under the scenario that is being advocated by the OCS and by the American National Gas Council and UAE, you would have a circumstance where customers would get a credit applied to reduce the revenue requirement, but there would be no corresponding gain to the company on the asset funding that credit?**

A. Correct.

**Q. And there would be a shortfall for the company in the revenue requirement between what customers are paying and what the revenue requirement actually is?**

A. Right. And that would be similar to my -- whatever example we've used, the 17 million versus -- or the 10 million versus 8 million example, where there is not enough revenue requirement to pay the cash expenses.

**Q. Last set of questions. When the contribution was made, the $75 million contribution or any contribution by the way of investors, isn't it true that money would offset some portion, at least of customer expense, for that pension account, either now or in the future?**

A. Correct.

**Q. So customers in the circumstance where Mr. Moore was talking about, where you make a $75 million**

**contribution, those funds would -- customers would receive the benefit whether it paid an expense today or whether it defrayed expenses into the future or created a return to defray expenses into the future, that would be received wholly by the customers?**

A. Either way.

**Q. Thank you. That's all.**

COMMISSIONER LEVAR: Mr. Moore?

MR. MOORE: I apologize for doing this again.

COMMISSIONER LEVAR: Sure, but at some point, we have to cut it off.

FURTHER RECROSS EXAMINATION

BY MR. MOORE:

**Q. Getting to the last question where you mentioned that customers would benefit in the future, that wouldn't be an annual benefit, would it?**

A. It would be -- it would be -- well, it would be a benefit as long as there's a pension asset, a prepaid pension asset. The amount might change.

**Q. The amount might change, so wouldn't it be approximately $3.3 million annually in perpetuity?**

A. It could be more, if the company puts in. They didn't. But if they decided to put more money in, the number would be greater.

**Q. But they didn't?**

A. They haven't.
**Q. I have no further questions.**
COMMISSIONER LEVAR: Okay. Thank you.
Commissioner White?
EXAMINATION
BY COMMISSIONER WHITE:
**Q. You have noted some FERC and other jurisdictional precedents to allow for this concept for Option 2, which, I guess, is the symmetry of allowing the asset -- I apologize, these terms, the asset to be rate based versus the potential accounting of the revenue requirement. Right?**
A. Of the expense.
**Q. Are you aware in those contexts if those other jurisdictions -- whether or not those were decided prior to that decision, to infuse the pension fund with from shareholders, I guess?**
A. It would be a significant --
**Q. Let me just tell you where what I'm trying to get here.**
A. Okay.
**Q. What the predicate here is, essentially, it would be an investment decision. In other words, there would be potential for a return on it for exchange for the symmetrical or the wash. Was that decided, that**

**issue decided before a particular company or investors were allowed to make that decision?**

A. I am not sure the history of it, but I do know in my testimony, I have a couple of stated examples, where they were made aware, or at the time, somebody may not have asked for it prior, but once they were able to demonstrate that the source -- the key is, what is the source, the prepaid pension asset? If it's one big contribution like 75 million, well then you know. They said they were going to do it. They did it.

In the normal course of business, to the extent that there are reductions in pension expense, okay, and there are contributions being made under ERISA, that are in excess of pension expense. That is a contribution made by investors, and they need a return on it.

**Q. And the question I'm getting at is if the regulatory construct of it, if an investor -- the expected return on their investment, but, typically, that's -- the predicate to that is the request to make that investment. So that is what I'm wondering. And you are saying you are not aware of any jurisdiction that is actually opined on that prior to the investment being made?**

A. I don't know. There could be. I don't know.

I just know that they ended up -- by having this concept, there was a -- it was one time called a "prepayment," a prepayment because you are prepaying for the pension expense. Right? You can't get it out of the fund, and the investors -- it's their money, they proved -- I have seen cases where they talk about it being used and useful, all that other good stuff, and they get a return on it.

**Q. Let me ask you another question. This partially has to do with the testimony from Mr. Wohlfarth that is referenced in OCS Exhibit F1. And I'm looking at page 19, starting at line 3, and I will cut to the chase. It references, as part of merger commit, a charitable contribution in the amount of $1 million.**

**You know, this merger came in as a stipulation, and so we're not privy, as the Commission, in terms of the put and take of what goes into that, but I guess my question, is there a distinction to be made to -- of shareholders' money. Right? A million dollars, was there an expectation from shareholders to earn a return on that?**

A. I don't know. I will tell you the difference is there wasn't a benefit. There wasn't a -- there is not a reduction in cost like there is on the pension.

**Q. Okay. That is all I have. No further**

**questions.**

COMMISSIONER LEVAR: Commissioner Clark?

EXAMINATION

BY COMMISSIONER CLARK:

**Q. So I would like to focus on the 37.5 million that's the portion of the asset that's not directly related to the merger and what may have been represented to the Commission and to the people of this community or this state regarding what the 75 million was all about.**

**So let's just, for hypothetical purposes or for my purposes of trying to understand, the investors as the source of the asset -- that is what I want to understand better. I don't think we have a situation where debt was issued or shares were issued to generate 37.5 million to put in the pension fund; is that correct?**

A. I don't know, but I will --

**Q. Okay. But I mean probably not, at least. Right? So in a situation where -- and I will just use simplifying assumptions. We have $5 million in rates that's been authorized as an annual pension expense, and let's say we have a year where, sort of, magically, the GAAP accrual is 5 million, the actuarial ERISA calculation is 5 million.**

**So $5 million in rates comes to the company, and then the 5 million that goes into the pension**

**account that same year to meet the ERISA requirements is -- somehow that is investor contribution, rather than the source of it being customers; is that how you are thinking about it?**

A. No. In that case, if the customers -- if the pension expense was $5 million and the ERISA requirement was $5 million, there is no prepaid pension asset because the prepaid pension asset is the excess of contributions over expense.

**Q. Right, right. So --**

A. So in that case, it would be zero.

**Q. Okay. So we start with that happening over a number of years. Now that starts to increase because of the earnings performance of the fund, and we find that we have more than is required under ERISA.**

**So that extra is now investor asset as opposed to some other ownership; is that correct?**

A. Can I try this?

**Q. Yes.**

A. Let's say that we started with your assumption, that -- the $5 million of pension expense. Let's say because of earnings on the pension assets, that pension expenses now is 3 million. But the ERISA contribution is still 5. In that case, now there's a $2 million prepaid pension asset. It couldn't have come from customers. They only paid 3. So the source would have had to have come from investors.

**Q. But it really came from the earnings on the --**

A. No, no. The earnings are still in the -- the earnings are not in there. The earnings reduce the expense. The earnings don't go to the asset. The contribution is still, in your case, $5 million, but the pension expense is now less. So if you just do the calculation of what's the prepaid pension expense -- I'm sorry, what's the prepaid pension asset, it's contributions, in this case, 5 million. Now the pension expense is now 3 million, been reduced from 5 because of the earnings and the prepaid pension asset.

**Q. I understand.**

A. Okay. And --

**Q. I understand what you are telling me. Thank you.**

A. Okay.

**Q. That's all my questions.**

EXAMINATION

BY COMMISSIONER LEVAR:

**Q. I think I have a question. It might reveal my ignorance of GAAP or it might be a question you have already answered. If it is, I apologize.**

A. I hope it is one of those two.

**Q. You know, we've talked about the statement of Mr. Wohlfarth and Mr. Curtis and the merger document about their estimate of 3.3 million annual perpetual benefit to ratepayers.**

**So let me ask you this: If we put aside the rate base issue, assume we are not making a change to rate base, we're not putting the asset in rate base but we were to accept the office's proposed negative accrual adjustment to expense, would that change impact the estimated $3.3 million perpetual annual benefit to ratepayers?**

A. There are two calculations. All right? The 3.3 million is a calculation based on the $75 million contribution to the pension trust. So that's going to be $3.3 million as long as that 75 is there.

**Q. Okay.**

A. The only question then is, is it appropriate to have earnings or have the source of the $75 million, the company, get a return on it.

