

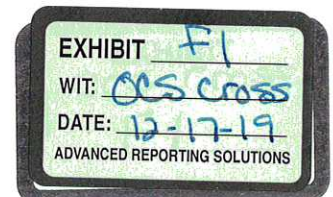
In the Matter Of:

Questar Gas Company and Dominion Resources, Inc. - Proposed Merger

HEARING PROCEEDINGS DOCKET NO. 16-057-01

August 22, 2016

Job Number: 298772-A



1 commission until all witnesses have spoken. Do parties
2 feel the same way about, if there's any questions from
3 other parties, if you have -- you might have questions
4 for a witness, would you want to do it then? Or should
5 we save all of that for the end?

6 Just let me know if anyone -- I think we will
7 plan to save all questions for the end unless any of you
8 let me know you would like to ask questions in the
9 middle. Or if you object to that procedure, let me know
10 now. Okay. I think we'll go forward that way then.
11 Mr. Reid.

12 MR. REID: Thank you, Mr. Chairman.

13 **Q. (By Mr. Reid) Would you state your name and**
14 **position, please.**

15 A. Yes. My name is Thomas P. Wohlfarth. I am
16 senior vice president of regulatory affairs, Dominion
17 Resources.

18 CHAIRMAN LEVAR: Okay. Mr. Reid, I am sorry.
19 Let me swear -- I'll swear in the witness too. What was
20 your last name again?

21 THE WITNESS: Wohlfarth.

22 CHAIRMAN LEVAR: Wohlfarth. Mr. Wohlfarth, do
23 you swear to tell the truth?

24 THE WITNESS: Yes, sir.

25 CHAIRMAN LEVAR: Thank you.

1 THOMAS P. WOHLFARTH,
2 called as a witness at the instance of Dominion
3 Resources, having been first duly sworn, was examined
4 and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. REID:

7 A. So Thomas P. Wohlfarth, senior vice president,
8 regulatory affairs, Dominion Resources.

9 Q. And Mr. Wohlfarth, could you give the
10 commission a very brief background on your experience
11 and qualifications?

12 A. Yes. I have been with Dominion for about 30
13 years, and throughout that time I have been in various
14 roles; budgeting, finance, accounting. I was the chief
15 accounting officer for a brief period of time, and for
16 the last five years, I have been the head of regulatory
17 affairs.

18 Q. Were you involved in the negotiation and
19 preparation of the stipulation?

20 A. Yes, I was.

21 Q. And who are the parties to the stipulation?

22 A. There are a number of parties, and I'll just
23 read them off. The Division of Public Utilities, the
24 Office of Consumer Services, the Utah Association of
25 Energy Users, the American Natural Gas Council, the

1 Governor's Office of Energy Development, the Idaho
2 commission staff, and of course, the joint applicants
3 Dominion and Questar.

4 And in addition, intervenors Nucor Steel and
5 Rocky Mountain Power, although not signatories to the
6 stipulation, have authorized us to state that they do
7 not oppose the settlement stipulation.

8 Q. And are you prepared today to discuss certain
9 terms of the stipulation and why the commission should
10 approve it?

11 A. Yes, I am.

12 Q. And I understand you are going to divide up
13 the issues between yourself and Barrie McKay, correct?

14 A. Yes. And I'll just kind of break it down into
15 the two categories that we're each going to cover. So
16 generally what I am going to cover is economic benefits
17 for customers, the local operation and the presence, you
18 know, the issue of where is the corporate headquarters
19 going to be located, ring fencing and other financial
20 protections and cost allocations, affiliate and
21 accounting matters.

22 And Barrie McKay is going to go in a little
23 bit deeper into some areas. He will also cover
24 operations and customer service commitments, expand on
25 rate protections for consumers, which is a very

1 important part of the settlement stipulation, terms
2 related to Wexpro and Questar pipeline, additional
3 accounting and reporting requirements and other
4 customer-related issues.

5 Q. Thank you. Now, Mr. Wohlfarth, before we go
6 blow by blow with the provisions in the stipulation and
7 the financial terms in particular, can you tell the
8 commission why from Dominion's perspective you believe
9 that this merger will provide qualitative benefits for
10 Questar Gas's customers?

11 A. Yes. I'd like to just hit three points very
12 briefly. First, I believe that we share core values and
13 a common operating philosophy with Questar, including
14 the important public attributes of safety, customer
15 service, operational excellence, and honest and ethical
16 business practices.

