

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

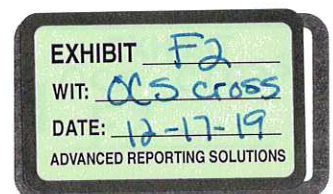
In the Matter of the Joint Notice and Application of Questar Gas Company and Dominion Resources, Inc. of Proposed Merger of Questar Corporation and Dominion Resources, Inc.

Docket No. 16-057-01

REBUTTAL TESTIMONY OF DAVID M. CURTIS

FOR JOINT APPLICANTS

Joint Notice and Application Exhibit 3.0R



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**I. INTRODUCTION**

2 **Q. Are you the same David M. Curtis that offered Direct Testimony in this matter?**

3 A. Yes.

4 **Q. Please explain the purpose of your rebuttal testimony.**

5 A. The purpose of my rebuttal testimony is to support the approval of the proposed merger  
6 (“Merger”) between Dominion Resources, Inc. (“Dominion”) and Questar Corporation  
7 (“Questar Corp.”), including Questar Gas Company (“Questar Gas”). After the Merger is  
8 effective (“Effective Time”), Questar Corp. will become a wholly-owned subsidiary of  
9 Dominion that will continue to exist as a separate legal entity (herein referred to as  
10 “Dominion Questar”), and Questar Gas (herein referred to as “Dominion Questar Gas”)  
11 will remain a direct, wholly-owned subsidiary of Dominion Questar and will continue to  
12 exist as a separate legal entity with its own complete set of books and records.

13 I will respond to the direct testimony of Douglas Wheelwright and Kathleen Kelly,  
14 submitted by the Division of Public Utilities (“Division”), the direct testimony of Lane  
15 Kollen for the Utah Office of Consumer Services (“Office”), and the direct testimony  
16 Curtis Chisolm submitted by the American Natural Gas Council (“ANGC”). Specifically,  
17 I will address Wexpro Company’s (“Wexpro’s”) return on investment, Questar Gas’ capital  
18 structure, the Joint Applicants’ proposed pension contribution, Merger savings credit,  
19 issues related to Questar Pipeline Company (“Questar Pipeline”), income tax issues and  
20 issues related to ANGC’s proposal to allow transportation customers to pool.

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**II. WEXPRO RETURN ON INVESTMENT**

22 **Q. Mr. Wheelwright expressed concerns about the post-Merger capital structure of**  
23 **Dominion Questar Gas and the continuation of future earnings for Wexpro. Do you**  
24 **expect that Wexpro's rate of return will change as a result of the proposed Merger?**

25 A. No, Wexpro calculates the operator service fee based on a rate of return on investment  
26 base. The calculation of this rate of return is defined in the Wexpro Agreement, the Wexpro  
27 II Agreement and the Trail and Canyon Creek Stipulations (Docket Nos. 12-057-13, 13-  
28 057-13 and 15-057-10). For pre-2016 investment in the original Wexpro properties, this  
29 return is based on a premium over allowed returns on equity for a basket of other rate  
30 regulated companies. For Wexpro II properties and post-2015 investment on original  
31 Wexpro properties, this return is based on Utah and Wyoming allowed returns on rate base  
32 for Questar Gas.

33 **Q. Will changes in the sources of capital for Wexpro change these returns?**

34 A. No, these returns are set by a formula established in the agreements. The Merger will not  
35 have any impact on the return component of Wexpro's operator service fee.

36

**III. DOMINION QUESTAR GAS CAPITAL STRUCTURE**

37 **Q. Mr. Wheelwright also expressed concerns about Dominion Questar Gas's post-**  
38 **Merger capital structure. Please describe his concerns.**

39 A. Mr. Wheelwright argues that after the Merger has closed, Dominion Questar Gas rates  
40 should be based on a hypothetical capital structure rather than the actual capital structure.

41 **Q. Do you agree with Mr. Wheelwright?**

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42 A. No. The Utah Public Service Commission (“Commission”) has historically used the  
43 Company’s actual capital structure for rate-making purposes. Mr. Wheelwright provides  
44 no evidence why this should change going forward.

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45 **Q. What is Questar Gas' current capital structure and how is the capital structure**  
46 **expected to change by the end of 2016?**

47 A. At December 31, 2015, Questar Gas' capital structure consisted of 47% long-term debt and  
48 53% common equity. In 2016, Questar Gas plans to issue \$100 million of long-term debt  
49 and receive an equity contribution of \$50 million from Questar Corp. By December 31,  
50 2016, Questar Gas is forecasting that its capital structure will consist of 48% long-term  
51 debt and 52% equity.