**Q. Well, I want to put that issue aside. I want to ask the impact -- the impact of the negative accrual adjustment to expense that the Office is advocating for without the rate base change.**

A. It's 75 million stays as a prepaid included and the prepaid pension amount, then that amount times -- I think it might even be more than 3.3 million because Dominion has a higher expected return on assets.

But it's a math, it's a calculation of what the annual benefit is. It's however much is in the prepaid pension asset times the expected return on plan assets that are used in coming up with pension expense.

**Q. Okay. That is not impacted by the expense adjustment?**

A. Right.

**Q. Okay. I think that is my only question. Thank you for your testimony this afternoon.**

COMMISSIONER LEVAR: We're ready for your next witness.

MS. CLARK: Thank you.

MR. SABIN: Before we call our next witness, we just want to -- Mr. Felsenthal needs to catch a plane. Is there any reason to keep him around any longer?

COMMISSIONER LEVAR: I will ask any parties or the Commissioners if they have any objection to that, to let me know. I'm not seeing any objection.

So thank you.

MR. FELSENTHAL: Thank you.

MS. CLARK: The company calls Jordan Stephenson.

COMMISSIONER LEVAR: Good afternoon, Mr. Stephenson.

DIRECT EXAMINATION

JORDAN STEPHENSON,

called as a witness, having been first duly sworn,

was examined and testified as follows:

BY MS. CLARK:

**Q. Good afternoon.**

A. Good afternoon.

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

A. Yes. Jordan Stephenson, 333 South State, Salt Lake City.

**Q. Mr. Stephenson, can you please identify your employer and tell us what position you hold there?**

A. Yes. I'm a regulatory affairs manager for Dominion Energy Utah.

**Q. Mr. Stephenson, did you file pre-file direct testimony in this docket, labeled DEU Exhibit 3.0, with attached exhibits -- three exhibits 3.01 through 3.32?**

A. Yes.

**Q. And did you also file pre-file rebuttal testimony in this docket, labeled as DEU Exhibit 3.0R, with attached exhibits DEU Exhibit 3.0R -- I'm sorry, 3.01R through 3.09R?**

A. Yes.
**Q. And do you adopt those documents as your testimony today?**
A. I do.
MS. CLARK: The company moves for the admission of the company's pre-filed direct testimony of Jordan Stephenson marked as DEU Exhibit 3.0, with a accompanying Exhibits 3.01 to 3.32, as well as Mr. Stephenson's rebuttal testimony marked as DEU Exhibit 3.0R, with attached exhibit DEU Exhibits 3.01 through 3.09R.
COMMISSIONER LEVAR: Okay. If anyone objects to that motion, please indicate to me.
I'm not seeing any, so the motion is granted.
(Hearing Exhibits DEU 3.0 and 3.0R were marked for identification.)
MS. CLARK: Thank you.
BY MS. CLARK:
**Q. Mr. Stephenson, are you able to summarize for the Commission the testimony that you have offered in this docket?**
A. Yes. In this docket, the company originally filed for a revenue requirement increase of $19.2 million, based on 2020 test period -- average test period, I should say.

The calculation of that revenue requirement included a forecast of increased revenues from customer growth, adjusted for customer usage, per customer. It also included a forecast of O&M expense projected in the 2020 period, as well as capital investment increase.

Since that time, since that filing, we have had several adjustments discussed throughout the period of discovery in this case. And for the sake of simplifying and organizing my presentation or my summary, I have prepared a table that summarizes the testimonies.

COMMISSIONER LEVAR: Yes.

MS. CLARK: Thank you.

(Document DEU 7 was marked but
was not admitted as an exhibit.)

THE WITNESS: Over the course of this docket, we have had over a dozen specific adjustments to the revenue requirement we originally filed proposed by various parties in this case.

This table is my attempt to summarize each of those adjustments and where the parties currently stand on those issues.

BY MS. CLARK:

**Q. Sorry to interrupt, before you get too far, would you please identify this by its title for the record?**

A. I will, yes. We have titled this DEU Hearing Exhibit 7.

So I have organized this -- so there are three main categories, and it's color shaded. So the top section that you see that's highlighted in green represents areas where adjustments proposed by parties in this case, to which we have, I'll call, "substantial agreement."

You'll notice some of the specific amounts differ slightly as you move across these columns. The reason for that is the treatment of inflation, whether it's included in the test period or not, as well as the lead lag factor used or the return on equity slightly change the amounts of these adjustment.

So the final adjustment, whatever the final amount is will depend on some of those factors. So that's the reason why there is a little bit of variance in these numbers, but this is to provide an overall view of where we stand substantially on these issues.

So going through this green section you see, Row 2 represents our "Original proposal" that the company submitted of $19.2 million from the 2020 test period. That would be the revenue requirement increase in 2020.

The next line is an adjustment to "Cash working capital." This is a rate base reduction that results in an overall reduction in the revenue requirement. The reason for that adjustment is the lead lag factor changing from the original proposed factor to a lower factor.

And by way of background, the company did meet with representatives from the Division, and we reviewed the various proposals or adjustments that the Division had filed in testimony and we do agree to those adjustments to the lead lag factor.

The office's position is slightly different. I will note that I believe that the depreciation and deferred income tax, the treatment of that item is not agreed to by the Office. So I will not represent that we are all in agreement on that issue.

The next item on Row 4 of the exhibit is the removal of an audit fee accrual. And I will note that upon review of the surrebuttal testimony of Ms. Ramas in this case, the company does agree with the full removal of the audit fee accrual, so we are on agreement to that issue.

That's a little different than where we had left things in my rebuttal testimony, but as Ms. Ramas correctly points out, we had included accruals in our analysis that are capitalized, not expense items, and those should not be included in that analysis. So we agree with the office's adjustment on that.

The next few items relate to fines being removed from the test period, an adjustment to property tax expense, and then we have an additional operating and maintenance reduction of roughly $600,000 for the test period, which is an update to savings that the company projects will occur in 2020.

I will note that the Office didn't expressly agree to the 600,000. I think their position, and I apologize if I mistake anything, but I believe that they would like to see a removal of all inflation in the test period, and I think the 600,000 would kind of be included in that removal of inflation. So that's down in the lower section of this matrix.

The next group of items that's related is transponder -- or I will call these "partial agreement items," not fully agreed to but partially agreed to. The first couple items on Rows 9 and 10 are related to the treatment of transponder activity in the test period. And my original projection for transponder retirement activity that we filed in 2019 and 2020 utilized system-wide factors to estimate the impact of three things.

One is the construction work in process that remains in CWIP Account 107 at the end of the test period. I will note that is not a rate base account, and so we withhold a certain amount of all capital additions and we include those in CWIP and we do not push that through into rate base. And we used the historical five-year average factor for how much would remain in CWIP that was based on a system total additions for that.

We also had a factor for proceeds, which increases the 108 amount, and we had a factor for dismantling cost, which reduced the 108 account. For all three of those factors, we used a system-wide total to calculate what the transponder activity would be.

Ms. Ramas has recommended that transponders should be accounted for individually, rather than using system-wide factors for proceeds and dismantling specifically. This results in a $3.6 million decrease to rate base in 2020.

Ms. Ramas' testimony does not address the system-wide factor used for construction work in process related to transponders. Upon further review of transponder activity and after reviewing Ms. Ramas' testimony, I do agree that it is appropriate to regard transponders individually and to update the dismantling and proceed activity.

In my analysis, I also updated the construction work in process factor as well, and that's why my adjustment is slightly different. So I would call that a partial agreement on that issue.

And moving on to Row 11, this relates to an excess deferred income tax adjustments. The parties largely agree on the treatment of excess deferred income tax except for the amortization period for non-plant related EDIT. The company has proposed a 12-year amortization period, the UAE has proposed a ten-year amortization period and the Office has proposed a five-year amortization period.

The company recommends a 12-year period because the lion's share of non-plant related excess deferred income tax balance is pension related, and the pension has a remaining service life of 12 years. In addition to the 12 -- in addition, the 12-year period mitigates volatility in the revenue requirement collected from customers over time, meaning that it will not result in a large decrease in the revenue requirement for a short period of time, followed by a large increase at a later date when that balance has been fully amortized.