17 Both companies, as you are aware, have been in
18 the utility business for nearly a century. And I think
19 it's very rare to find a situation where two companies
20 fit as well as we do, and I think Barrie will talk about
21 that a little bit as well.

22 The second general area is, I believe that
23 Dominion's operational scale and experience will benefit
24 Questar's customers. It can allow for reduced operating
25 costs, reduced risk and shared best practices. And I

1 think this is where a lot of the benefits of the merger
2 will come in.

3 And we're in an era of increasing operational
4 complexity, heightened environmental requirements and
5 regulatory constraints, as we're well aware here,
6 changes in commodity markets and greater customer
7 service expectations. And we believe that Dominion will
8 be a very effective partner for Questar in addressing
9 these challenges.

10 And finally, the third area, we believe that
11 we can do these things while maintaining Questar's
12 independent operational authority. That's a very
13 important aspect. There will be local management
14 responsibilities, continued commitment to cost effective
15 capital investments that are specific merger commitments
16 in these areas, customer satisfaction levels equal to or
17 greater -- better than they are today, key stand-alone
18 financial provision.

19 And in short, Questar's customers can obtain
20 the benefits of the merger and the settlement
21 stipulation without sacrificing any of the positive
22 aspects of the company's historically excellent
23 operations.

24 Q. So Mr. Wohlfarth, let's turn to these economic
25 benefits for customers that are provided for in the

1 settlement stipulation, beginning with rates. What rate
2 protections are contained in the stipulation, and will
3 the merger result in increased rates for Questar Gas
4 customers?

5 A. Let me just say, definitively rates will not
6 go up as a result of the merger. In fact, what I
7 believe and what we believe is that in the long run,
8 over time, we would expect rates to be lower than they
9 would be absent the merger. And this is due to
10 organizational and operational efficiencies.

11 We think that combined we'll be able to bring
12 about -- more immediately, and in the near term; this is
13 near-term benefit. There are six elements of the
14 stipulation that provide rate protections for customers
15 to ensure this. So I'm just going to kind of walk
16 through those.

17 The first, and this is a very important
18 immediate benefit for customers of this merger, we will
19 withdraw the pending 22 million dollar rate increase
20 request. And so -- and we'll agree to not file the next
21 base rate case until 2019 so that, that benefit
22 continues.

23 In addition to that, there are a couple of
24 elements of the base case withdrawal commitment that
25 will further protect customers. Two of those is dealing

1 with major plan additions and deferred accounting
2 orders. So these are deferred accounting orders. These
3 are areas that there were, you know, concerns raised by
4 parties, and we addressed it by making that commitment
5 along with the rate case withdrawal. Barrie's going to
6 go into more detail about that, those elements of it, as
7 well as the rate case withdrawal.

8 Second, overall O and M and A and G. So
9 operating and maintenance expense and administrative and
10 general expenses, and so we kind of refer to that as
11 OMAG, O-M-A-G, we're going to hold -- we're going to cap
12 those costs at a level. Barrie will be able to explain
13 in greater detail, and we will hold customers harmless.
14 As we look out to the next rate case, we will hold
15 customers harmless for any increase above the current
16 level of that cost per customer that would -- that is
17 caused by the merger.

18 Now, we don't expect that to happen, but the
19 point here is that it's a protection for consumers in
20 the unlikely event that it were to happen.

21 The -- a further customer protection is kind
22 of a subsets of that, is the area of common or shared
23 services costs. And these are things like payroll and
24 things that, you know, you can really do for a whole
25 company with a shared services organization.

1 We're going to further hold harmless for
2 customers -- we will say, looking out over this period
3 of time and to the next rate case, were there to be any
4 increases in those costs -- again, we don't anticipate
5 that happening. We think they will actually be lower
6 over time. But will hold customers harmless and not
7 collect in rates any increase in such costs.

8 Those areas that we just talked about were
9 covered in the rate case withdrawal, and the O and M and
10 shared services are paragraphs 33, 39 and 40 of the
11 stipulation.

12 A further protection and hold harmless is an
13 area of income tax. There was concern raised by certain
14 parties that, hey, we want to make sure that as a result
15 of this merger, we're not going to see an increase in
16 allocated income taxes. And so we have agreed to again
17 hold customers harmless for any increase in taxes. We
18 don't believe it's going to happen.

19 And then finally, the fifth area is financing
20 cost. A concern being raised was, well, we want to make
21 sure that there's nothing in this combination that would
22 cause financing costs, the cost of debt and so forth to
23 rise above the level that it would have been had there
24 not been a merger, because of the merger.