52 **Q. Should Dominion Questar Gas' actual capital structure be used in setting future**  
53 **rates?**

54 A. Yes, as I mentioned before, Questar Gas' rates have historically been set using Questar  
55 Gas' own capital structure rather than its parent capital structure or some other hypothetical  
56 capital structure. I do not believe this needs to change after the proposed Merger.  
57 Dominion Questar Gas plans to continue to issue its own long-term debt. Dominion has  
58 committed to maintain credit metrics to support a strong investment grade credit rating.  
59 These credit metrics would include maintaining an adequate percentage on common equity  
60 in the capital structure.

61 **IV. PENSION CONTRIBUTION**

62 **Q. Please explain the quantifiable customer benefits that come from Dominion's**  
63 **commitment to contribute to the Questar pension plan.**

64 A. Dominion has committed to fund an additional \$75,000,000 to the Questar Retirement  
65 Plan, as discussed by Joint Applicants Witness Wood, and this benefit can be quantified.  
66 This equates to an estimated \$3.3 million annual reduction to customer rates.



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67 Q. Mr. Wheelwright is unconvinced that the proposed contribution to the pension plan  
68 will have any benefit to Dominion Questar Gas customers. Do you believe the pension  
69 contribution will provide quantifiable benefits?

70 A. Yes. The major components of pension cost include service cost for the current year's  
71 accrued benefits, interest cost on the plan's liabilities, amortization of actuarial gains and  
72 losses and a credit for estimated returns on plan assets. An additional contribution of \$75  
73 million to the pension plan would change the calculation of estimated returns on plan  
74 assets. The higher return on assets would directly reduce Dominion Questar Gas' portion  
75 of pension expense from the Dominion Questar retirement plan. This pension expense is  
76 included in rates as part of cost of service.

77 Q. How much will customers benefit as a result of the pension funding?

78 A. Based on a 7.0% expected return on plan assets, the \$75,000,000 contribution would result  
79 in approximately \$5,200,000 in annual pension expense reductions (pension contribution  
80 multiplied by expected return on plan assets). Applying Questar's current allocation  
81 methodology, \$3.3 million in annual benefit would be allocated to Dominion Questar Gas  
82 customers. Additionally, \$0.6 million in annual pension benefit would accrue to Wexpro.  
83 This would ultimately be passed to Questar Gas General Service customers through a lower  
84 monthly calculated Wexpro operator service fee.

85 Q. How do you propose to pass the \$3.3 million in benefits allocated to Questar Gas on  
86 to customers?

87 A. As Mr. Wood has indicated, Joint Applicants intend to provide the \$3.3 million benefit  
88 immediately to customers. Joint Applicants propose that, with Commission approval, a  
89 \$3.3 million aggregate annual Dominion Questar Gas customer credit be applied through  
90 the infrastructure rate adjustment mechanism within 60 days of the Effective Time of the

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91 Merger, reducing the amount collected through the tracker surcharge by this amount. This  
92 pension credit would result in a reduced infrastructure rate adjustment surcharge of \$3.3  
93 million per year. The Joint Applicants propose this credit would continue in the  
94 infrastructure tracker until the next (non-pending) general rate case. At that time the credit  
95 would be removed from the infrastructure rate adjustment calculation and the ongoing  
96 benefits of the pension funding would be moved to base rates and exist in perpetuity.

97 **V. QUESTAR PIPELINE AND INCOME TAX ISSUES**

98 **Q. Office Witness Kollen suggests that the contribution of all or part of Questar Pipeline**  
99 **to Dominion Midstream Partners, L.P. (“Dominion Midstream”) may result in**  
100 **increased costs for Dominion Questar Gas customers. Do you agree?**

101 **A.** Contribution of all or a part of Questar Pipeline to Dominion Midstream will not result in  
102 any additional costs to customers. Dominion Questar Gas will continue to receive  
103 transportation and storage services from Questar Pipeline under existing federally-  
104 regulated contracts, tariff and rates and would not see any changes in costs. If Questar  
105 Pipeline’s tariff or rates were to change in the future, such changes would only occur  
106 through proceedings before the Federal Energy Regulatory Commission (“FERC”).

107 While not quantifiable at this time, it is likely that Dominion Questar Gas customers could  
108 benefit over time from having a large, well-capitalized parent company which maintains  
109 diverse and attractive capital markets access in the bond, equity, and master limited  
110 partnership equity markets (the latter access being supported by the contribution of the  
111 Questar Pipeline business).

112 **Q. Mr. Kollen proposes that the rates that Dominion Questar Gas pays to Questar**  
113 **Pipeline be reduced by 25% to reflect the impact of changes in Questar Pipeline’s**



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114 **income taxes. Is this an appropriate recommendation?**

115 A. No for several reasons. As I mentioned, Dominion Questar Gas will continue to receive  
116 services from Questar Pipeline under the currently-existing contracts and tariff provisions.  
117 Any future changes to the tariff and rates would only occur through proceedings before the  
118 FERC.