Related to this recommendation as well, it's important to note that the current excess deferred income tax balance is currently included as a reduction to rate base in the 254 Account. Meaning that a rate of return is included in the test period to the benefit of customers for any unamortized balance.  This return fairly compensates customers throughout the time period of amortization.

So for these reasons the company disagrees with the ten-year period or a five-year period which are not based on the cost that contributed to the EDIT balance and that increase volatility by rushing a credit over an arbitrarily short amount of time, especially when recognizing the customers are fairly compensated with the rate of return because we are reducing rate base by the full unamortized amount of EDIT.

And now turning to the items in blue, Row 13 relates to an adjustment to "Projected plant in service." As we talk about the projected plant in service, I just wanted to refer back to my direct testimony in Exhibit 3.09.  While you're opening up to that page, I will just note that the company has included a capital budget in 2019 of $233 million to be spent in 2019 and then $277 million to be spent in 2020.

Exhibit 3.09 includes a comparison of actual capital spending over the last five years to the budgeted amount to each of those years, and I would refer to Row 6, where we show on average we spend within 1 percent of what we have budgeted as a company.  And I believe that's evidence to the fact that we do not require a capital reduction in 2020, as far as what is included in the test period. We have high confidence that is an accurate number.

I will note as well that as we reach the end of 2019, the company anticipates that it will end the year slightly above the $233 million capital budget. And the difference between the $233 million in 2019 --

MR. JETTER: I would like to raise an objection to this is not being a summary of testimony. I think we are potentially exceeding the length of filed testimony, and it appears to be rebuttal or surrebuttal. And that's, ultimately, my objection.

COMMISSIONER LEVAR: Okay. Does anyone else want to weigh on the objection before I go to Dominion?

MR. SNARR: The Office would weigh in on that. As we are now seeing the numbers changing, it is difficult for us to work through several rounds of testimony and additional rounds of discovery to try to figure out what the issues are, to then come and understand anew what the issues might be in the form of adjustments or modifications being made on the stand as opposed to a real summary of what has already been provided.

COMMISSIONER LEVAR: Okay. Before I move on, let me just ask -- well, I want to ask the two of you a question, but let me see if Major Kirk or Mr. Mecham or Mr. Russell want to weigh in on the objection at this point.

Mr. Russell?

MR. RUSSELL: I'm not sure if this is responsive to Mr. Jetter's objection. I note that a portion of Mr. Stephenson's testimony, or a summary of his testimony, has been to alert the Commission to where the company's position is now, as opposed to where it may have been at the end of rebuttal, adopting some portions of the surrebuttal testimony of the intervener.

I don't have a problem with that. I'm not sure why that would be objectionable. I think the point of what we are doing here is to ensure that we all know what the company's position is, what the parties' position are, at least on those numbers.

I will note that is it the a little difficult to do that on the fly, to kind of adjust what we're doing on the fly, but to the extent that we're -- that the point of the summary is to kind of let everybody know where -- the company has adopted the testimony of other parties. I think that part of it is appropriate anyway.

COMMISSIONER LEVAR: Okay. Let me come back to Mr. Snarr and Mr. Jetter before I go to Dominion.

And my question I wanted to ask for you is similar to the issue that Mr. Russell just raised. Is it your position that without an allowance for live surrebuttal, if Dominion sees some issues in your surrebuttal that cause them to move where they are, what's the right process for us to handle that?

Mr. Jetter, I will go to you first.

MR. JETTER: So I think it would be reasonable to do that. The trouble, I think, that I'm seeing is that interweaving of arguments supporting the company's position. It is not a clear "We agree on these 12 different adjustments and here they are." It seems to be a bit more than that.

And with respect to the position matrix, at least for the Division's position, I don't think it accurately reflects our position, particularly on the basis that it assumes issues that we have not opined on, that we either support or don't support adjustments from other parties that have presented those positions.

COMMISSIONER LEVAR: Okay. Thank you.

Mr. Snarr?

MR. SNARR: I guess it's difficult to object to actions that will bring the parties together and recognize resolution as opposed to a continual fight where there is no fight. I acknowledge that.

But in this case, it has been difficult, at times, to figure out exactly where we are, including the formal filings but also through discovery, and I just need to air that as a process that we're struggling with.

I guess having said that, I will defer to the Commission to determine how to best handle things.

COMMISSIONER LEVAR: Let me just clarify. Is your motion to exclude this matrix and also an objection to some of the summary verbal statements that Mr. Stephenson is making?

MR. JETTER: I guess yes to both of those. I would -- I was intending to object to the entry of the position matrix into the record that it doesn't, at least, accurately reflect the position of the Division, and --

COMMISSIONER LEVAR: Well, at this point, we haven't had a motion to --

MR. JETTER: That's correct. And so what I'm struggling with is as we go through each one of these issues, there is a combination of position change and testimony in support of that. And I don't have the ability right now to evaluate all of that potentially new testimony and whether that is consistent with each of these issues, the testimony in rebuttal position.

So I recognize it is a little unorthodox to object to a changing position, getting closer to, potentially, our position, but I'm not sure how I can reasonably respond if there are testimony differences that are subtle. I mean, I may not recognize them and I wanted to address that before we went on.

COMMISSIONER LEVAR: Okay. Let me let you respond to this discussion at this point.

MS. CLARK: Yes, I have a few responses. And first, I want to clarify the purpose of this exhibit. As Mr. Stephenson was preparing his summary, it became clear through the process, this litigated process, where we had direct testimony, rebuttal testimony and surrebuttal testimony, that the company had some adjustments that they agreed with.

And in an effort to summarize his testimony, he wanted to make it clear, to narrow the issues for all of you so that you could see where there is agreement and where there is not.

And the only changes from his surrebuttal would be those where the company is moving in the direction of the adjustment advocated by the parties. And to the extent that that is live surrebuttal, we will readily admit to the fact that we are here to tell you they were right on some points. And that is what you will see here is a change. That was our only intention.

So this is offered in an effort to simplify issues for all of you and to -- and it is our intent, and it is my understanding, that it is accurate, and it is an accurate representation of the position of the parties as drawn from their testimony. And arguments that Mr. Stephenson is articulating here reside in his testimony with those few exceptions that I mentioned.

I would also point out that the other witnesses that advocated for these adjustments are in the room today. So Mr. Stephenson will be subject to cross-examination on this Exhibit. If there are errors, they can be corrected.

And we will hear from all of these witnesses tomorrow, and they will have the opportunity to address anything in this exhibit that they see where he had an error. And I will tell you -- I will represent to you that it is my understanding our intention was to be accurate.

So I guess if the parties would like us to withdraw any sort of surrebuttal and not opine on those adjustments that we agree with, we can do that, but everything else you see in this exhibit is in the testimony. The only thing this exhibit does for you is simplify things.

THE WITNESS: Can I clarify as well -- I should have stated, when I began this, that a blank space in any of these columns is only blank because that particular party didn't necessarily take a position.

So I don't mean to represent that the Division is not accepting any of these adjustments by leaving that blank, and I probably should have said that up front, so...

COMMISSIONER LEVAR: Okay. Why don't we move forward this way: I will give Commissioners White and Clark an opportunity to ask any questions. It is probably an appropriate time to take a short break.

And I assume, since there is a public witness hearing at 6:00, there will be no objection to taking ten- or 15-minute break and then going for about another hour or so, and then having a 20- to 30-minute break before the public witness hearing.

Is that objectionable to anyone, that process?

Okay. Commissioner Clark, do you have any questions on this motion that we have in front of us?

COMMISSIONER CLARK: No, I don't have any questions.

COMMISSIONER LEVAR: Okay.

COMMISSIONER CLARK: I think I know where we are.

COMMISSIONER LEVAR: Okay. Commissioner

White?

COMMISSIONER WHITE: Yes. I don't have any questions, thanks.