25 And we have agreed there as well, as a merger

1 condition, to hold customers harmless and for any
2 increase that there might be related to the merger.
3 That's addressed in paragraph 24 of the stipulation.

4 And then finally, there's the area of
5 transaction costs and transition costs. Transaction
6 costs are those costs dealing with the doing of the
7 merger; you know, the banker's fees, the legal costs of
8 the organization and so forth. Goodwill, I think, is
9 something that everybody's familiar with, is a
10 transaction cost.

11 And we have committed that none of such costs
12 will be born by customers. In fact, they will be kept
13 at a corporate level, and they will be dealt with by
14 Dominion shareholders, total protection there.

15 And then in the area of transition costs,
16 which are those costs that are related to integrating
17 the two companies, such as integrating IT systems, the
18 accounting systems, any severance-related costs, as you
19 are looking at perhaps shared services and saying, "Are
20 there overlaps?"

21 We have -- we had originally requested
22 authority in the application to be able to defer those
23 costs and potentially seek recovery at a later time of
24 that deferral. We have as a merger condition here
25 withdrawn that request. We no longer requesting that

1 we -- we are no longer requesting a deferral of those
2 transition costs, and those costs will be expensed as
3 incurred during the transition period.

4 The most -- what we would expect is the
5 transition that -- the merger integration and transition
6 period is going to be about a two to three year process.
7 That is our expectation. That coincides very well with
8 the stay-out period, and leading up to the next general
9 rate case in 2019.

10 And we would expect that the transition costs
11 will largely be dealt with during that period of time,
12 and customers will see none of that. To the extent that
13 there are any remaining costs in the test period when we
14 file the 2019 rate case, we have made a commitment that
15 we will not collect any of those costs from customers
16 unless we can demonstrate a net benefit to customers
17 from those costs.

18 So to sum up, just to kind of summarize the
19 stipulation in the way I view it is, I think it provides
20 rate stability and lower rates for customers for the
21 next three years, will hold customers harmless for any
22 merger-related cost increases that might occur, but not
23 expected. And I think that what we can look for in this
24 merger is lower operating costs over time from the
25 combination.

1 Q. And Mr. Wohlfarth, beyond rates, can you tell
2 the commissioners about the commitment to provide a 75
3 million dollar contribution to the Questar pension fund?

4 A. Yes. This is -- so what we -- what the
5 commitment here is to, within six months -- and this is
6 in paragraph 11. And I'm sorry. I didn't make
7 references. Paragraphs 37, 21 and 38 were covering
8 transaction and transition costs. 37, 21 and 38.

9 Paragraph, I think that's 11, in the
10 stipulation deals with the commitment to within six
11 months of the completion or the approval of the merger,
12 we will at shareholder expense contribute 75 million
13 dollars to the pension -- Questar pension fund.

14 And the benefit of that will be, you know,
15 obviously a function of pension expenses is return on
16 pension assets. And that will provide a -- an expense
17 reduction benefit for Questar Gas customers in
18 perpetuity in essence.

19 The -- you know, so I think with this pension
20 contribution, this is really a win for -- it's a --
21 it's, I'd say, a win-win-win. It's good for the company
22 because it really stabilizes the pension plan, and of
23 course, it's good for customers as well because they are
24 the beneficiaries of the pension plan. And most
25 importantly as well, it will provide about a 3.3 million

1 dollars, our estimate, annual benefit in perpetuity for
2 customers.

3 Q. Are there commitments in the stipulation
4 related to charitable contributions?

5 A. Yes. We have also committed to contribute an
6 additional one million dollars per year for at least the
7 next five year to local communities and charities above
8 the historical levels that Questar gas has been
9 contributing.

10 Q. Thank you, sir. Going beyond those financial
11 commitments, what does the stipulation provide with
12 respect to the local operations and presence of Questar
13 Gas?

14 A. This is a very important commitment, and what
15 we have committed to here is that the headquarters for
16 Questar and Questar Gas will remain in Salt Lake City,
17 will -- you know, there would be an emphasis on
18 operational, safe, reliable service. So what we're
19 saying here is, business as usual.

20 The Questar Gas is a great company and a great
21 track record, and we are not going to do anything to
22 change the way Questar Gas has been operating, been
23 managed to provide that value to customers.