COMMISSIONER LEVAR: Why don't we take a 15-minute break, then we will come back and try to have some direction on how we are going to move forward here. Then we will go for another hour or so before we break before the public witness hearing.

(Whereupon, a break was taken.)

COMMISSIONER LEVAR: Back on the record. Okay. At this point, we are going to allow Mr. Stephenson --

MR. MECHAM: Mr. Chair, before you rule, in talking to my witness, he can't track back the number that Mr. Stephenson has for the ANGC position, and I think that's, perhaps, the problem with this document. I get what Mr. Stephenson is trying to do, and I applaud him for it, but if it is not documented and parties can't track their own position -- and ours is pretty simple because we're already capital structure and ROE. That's the problem with the numbers on this document.

COMMISSIONER LEVAR: No, I understand. And I think the way we are going to move forward on this, we are not going to -- we are going to allow Mr. Stephenson to continue his verbal summary. This document is not yet in evidence, but we are going to let Mr. Stephenson complete his summary and then allow parties their cross-examination.

In the event that this concludes, that we don't -- in the event that we did finish with Mr. Stephenson today, we want to assure parties that we want to ask for him to be made available tomorrow, as a result of this, or any question or issue that needs to be clarified tomorrow, they can be.

At this point, we don't feel it advances the process to not allow Mr. Stephenson to present his view of his summary of their position. We understand there are some objections to how he is characterizing other parties' positions, and that's -- we will take that into account and consider that and, of course, allow cross-examination on this today and tomorrow, if anyone desires it.

At this point, we haven't had a motion to enter this into evidence, so if that comes, we will deal with that as it happens. But at this point, I think we are going to allow him to continue his summary and move forward that way.

THE WITNESS: Thank you. And I'll just reiterate again, as it relates to the amounts on this exhibit, ultimately, the Commission will rule on an ROE, that will change each of these amounts. The lead lag factor changes these, whether or not inflation is included changes these.

So I didn't mean to show this as kind of final, end all number. It is mostly meant for representation of where I think currently we are. So I apologize for any concerns that may have caused.

I will say the DEU figures to the right is our case, and that is based on the rate base we have to date, the ROE we are proposing and everything.

I will continue on. I think we arrived at the blue section. These are the areas where we do not have agreement today, and I addressed the projected plant in service. I was going to mention it in testimony, in my rebuttal testimony, I mentioned three very large projects occurring in 2020 that are increasing the projected plant in service over what we have in 2019. And those relate to a $10 million increase to the infrastructure replacement program that Kelly -- or Mr. Mendenhall discussed earlier today.

We also have a $14 million investment to a current river gate station that will improve reliability to the northern region of Utah, and a 19 million investment to expand the southern system to meet a rapidly growing area of St. George.

None of these projects individually, or any other projects, have been opposed by the parties in this case. Reducing the 2020 capital budget included in the test period does not eliminate the company's need to pursue these capital projects, but rather, it will cause additional strain to the company's cash flow and credit metrics as it invests in this needed capital.

Moving on to line 14, the removal of inflation, in calculating the nonlabor O&M expenses to include in its 2020 test period, the company used inflation factors provided by Global Insight, a firm that independently calculates inflation specifically by FERC account for regulated operations.

This method has been approved in prior rate cases the company has filed, dating back to the same method used in the Rocky Mountain Power case, in Docket 07-035-93, and the company is not departed from that procedure.

The Office and the UAE do not include inflation in their test period, and as such, I believe, failed to reasonably represent conditions that would be in place during the test period.

Referring to Exhibit 3.4R of my rebuttal testimony, I provide an exhibit -- or a look at total O&M expense, even after including inflation. So 3.4R of my rebuttal testimony, looking at Column E, shows the total adjusted level of operating and maintenance expense in the 2018 base period at 124,440,000.

You can see on Column G, the forecasted total O&M that we included in the 2020 test period is actually $100,000 less than the 2018 base period. And so in effect, all of the effects of inflation we have adjusted out of the case, ultimately, through savings adjustments that I've detailed in my testimony as well.

Looking at that same exhibit, I would just point out, on Row 15 -- this hasn't been a huge topic in this discussion so I just wanted to highlight. The large savings we have included in the test period for 2020, which amount to $7.2 million of labor-related savings in 2020 and an additional $1.1 million of nonlabor savings were made possible by expenses that the company has incurred in 2019 but did not include in any test period.

And shown on Row 15 of my Exhibit 3.4R is $15.3 million of severance payments that were incurred in 2019 to enable $7.2 million of ongoing expense. And the company has not proposed to defer or amortize any portion of the expense it incurred to enable those savings going forward, but it has included 100 percent of its savings.

So as such, I believe that our O&M level is appropriate. Ultimately, it's slightly lower than 2018

O&M, and as such, I don't believe a reduction related to inflation is necessary.

And then referring to the pension credit, all I'll say about the pension credit -- I think we have had plenty of discussion on that just a few moments earlier by Mr. Felsenthal, but I would just reiterate that removing the pension credit from 2020 does not reduce the amount of non-pension O&M that the company has to pay -- or rather, including a $5 million pension credit does not result in excess cash of 5.2 million that the company can use to offset other O&M expenses. And as such, the cash strain that introduces into the company, we believe, should be addressed and removed.

And then related to professional services, these have always been referred to throughout testimony as LNG-related services. The company does not agree that these professional service costs should be removed from the 2020 test period. The company has several large projects that will occur in 2020 that rely on such professional services, as were included in the 2018 base period.

While the 2018 base period expenses related to an approved LNG facility, the professional services, in 2020, will relate to other projects occurring in 2020 that are part of ongoing distribution operations.

And then the final two rows here relate to cap structure and return on equity that have been addressed by other witnesses, which I will not delve into detail on those two issues.

And this concludes my summary.

MS. CLARK: Mr. Stephenson is available for cross-examination and also Commission questions.

COMMISSIONER LEVAR: Okay. Thank you. We will go to the Division first.

Mr. Jetter, do you have any questions for Mr. Stephenson?

CROSS-EXAMINATION

BY MR. JETTER:

**Q. Mr. Stephenson, I do have some questions regarding an exhibit that has been passed out. I don't know that it has been entered into the record yet, but the exhibit that's at least marked as DEU Hearing Exhibit 7, under the column entitled, "DPU," is intended to represent the Utah Division of Public Utilities; is that correct?**

A. Correct.

**Q. And the revenue deficiency or surplus calculation in this model assumes no adjustments from the filed position of Dominion Energy Utah for any of those blank spaces; is that correct?**

A. Right. That just indicates that -- I think the Division included a statement that if it were silence on an issue, that doesn't imply that it agrees or disagrees with any given issue. So I just left that blank in those cells.

**Q. Okay. And that negative 342,688 calculation is based on those cells being calculated as a 0 value?**

A. That is.

**Q. Okay. And would you agree with me that that may not represent the revenue deficiency or surplus recommendation of the Division?**

A. I agree. I don't know if it is on the record what the final bottom line is from the Division. I just tallied up everything that was on the record.

**Q. Okay. And so that number doesn't reference any Division testimony?**

A. I would say because it is the sum of the other numbers that are on testimony, I think it is derived from testimony. However, if the Division would like to, I guess, update -- I, obviously, wouldn't argue if you would like to include other adjustments to table that haven't been included in testimony.

**Q. Okay. Thank you.**

A. I don't know if my attorneys agree with that, but --

**Q. Those are the only questions I have. I don't actually have any cross or any other testimony otherwise. Thank you.**

A. Thank you.

COMMISSIONER LEVAR: Okay. Thank you, Mr. Jetter.

Mr. Moore or Mr. Snarr?

MR. SNARR: Thank you. I will proceed with the caveat that we may have to do a little work tomorrow in case I miss some things. Thank you.

COMMISSIONER LEVAR: Yes. As we said, we will accommodate that with this witness.

CROSS-EXAMINATION

BY MR. SNARR:

**Q. Good afternoon, Mr. Stephenson.**

A. Good afternoon.

**Q. I will ask you some questions.**

COMMISSIONER LEVAR: We are not picking up your microphone, sorry.

MR. SNARR: Sorry.

BY MR. SNARR:

**Q. Let me ask you some questions. I'm basically trying to clarify where we are in the sense of whether or not the Office and Dominion have found resolution or to help identify the issues where we haven't found**

**resolution. So that is the intent of my question. Let me work through a few of these to see if we can progress with that.**

**First of all, isn't it true that the individual adjustments that you have presented in this hearing exhibit, at least for use in your summary here, that the individual adjustments are somewhat dependant on the order in which you make each adjustment in your model, including ultimate adjustments to ROE?**

A. Yes, that is true.

**Q. And so you wouldn't be surprised then that the Office might disagree with many of the individual representations of value or numbers here in explaining their position in response to you?**

A. Yeah, that's true. And just to get into a little more detail, each time O&M changes, for example, there is a cash working capital component that enters into rate base. So if you have not yet updated the cash working capital factor when calculating the adjustments, there would be a shift. That also goes with return on equity because that is applied to that rate base.

And so there's steps that if you do it in a different order, it could shift slightly. I don't think it would be a huge shift, but it would have an impact.

**Q. Okay. Thank you for that clarification.**

**Let's focus for a minute on plant in service. I would like to direct your attention to your rebuttal testimony at lines 67 and 68. Do you have that there?**

A. Yes.

**Q. In those lines, you suggest that Ms. Ramas' proposed adjustment to plant in service should be denied because she does not assess any of the individual projects themselves; isn't that what you said?**

A. Right.

**Q. Isn't it true that the detailed list of plant projects making up your ultimate 2020 budget was not included in the company's original filing?**

A. The 2020 individual projects were not included in the original filing.

**Q. And it wasn't really provided to other parties in this proceeding until you presented your testimony in rebuttal; isn't that correct?**

A. Actually, no. I think we did provide several data requests on September 5th and -- or around early September in response to the Division of Public Utilities, that included individual projects, accounting for the total change from the 2018 capital budget to the 2020 capital budget. I think it amounted to 66 some-odd million worth of capital projects individually specified.

**Q. I'm not sure if I'm focusing on the right**

**data request, but I believe some of the data request that you provided related to plant projects during the time frame you represented. Also had caveats that this was not the final budget and not the final list; isn't that true?**

A. I'm not sure. I would have to check the data request.

**Q. All right. Isn't it true that the actual level of 2018 capital expenditures was 212.2 million? And I believe you have Exhibit 3.09 that reflects that.**

A. Let me check that number. The actual -- yeah, the actual capital spending in 2018 was 212 million.

**Q. While we are there, the actual projected capital expenditures for 2019, they were expected to be 232.4 million; is that right? On that exhibit?**

A. I'm sorry, are you referring to my direct Exhibit 3.09?

**Q. Yes.**

A. And you're referring to 2014?

**Q. 2019.**

A. Oh, I'm sorry. So my Exhibit 3.09, I don't see a 2019 figure on this.

**Q. Let me -- maybe I referenced the wrong number here. Let me look at that for just a minute.**

A. But I do know offhand that it is around 233 million total.

**Q. Thank you. That is all I needed to know. And with respect to 2020 test year, isn't it true that you're looking at what you're projecting or forecasting to be 277.7 million?**

A. That's correct.

**Q. Okay. Isn't it also true that the functionalized categories associated with the company's requested capital expenditure for the test period differ significantly in the company's rebuttal testimony from what was initially proposed?**

A. The functional categories meaning?

**Q. The functionalized categories associated with each of the capital projects.**

A. I think I know where you are referring to. If I recall, Ms. Ramas included a table in her testimony that includes categories of capital additions that differed by subcategory, and I would agree that there were changes between categories. I think in total, the overall change from 277 million went up slightly to 278 million with the update, yeah.

**Q. So I was going to kind of build to that, and I wasn't going to ask you to comment on her exhibit, but you reviewed that exhibit in your -- or are you**

**acknowledging that some of the shifts that she portrays there are, in fact, based upon the numbers that were initially provided and then later provided by the company?**

A. Yeah, the original numbers came from a capital budget that was prepared in the fall of 2018, and at the time we provided my exhibit, my rebuttal exhibit, 3.1R, we had updates to projects that caused shifting in those numbers.

And I would add that's typical experience for us as we move throughout the year, that there are updates to project costs.

**Q. All right. Thank you. Let me move to the transponder issue, and I appreciate that you indicated some, perhaps, coalescing on something that might work. But at least as presented in your exhibit, I don't think we are close on our numbers yet, so let me ask a couple of questions so we can highlight the issues here.**

**Isn't it true that the cost associated with dismantling and removing transponders that occurred during the period of 2016 through 2019 were booked to either Construction Work in Progress 107 or to Plant in Service 101 as the new transponder were installed?**

A. That's correct.

**Q. Okay. And isn't it true that the company has**

**agreed that the amounts booked to plant in service should be reduced by the dismantling cost for the old transponders in order to avoid a double-counting as those things are rolled up in the company's file case?**

A. Yes. So that's where, when I looked at the 101 balance -- so sometimes I refer to plant in service as 101, which encompasses all the sub-accounts, including transponders. And it's true that as we adjust the dismantling cost and move costs out of the 101 to the 108, that it impacts both sides. The 101 account will drop, as well as the 108. So there is a neutral impact on rate base through that accounting entry and the 101 drops as a result.

When I reviewed that, I looked at the total 101 balance as it relates to transponders, to review: Is it at a sufficient level and does it need to be adjusted? And based on my analysis of transponders, we are at an appropriate level because there is a construction work in progress factor included in the 101 that removed 29 percent of all transponder additions.

And in reality, transponders do not remain in construction work in process. So we used a systemwide factor. Similar to how we did dismantling and how we did proceeds, we used systemwide factors. We also used a systemwide factor for construction work in process that should not have been -- I mean, if you are doing a specific to transponder adjustment, that one should be updated as well.

I understand that that's probably a lot of moving parts to describe verbally, so I'm happy to write it down as a journal entry. We have a pad as well, if that would help, I could write it out. So I don't know if that would be helpful, but...

**Q. I think that might be helpful. You wouldn't be surprised at our number crunching of those same concepts aren't coming up with exactly the same number?**

A. Yes, I am happy to write it down, and we can -- I can share that with you.

**Q. Okay.**

MS. CLARK: If we can take a moment and set this up?

MR. SNARR: As long as we can get that so I can have my witness to look at it overnight, that is fine. We don't need to spend time writing it down as well.

BY MR. SNARR:

**Q. Thank you. Let's turn to cash working capital now. Both the Office and the Division questioned the appropriateness of the lead lag study that the company included in its original filing; isn't that**

**correct?**

A. That's correct.

**Q. And then after reviewing the Division's recommendation through the Division's witness Mr. Thomson, as I understand it, the company agreed to accept his recommendations; is that right?**

A. That's correct.

**Q. Somewhere -- and I understand, I believe that making those adjustments, the lead lag study that the company now supports results in a reduction of the net lag days from 7.358 days as initially proposed to a negative .828 days as you run that through the company's model; is that correct?**

A. Right.

**Q. All right. Now isn't it true -- and, again, I'm trying to focus on where we differ with where you are right now. Isn't it true that after accepting the Division's suggested recommendations, that the company's lead lag study still seeks recovery of amounts associated with depreciation and deferred income taxes?**

A. Yes.

**Q. Isn't it also true that the amounts associated with depreciation and deferred income taxes do not involve an actual outflow of cash being made by the company?**

A. So I believe in my direct testimony, I address the issue of both of those things: depreciation and deferred incomes tax, and I also included a reference to an individual named Haney, I think it's Robert Haney, who discusses that particular item.

And the cash flow with depreciation actually occurs up front when the company invests in the asset. And what happens is depreciation expense is then recognized going forward. And I believe that the problem arises, where as depreciation expenses occur and that increases the accumulated depreciation balance, there's a period of time where there is a lag between when the 108 or accumulated depreciation has been booked and when you actually collect that depreciation expense from customers.