24 To the extent -- I think, you know, we don't
25 have any -- we're not going to make any changes to areas

1 that will affect, you know, safe, reliable, good service
2 to customers. To the extent that there are any
3 reductions and overlap in just the shared services area,
4 and again, those shared common functions, what we have
5 agreed is to give any affected Questar employees
6 opportunities elsewhere within Dominion.

7 **Q. And will Questar folks have a role in**
8 **Dominion's management?**

9 A. Yes. Two areas. One is with regard to, we
10 have made a commitment to have a member, an existing
11 member of the Dominion -- Questar board join the
12 Dominion board. And as a matter of fact, it is our
13 expectation that Ron Jibson will be nominated to be on
14 the Dominion board of directors.

15 With that, obviously, I can't say he will be
16 because that is -- that is a matter for the Dominion
17 board to ultimately approve. But it is our expectation
18 he will be nominated and he will join the Dominion board
19 of directors.

20 And then a second part of that is, we do have
21 Dominion mid stream, which is an MLP. We anticipate
22 that, as we have stated, that Questar pipeline will
23 ultimately be included in that MLP. And at that time we
24 have made a commitment that a Que -- a member of
25 Questar's board would join the Dominion MLP board as

1 well.

2 Q. Two more areas I'd like to cover with you,
3 Mr. Wohlfarth. Next let's go to the ring fencing
4 provisions in the stipulation. How will the joint
5 applicants make sure that Dominion Questar Gas will be
6 appropriately separated from other Dominion affiliates
7 and their operations and potential liabilities?

8 A. Yeah. There is -- there are numerous ring
9 fencing. This was an area that we spent considerable
10 time working particularly with the division on. And
11 there are numerous ring fencing provisions. I'm not
12 going to go through them in detail here, just to kind of
13 hit the highlights.

14 And these are covered in a number of different
15 paragraphs. We're going to maintain separate legal and
16 operating entities for Dominion Questar Gas. And so you
17 will have the ring fencing being a separate legal
18 entity. We are going to maintain -- we made a
19 commitment to maintain an adequate level of equity
20 capital in a range of 48 to 55 percent.

21 That's addressed in paragraph 23. The legal
22 entity was paragraphs 1 and 7. We are going to maintain
23 independent and separately rated long-term debt at
24 Dominion Questar Gas, and what we're -- what we're
25 targeting there, we made a commitment to target credit

1 metrics that are supportive of a credit ratings in the A
2 range, which is where Questar Gas is now. That's
3 addressed in paragraphs 24 and 48.

4 There will be no lending of money by Dominion
5 Questar Gas to Dominion. That's paragraph 26, and I'll
6 note that a lot of these ring fencing measures are
7 actually more stringent than currently exist, and this
8 is an example of one. This is actually stricter than
9 the current situation between Questar Gas and upstream.

10 There will be no transfer of material assets
11 or assumptions of liabilities from Dominion. That's
12 paragraph 27. No transfers of Dominion Questar Gas
13 without commission approval. Paragraph 28.

14 Short-term debt and other enhanced ring
15 fencing provisions have been put in place, and
16 specifically there, we have made a commitment to make
17 available to Dominion Questar Gas 700 -- up to 750
18 million dollars of commercial -- of short-term borrowing
19 and working capital access. That's a further
20 enhancement. That's actually above the current amounts
21 available.

22 Questar Gas will maintain its own bank
23 accounts, and we will notify the commission in the event
24 of a dividend, a planned dividend, that would take the
25 equity ratio of Dominion Questar Gas below 45 percent.

1 Q. Now, I know this is an unlikely scenario,
2 Mr. Wohlfarth, but what about in the event of
3 bankruptcy? What commitments have been made in the
4 stipulation?

5 A. What I'll say is, you know, obviously, we --
6 while we consider this to be highly remote, but it is
7 nevertheless -- it was an area that was important to
8 parties, and so we have addressed that. What we have
9 done -- and this is -- so the concern here would be a
10 scenario where because of some events at Dominion, you
11 would be potentially faced with a scenario of voluntary
12 bankruptcy by Dominion Questar Gas.

13 And as I said, we spent considerable time
14 working particularly with the division in working
15 through this to make sure that we had provisions here
16 that they would -- that we would all be comfortable
17 with, and we did get that.

18 And what we have come up with is, we will have
19 a, what we call a special bankruptcy director. And it
20 will be -- that director will be nominated by a
21 independent entity. And importantly is that that
22 director will remain independent, though will be a
23 member of the Dominion Questar Gas board, will remain
24 independent from the board.