And so because we have a revenue lag that's meant to recoup the depreciation expense related to that asset, we receive the impact of that depreciation expense, or the 108, 30 some-odd days after the actual entry has occurred. So our rate base is always 30 days too low because the 108 change happens right away at the end of the month, and the revenue associated to that happens 30 days later.

So I believe that's the answer to your question as to why there is a cash impact.

**Q. So we may still be at odds on that point but we'll address that.**

**Would you accept, though, subject to check, that if the Commission decided to remove or exclude the amounts associated -- separately with depreciation and deferred income taxes, that that might result in the lead lag study that the company now supports, being adjusted such that the negative .828 days would actually change to a negative .905 days?**

A. I reviewed Ms. Ramas' exhibit showing that impact and agree.

**Q. Okay. On nonlabor expenses, I do recognize the company is indicating that you are going to reflect reduction of O&M expense by $601,333; is that right?**

A. That's correct.

**Q. And just for the sake of clarity of issues, that's without the Office and Dominion coming together on whether these inflation factors ought to be applied in that area; isn't that correct?**

A. Sorry, could you repeat your question?

**Q. The adjustment of 601 some-odd thousand dollars is the reduction you're planning to make, just to point out what is still at odds between the Office and the company. The Office still believes that the way the company has applied certain inflation factors is not**

**correct. Do you understand that to be the case, in terms of where the issues are still?**

A. Yes.

**Q. Okay. And in reviewing some of the nonlabor expenses, would it be accurate to say that the company, if we look at the 2018 results and then look at some of the individual nonlabor expense items that -- for some of the actual or forecasted experience that you've had in 2019, that there may still be some decreases that the company will reflect in individual items; isn't that right?**

A. So you're saying, looking at the 2018 actual results for certain O&M items --

**Q. And comparing it to where you are coming out in 2019, aren't there still some individual items where you're showing a decrease in the expenditures in 2019?**

A. That's true. In fact, going back to the exhibit that I referred to in my summary that summarizes our O&M projections, you will see that we have included a reduction, in 2019, of 1.9 percent in O&M expenses overall. So yes, certain items have been reduced in 2019.

**Q. Okay. Thank you. I was going to ask some questions about the accrued audit fees, and I think based upon your summary, we don't need to touch that, so we can**

**put that one aside.**

**With respect to the EDIT amortization, you indicated that the company supporting the 12-year period of amortization and UAE is supporting a 10-year and the Office is supporting a 5-year amortization period. Am I accurate in what you said?**

A. Yes.

**Q. And I think, without going into the number or whatever, the Office will concur with you that those are the differences in terms of where the issues are?**

A. Yes.

**Q. Okay. Now with respect to the professional services and the company's application, certain outside services fees were included in the 2018 experience, particularly related to the approval of voluntary resource decision, the LNG application; is that correct?**

A. Correct.

**Q. You've indicated that that's representative of ongoing efforts year to year, and the Office has taken the position that those events are really nonrecurring events or, at least, infrequently occurring events; is that correct?**

A. I believe that's the positions, yes.

**Q. Today you testified that there may be additional individual regulatory proceedings or projects**

**related to plant or whatever.**

**Do you have more specific information about what you're suggesting we ought to consider?**

A. Sure. For example, just a few -- December 1st, we filed a new filing for expansion of service into Eureka that currently does not receive natural gas service. That particular effort will include special services, professional services, and in addition to a lot of these -- I believe that as you look at the kinds of services that were included related to the LNG cost, these are very common shared-type services for all kinds of projects.

Engineering analysis, legal work if we require those kinds of services for those projects, I don't see the basis of removing those particular types of costs from the test period in 2020. So Eureka is one example.

We plan on filing another docket related to HB107 Bill that passed earlier this year at the Legislature which is directing the gas -- the intent is to direct the gas utility here in the state to pursue clean air-type projects. That is also special-type projects that will be included in 2020 efforts that will require these types of special services as well, so...

**Q. Now, were these projects you identified today**

**previously included in your testimony or in the company's initial application?**

A. I don't believe I got into detail as to specific projects.

**Q. All right. Subject to looking at this a little more carefully and doing more tomorrow, that will conclude my cross for now.**

COMMISSIONER LEVAR: Thank you, Mr. Snarr.

Major Kirk?

MAJOR KIRK: Yes, sir. Thank you. I have a few questions.

CROSS-EXAMINATION

BY MAJOR KIRK:

**Q. First I would like to direct your attention to DEU Hearing Exhibit 7. On line 19 there, it reflects a revenue deficiency surplus calculation, and for FEA, you have that calculated, a negative 4,872,595?**

A. Right.

**Q. Earlier, you said where parties have not taken a position, those are reflected as blanks on this sheet; is that accurate?**

A. That is true.

**Q. And so just because FEA hasn't taken a position on Items 3 through 16, that negative 4 million is calculated is if those are zeros, even though they are**

**blanks; is that correct?**

A. That's correct.

**Q. So if FEA did take a position on some of the other parties' positions and joined them in briefing or adopt those in our briefing, that number would, ultimately, change; is that correct?**

A. Yes, I would agree.

**Q. Thank you. Next, I want to ask you a couple questions about the capital expenditures. In your testimony, you indicate that there were some planned capital expenditures in 2020. Approximately, how much is that?**

A. Total is 277 million.

**Q. 277 million? The company hasn't yet spent that money. Correct?**

A. That's correct.

**Q. And if, hypothetically, the Commission ordered a different capital structure than what Dominion has proposed, those expenditures could be funded through debt or other methods of financing. Right?**

A. So, well, first off, I think whatever the Commission chooses to, ultimately, approve doesn't necessarily line up with what actually the company is funding.

For example, currently, the company is using

60 percent equity in its capital structure, and we project, in 2020, it will be 60 percent equity. We proposed 55 percent equity to this Commission. So what actually ends up being funded does not necessarily line up with the order that comes out of this case.

**Q. So you would agree then the company has discretion to choose how to finance those capital expenditures?**

A. Sure.

**Q. And those could be financed through long-term debt instead of capital expenditures. Correct?**

A. Well, I think however you choose to fund those, it would still be a capital expenditure and would require a return to capital issuers. And so yeah, I'm not sure if I understood your question correctly, but --

**Q. As far as where the money comes from, that could be from debt or from equity?**

A. Sure.

**Q. Even though they are, in fact, capital expenditures, you don't necessarily have to use equity to pay for it?**

A. Right.

**Q. Thank you.**

A. Well, sorry, you just said it could come from debt or from equity, but we have to use equity to pay for it.

I think how it works is whatever the ratio from debt to equity is, that mix of capital is what is used to pay for it. So in our case, we are projecting actual equity will be funding 60 percent of the total capital budget and 40 percent would come from debt. We have proposed 55, 45 for the sake of ratemaking in this case.

**Q. So Exhibit 3.31, your cost of capital worksheet, would you take a look at line 20?**

A. Okay. Yup.

**Q. And on what is labeled as "Column E proposed," there's $203,257,107 there. Would that the proposed amount of -- well, what does that number represent?**

A. That number represents the projected amount that would be in place in that 2020 test period.

**Q. The projected amount of what?**

A. Of common equity, specifically in Account 211, miscellaneous paid in capital.

**Q. And that would be, essentially, additional funds from shareholders put into the account in 2020; is that correct?**

A. Yeah, that would be -- I believe so. That is the definition of equity, is it's funds from shareholders, yeah.

**Q. Right. And that money hasn't already been placed in that account. That is just a plan that the company intends to take?**

A. No. Actually, that infusion into that account occurred in 2018. I think you can see, as you look at Column C -- well, let me back up. It was in place at the end of 2018. I can't remember for sure if it happened in 2018 or a prior year prior to 2018, but yeah, it's currently there at of the end of 2018. We project it will still be in that account at the end of 2020.

**Q. But that money hasn't yet been spent on anything?**

A. Well, so I'm not sure I would agree that it hasn't been spent on anything. I think the equity balance on a balance sheet doesn't necessarily mean that is a cash account waiting to be spent. It's an accounting balance that represents the amount of funding that came from shareholders at a certain point in time. But that doesn't tie it with a cash account.

**Q. At the end of the day, though, you would agree that the company has discretion to determine how to finance capital expenditures in the future, regardless of what your actually capital structure is or what your**

**approved capital structure is?**

A. Yes, I believe the company has discretion.

**Q. Thank you.**

COMMISSIONER LEVAR: Does that conclude your questions?

MAJOR KIRK: That concludes my questions. Thank you.

THE WITNESS: Can I just correct one thing? I think we are -- we are limited in certain activities we take. I just don't want to leave the record unclear, that our discretion isn't limitless. We did have to come in and request approval to get capital funding -- or equity percentage up above 55 percent, in a prior docket, that was related to a merger commitment.

So I don't want to leave the impression we have complete discretion as to equity decision we make or debt issuances we make. There is some regulatory proceedings involved with that, so...

COMMISSIONER LEVAR: Do you have any follow-up to that clarification?

MAJOR KIRK: Nothing further. Thank you.

COMMISSIONER LEVAR: Thank you.

Mr. Mecham.

MR. MECHAM: Thank you, Mr. Chair.

CROSS-EXAMINATION

BY MR. MECHAM:

**Q. Mr. Stephenson, with respect to your exhibit marked hearing Exhibit 7, with respect to the ANGC's position, you've got numbers down in Row 17, 18 and 19 for us, reflecting the fact that we really only took positions on rate of return on equity, as well as capital structure. Correct?**

A. Correct.

**Q. And where did you get those numbers?**

A. So we have an Excel model that has been filed as part of my direct testimony and also as part of my rebuttal testimony. In there, there is a cell for the cost of equity that can be changed. And I believe we derived this amount by just changing the cost of equity percentage in the model, and then that flowed through, as well as the capital structure tab within the model. That flowed through as well.

**Q. So as we have looked at -- as my witness looked at his exhibits, he couldn't track the number. As an example, the 1,599,000, that didn't track anywhere to an exhibit.**

**Are you able to document an exhibit that it came from?**

A. No, because it came out of the model. I don't think we have memorialized that change in an exhibit.

**Q. You may be familiar with Mr. Oliver's testimony, but are we to assume that the capital structure or the -- excuse me, the capital structure is 50 percent equity or 52 percent equity or 55 percent equity and 9 percent? I mean, what are we to assume? I don't know what you fed into your model.**

A. So as it relates to the capital structure, we adjusted the portion of equity to match the testimony of Mr. Oliver, I believe, and subject to check, we could reconcile where the difference was. It may be that there was a difference in rate base that the equity was applied to. I just have to check, and we can reconcile that.

**Q. So to the best of your understanding, you think it is 9.5 percent ROE and 50 percent equity ratio?**

A. I believe so, yup.

**Q. And how do you intend the Commission to use this document, if it is admitted?**

A. As I mentioned, I recognize that the amounts on this document may change as some of these other factors change. The purpose was just to have something to refer to the organized summary that, obviously, has a lot of moving parts.

And so I think, ultimately, the Commission will likely verify the amounts on this, and they will likely be different based on what other factors are ruled, whether it's a different equity percentage or a different cap structure or a different total amount of expenses, that will slightly shift all of these amounts.

So, ultimately, when the final order comes out, all of these amounts will need to be refreshed and updated.

**Q. Okay. All right. Thank you. That is all I have now. We may have more tomorrow.**

COMMISSIONER LEVAR: Mr. Russell?

MR. RUSSELL: Thank you.

CROSS-EXAMINATION

BY MR. RUSSELL:

**Q. Turning to DEU Hearing Exhibit 7, you have a column for UAE number, and I think I'll note for the Commission's purpose that UAE's proposed adjustments can be found in Table KCH-1F, which is on page 5 of the surrebuttal testimony of Kevin Higgins. Some of the numbers in that table are the same as those that are represented in this position matrix and some of them are different.**

**I think we can chalk up the differences in the order in which some of the adjustments were made, because as Mr. Stephenson said earlier, there is a cash working adjustment. And if you make the adjustment in**

**different orders, some of these come out differently.**

**But in any event, if the Commission wants to know the proposed adjustment that UAE has put forth, those are found in the surrebuttal testimony that has been pre-filed by Mr. Higgins. And with that, I will leave DEU Exhibit 7.**

**Mr. Stephenson, we tread a lot of ground on pension expenses with Mr. Felsenthal, and I don't intend to go over again, but there are a couple of points I do want to get to.**

**I am not sure if this was in your testimony or somebody else's testimony or if it was a response to data request, but there has been some discussion amongst the parties about what the pension expense would have been in the test period 2020, absent the $75 million contribution. Do you recall that?**

A. I do.

**Q. Okay. And that pension expense, absent the $75 million contribution, would have been a negative number. Correct?**

A. It still would have been a negative number.

**Q. Okay. And offhand, do you know what that negative number would have been?**

A. No. I believe it shrunk to possibly 2 to 3 million.

**Q. Yes. And I think maybe the best way to do this is to go to -- it's Exhibit 2.16, OCS Exhibit 2.16, filed in the direct testimony of Donna Ramas.**

MR. RUSSELL: And for those with -- and it is OCS Data Request No. 3.02.

MR. SABIN: Did you say direct testimony?

MR. RUSSELL: For those with electronic copies, it's page 23 of that PDF. It says page 22 at the bottom. It's page 22 of the electronic version.

MR. SABIN: Would you say the number again?

MR. RUSSELL: OCS 3.02 is the data request. The exhibit is 2.16.

BY MR. RUSSELL:

**Q. Okay. If I wanted to determine what the negative pension expense or pension credit would be for 2020, absent the $75 million contribution, using the number on the table at the bottom of the company's response to OCS 3.02, how would I do it?**

A. So yeah, I believe what this reflects -- so we are on page 22, so this is OCS 3.02. Correct?

**Q. Yes.**

A. So what this table shows is beginning in 2017, we had a $75 million contribution level, and we had an assumed return percentage of 8.75 percent. And so for each year, you can see the $75 million contribution is now worth 96 million because of that compound growth of the 75. So we have a $96 million balance currently related to that contribution.

The second column applies the expected return on plant assets of 8.75 percent to arrive at $8.4 million credit. That reduces the overall service cost or expense in that pension fund.

And then, ultimately, that pension is allocated down to Dominion Energy Utah, so that becomes a $5.5 million credit. And then of that amount, some of it ends up in capital, based on total labor, and some of it ends up in expense.

And so the final column is a $2.9 million expense value, so I believe that is the amount that the asset is -- the 75 million is now contributing to a credit is $3 million.

I would note that in an additional update to this amount, we provided -- I believe it's attached to Ms. Ramas' Exhibit 2.07S. There is a data request asking for an update of the forecasted pension credit that is now $2.8 million, rather than 5.2. So these come from a third-party, Towers Watson, that runs the actuarial reporting and the return on assets and provided an update. So that amount may have changed slightly since this data request was prepared.

**Q. Okay. I guess what I'm trying to find is if I can figure out what the pension expenses would have been in 2020, absent the $75 million. Can you tell me that by looking at this table?**

**I mean, I will tell you that there is another data request. In fact, it is OCS 3.03 that is not part of this exhibit. I can give it to you if you need it, but it references -- the question was asked, and I'm paraphrasing, but, you know, calculate the pension expense, absent the $75 million. And that response just referred back to this data response.**

**So I'm just wondering if you can look at this and tell me how it is, if that is how you derive it?**

A. Yes. I think we included a $5.4 credit in the test period, total credit. You subtract 2.9 from that amount, you end up with -- and I was warned not to do math on the stand earlier today. But we will round up 3 million minus 5.2 and so you would be at 2.2.

**Q. Okay. Thank you.**

A. But let me just highlight as well that it is my position, and Mr. Felsenthal as well, that as long as contributions exceed expense, that asset that exists within the pension account has been funded because the total contribution exceeded the expense.