25 So that independent -- that special bankruptcy

1 director's role will be, in the event of a voluntary
2 bankruptcy, he or she would have to be a participant in
3 that board vote and would have veto authority. So you
4 have to have an affirmative vote by that special
5 bankruptcy director in order for there to be a bank
6 show.

7 He could have -- let's just say there are four
8 members on the Questar board, and three of them said,
9 "Yeah, let's do voluntary bankruptcy." If that special
10 bankruptcy director says no, then there is no
11 bankruptcy.

12 And a further -- that's paragraph 54. I just
13 want to make sure you know that. Because that was a
14 very important thing that we put in place. And then
15 paragraph 55, a further enhancement was, will provide
16 notice to the commission, the division and the OCS in
17 the event of a bankruptcy of -- addition.

18 **Q. And finally, Mr. Wohlfarth, let's talk about a**
19 **few cost allocation affiliate and accounting issues.**

20 **First, how will the integration affect cost allocation**
21 **among the Dominion subsidiaries, and how will it affect**
22 **allocated common costs to Dominion Questar Gas?**

23 **A. Yes. So this is another one of these areas.**
24 **What we -- what we anticipate is, again, because of**
25 **efficiencies of scale, we anticipate over time the costs**

1 will actually go down. Nevertheless, it's important as
2 a consumer protection to say, if it were higher, we'll
3 hold customers harmless and not pass that cost through.
4 That's in -- addressed in paragraph 4, 40, as I had
5 previously talked about.

6 And as we're working through cost allocation
7 methodology, which is a very complicated thing, there's
8 actually a manual of procedures that agree upon how
9 costs are allocated in shared services. And as we're
10 working through that as part of the integration process,
11 in the meantime, we will continue to -- Dominion Questar
12 Gas will continue to use the existing allocation
13 methodology, which is district gas methodology, until
14 January of 2018, where by that time we will have
15 determined what's the optimal way of allocating costs.

16 We will present that with the -- to the
17 parties, that's the division and OCS, and we would then
18 propose that methodology. Now, it could end up being
19 the same methodology that's currently being used,
20 district gas. There is no predetermination of what it's
21 going to be.

22 But the point is, we'll have the final
23 allocation methodology we would propose going forward.
24 That would become effective January 2018, and that would
25 be part of the general rate case of 2019 and subject

1 ultimately then to commission approval at that time.

2 Q. Now, Mr. Wohlfarth, does Dominion transact
3 with its existing, regulated affiliates on the lower of
4 cost or market basis?

5 A. Yeah.

6 Q. And will this likewise apply to Dominion
7 Questar Gas?

8 A. Yeah. That's standard operating. That is the
9 world we live in with our other Dominion affiliates and
10 regulated entities.

11 Q. Are there going to be standards for affiliate
12 reporting requirements?

13 A. Yes. Where -- and again, that's an area that
14 we have addressed in paragraph 45 of the stipulation,
15 and we're going to be working with the division and the
16 OCS on reporting requirements.

17 We're going to file the first, the first
18 affiliate report under that methodology July 1st of 2018
19 and will file annually thereafter.

20 Q. And then relatedly on that reporting issue,
21 will there be periodic reporting to the commission on
22 the progress of the integration and merger?

23 A. Yes. Paragraph 36 of the stipulation
24 addresses and what we call an integration progress
25 report. That first report will be by agreement of the

1 parties and the merger stipulation. The first report
2 will be April 15th of 2017, and then we're going to
3 report quarterly thereafter.

4 Q. Two questions to conclude. First, do you
5 believe that the terms of the settlement stipulation,
6 taken as a whole, are in the public interests and will
7 provide a net benefit to customers in the state of Utah?

8 A. Yes, I do.

9 Q. And what do you recommend to the commission?

10 A. I recommend that the settlement stipulation be
11 adopted as a resolution of this case and that the merger
12 be approved according to its terms.

13 Q. Thank you.

14 MR. MONSON: Mr. Chairman, and now Mr. Monson
15 is prepared to present Mr. McKay.

16 CHAIRMAN LEVAR: Thank you, Mr. Wohlfarth.
17 Are you okay to remain available after all the witnesses
18 are finished if there's any questions from anyone?

19 THE WITNESS: Yes, sir.

20 CHAIRMAN LEVAR: Okay. Thank you.

21 MR. MONSON: I should have asked this earlier,
22 but does anyone need a copy of the stipulation?

23 (Discussion off the record.)

24 BARRIE MCKAY,
25 called as a witness at the instance of the Questar Gas,