And I believe the assumption is over the last

20 years plus, is that expense level has been included in our rates. And so that total asset actually came from the excess contributions over what has come from ratepayers. And under that assumption, I think the $75 million is one piece of it. The whole 112 million, though, is still something that -- our position is it came from shareholders.

And so whether or not we look at a 75 million or 112 million, I think the total credit -- the story is the same as far as our position, is the whole $112 million sitting in the asset account today came from shareholders.

**Q. And I think there is some testimony from Ms. Ramas as well, and hopefully, we will hear from her tomorrow.**

**Dominion Energy's position in this case is that the negative pension expense or pension credit should not be calculated or included with respect to calculation of revenue requirement. Correct?**

A. That's correct.

**Q. Okay. And the upshot of that is by not including it -- I guess it depends on how I say this. If you included it, it reduces revenue requirements. If you don't include it, the revenue requirements goes the other direction. Right?**

A. So I'm going to back up a little bit. If you include the pension expense, yes, you reduce the amount of revenue requirement a company can collect from other operating expenses that it incurs.

**Q. And in exchange for Dominion customers being denied the benefit of recognizing that negative pension expense in this case, is Dominion willing to forego seeking recovery of pension expense in the future, if and when it turns positive?**

A. Well, so my position on this pension credit, and I don't know that this came out really thoroughly earlier, but as -- we can look at this exhibit we actually have open, OCS 3.02, the data request that's part of -- I can't remember what exhibit we are in, but that data request that we just referred to. It's OCS 2.16D.

You can see as the return is earned on the fund in contribution level, the balance on this account increases. Right? So we start at $75 million. In 2020, we anticipate at being at 96 million, based on this chart. So every dollar of the pension expenses -- or I will say every dollar of pension credit stays in this particular account, and the company cannot go into that account and pull money out.

And so my position is that this credit,

ultimately, benefits customers, in that it prolongs the amount of time before we have a flip back to a positive expense.

So if you picture it like a bank, like a piggy bank, and there's a return accumulating in this balance and it is getting larger and larger and larger, the company is not paying dividends with that cash. It is not taking that cash to offset expenses anywhere. It stays in the piggy bank. It doesn't go anywhere. It's true that we have an accrual accounting entry each year, but that doesn't mean the cash went anywhere. It stays in the account.

That accumulates and even adds more of a credit, and all else being equal, that balance keeps rising. As long as that balance is rising, the chances that that expense, within a pension account, is going to flip back to a positive are getting lower and lower and lower, which means customers don't have to worry about expense for a prolonged amount of time.

And so I think this credit is benefiting customers as it goes along, even if we are not raiding the piggy bank to pass it through each year. The company doesn't benefit at all from that cash being in that piggy bank. I don't know if that made sense, but --

**Q. I understand your position. It didn't**

**actually answer my question, though.**

**The question was if -- I understand it is DEU's position it does not believe it is appropriate to include the pension credit in rates in this rate case.**

**My question is: When that pension expense flips back to positive, is the company willing to forego including that positive pension expense in revenue requirement in that future test period?**

A. Well, it's hard for me to speculate into future test periods that may occur three, six, nine years from now. I think what we've done is prepared a position based on the circumstances in play today, and if we come back to another general rate case and file a position, we will have to justify that position based on the merits and based on the circumstances in place at that time.

I don't think that now is the time to address future rate case circumstances that may be in effect, so...

**Q. Okay. That is not something that the company is willing to commit to right now?**

A. No, I think I wouldn't commit to the treatment of any particular cost in a future rate case.

**Q. I will ask you to turn to line 522 of your direct testimony, if you would.**

A. Could you repeat the --

**Q. Line 522.**

A. 522? Okay.

**Q. Okay. There is a question on line 522, and that question is: Is the company proposing changes to way the way pension expense is included in the revenue requirement going forward? The answer is yes, and you identify the proposed changes.**

**And I guess what I'm wondering is, if the company is not willing to commit to what it wants to do or what it will propose to do with pension expenses, positive or negative now, when you say going forward, you only really mean this rate case. Right?**

A. Right. Yeah, this rate case, which encompasses 2020 and beyond until we file the next general rate case.

**Q. Okay. Let's talk about excess deferred income taxes for a moment. There is a lot of ink about EDIT throughout this docket, and we have kind of narrowed things down to the amortization period for non-plant EDIT.**

**And I gather as Mr. Snarr summarized, we've got the office sitting at five years and then the UAE's sitting at ten and the company is at 12, and I think it might be useful, very quickly, to kind of talk about what that non-plant EDIT is. And I will try to do it as**

**quickly as we can because this can be complicated.**

**But excess deferred income taxes are the amount of the income tax that have been collected in rate that are in excess of the company's tax liability going forward. Right? I'm being very high level.**

A. Sure. And although we don't have any rider or treatment, so, you know, we get to collect it and rates are included in the test period and then it changes. But yes, it was included in a test period.

**Q. Sure. And because of the tax cuts and job act that was recently passed, there has been a series of surcredits that the company has been returning EDIT back to customers, and there has been some agreement between the company and UAE's position about a fourth surcredit. There was also some discussion about plant-based EDIT and how that is amortized. Right?**

A. Right.

**Q. In your testimony?**

A. Yes.

**Q. There is some discussion in your testimony?**

A. Right. For the -- I believe it is 2019 plant-based EDIT.

**Q. Right. And there are some very strict rules about how that plant-based EDIT gets returned, and it basically gets returned over a long period of time,**

**commensurate with the depreciation of plant-based assets. Right?**

A. Right.

**Q. And so what we have left with is this non-plant EDIT, where there are not those strict rules about how quickly that excess can get returned to ratepayers. Right?**

A. Correct.

**Q. Okay. And would you agree with me that the Commission has a fair bit of discretion as to how it can order that non-plant EDIT to be returned over what period of time?**

A. I do believe there is some discretion there.

**Q. Okay. In your summary, you indicated that the company believes that a 12-year period is correct, and one of the, sort of, principles that you offered is, you know, a 12-year period will, you know, alleviate rate shock. Right? If we return it too quickly, then when it drops off, then rates will go up the year after it gets returned. Right?**

A. That's right.

**Q. On the other side of that balance, I suppose, that the Commission has to consider is the fact that these -- this is money that has already been collected from ratepayers, and it is getting returned over a**

**lengthy period of time. It's not quite as lengthy as the plant-based EDIT but it is still a fair bit of time. Right?**

A. Right. 12 years.

**Q. Or five or ten or even --**

A. Possibly five or ten, right. Our position is 12.

**Q. Right. I understand your position is 12. I'm just trying to layout the consideration for the Commission that the taxes -- excuse me, the rates have already been collected, and it is just an effort to get it back to the ratepayers. But the longer you wait, the less overlap there is from the ratepayers that pay the tax and those that you are returning it to. Right?**

A. Sure. Yup.

**Q. Okay. That's all I have. Thank you.**

COMMISSIONER LEVAR: Okay. I think with that, we will probably adjourn for the day and plan to return tomorrow, with the understanding that probably before we go to redirect, we will give other parties, if there are still remaining concerns over the exhibit or the summary, to ask further questions.

I think I'm going to make an unusual commentary from the Commission that may help this issue. If it helps to allay any concerns of whether this exhibit that has been passed out would be used for ratemaking purposes and order drafting, we just want to assure everyone that we have our own internal processes and modeling, as we work through our decision points, that, you know, we wouldn't use this exhibit as a basis for calculations in an order.

And there is also the caveat that there is reconsideration period, if we did any math wrong, that allows corrections. If that helps. Maybe it doesn't. But I know all of you will be thinking about it between now and tomorrow, whether you want to ask further questions on these issues.

And with that, we are in recess. We have a public witness hearing beginning in about 30 minutes, and then we will reconvene the evidentiary hearing tomorrow morning at 9:00.

(The hearing was adjourned at 5:30 P.M.)

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

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