119 Additionally, the FERC's long-standing policy permits partnerships and other pass-through  
120 entities that provide natural gas pipeline services to recover income tax allowances in rates  
121 if the entity can demonstrate that the eventual owner or owners has an actual or potential  
122 tax liability on income earned by the assets. Dominion will continue to have a liability for  
123 income taxes for its ownership interests in Dominion Midstream and would be able to  
124 demonstrate that other unit holders would have income tax liability related to their  
125 economic interests.

126 **Q. On page 44 of his testimony, Mr. Kollen states that the Merger could result in changes**  
127 **in income tax expense for Dominion Questar Gas, Questar Pipeline, and Wexpro, all**  
128 **of which could affect the costs incurred by Dominion Questar Gas due to consolidated**  
129 **tax returns by Dominion. Please respond.**

130 A. The recovery of income taxes from customers for Questar Gas, Questar Pipeline and  
131 Wexpro will not be impacted by the Merger.

132 Currently, Questar Corp. files consolidated federal and state income tax returns, which  
133 include the taxable income of Questar Gas, Questar Pipeline and Wexpro. Questar Gas,

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134 Questar Pipeline and Wexpro account for income taxes on a separate return basis and  
135 record tax expenses and benefits as they are generated. Questar Corp. retains at the  
136 corporate level any differences between the consolidated income tax expenses and those  
137 expenses recorded at the business units. These differences relate primarily to the  
138 calculation of consolidated state income taxes and apportionment methods that may differ  
139 from the separate return calculations. These differences are not passed down to the  
140 business units and therefore are not included in the revenue requirement or operator service  
141 fee calculations. This methodology is consistent with Dominion's practice for consolidated  
142 state tax adjustments, and would not change as a result of the Merger.

143 **Q. Please explain the process to determine the appropriate recovery of income tax**  
144 **expenses from customers.**

145 A. Questar Gas and Questar Pipeline both use the rate base method to determine income tax  
146 expense recovery. In each general rate case, the appropriate rate base, the appropriate  
147 equity portion of capital structure and the appropriate allowed return on equity are  
148 determined. The equity portion of rate base is multiplied by the allowed return on equity  
149 to obtain an after-tax equity return. This return is "grossed up" by dividing by one minus  
150 the effective income tax rate to calculate the income tax recovery to be included in the  
151 revenue requirement. As described above, the effective income tax rate is calculated on  
152 the separate return basis, which takes into account the federal income tax rate and state  
153 income tax rates in the states in which they conduct business. Thus, any changes to  
154 consolidated income taxes have no effect on Questar Gas customer rates.

155 Deferred income taxes are recorded for temporary differences between book income and  
156 taxable income. The largest difference is for book depreciation compared to tax  
157 depreciation. These differences are multiplied by the effective income tax rate and recorded

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158 as accumulated deferred income taxes. The balances in the accumulated deferred income  
159 taxes (generally a credit) reduce the rate base on which the company is allowed to earn a  
160 return.

161 **Q. How does Wexpro address the recovery of income taxes?**

162 A. The Wexpro and Wexpro II Agreements outline the method for recovery of income taxes  
163 under the Wexpro operator service fee. These Agreements establish a calculation of an  
164 after-tax return on investment base. This after-tax return is multiplied by the investment  
165 base to arrive at an after tax earnings amount. This amount is “grossed up” by dividing by  
166 one minus the effective income tax rate to calculate the income tax recovery to be included  
167 in the operator service fee calculation. Again, any changes to consolidated income taxes  
168 have no effect on the Wexpro operator service fee.

169 Wexpro also reduces its investment base by accumulated deferred income taxes.

170 **Q. Will the components of regulatory recovery for income tax expenses change as a result**  
171 **of the Merger?**

172 A. As stated in the Joint Application and supporting testimony, the Joint Applicants have  
173 committed that for regulatory purposes, Questar Gas’ accounting will continue to reflect  
174 assets at historical costs, approved depreciation rates and deferred income taxes based on  
175 original cost in accordance with the Uniform System of Accounts. Therefore, none of the  
176 components of the regulatory recovery of income tax expenses are expected to change as  
177 a result of the Merger. The separate return methodology will not change as a result of  
178 inclusion in the Dominion consolidated income tax returns. Rate base calculations for  
179 Questar Gas and investment base for Wexpro will not change as a result of the Merger.

180 Any decision regarding gas interstate transmission and storage rates related to possible  
181 changes in rate base, including accumulated deferred income taxes, would be made through



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182 proceedings before the FERC.

183 **VI. TRANSPORTATION CUSTOMER ISSUES**

184 **Q. What is Mr. Chisholm's proposal related to pooling?**

185 **A.** Mr. Chisholm proposes that Questar Gas allowing pooling. However, it is unclear whether  
186 he is proposing that pooling be allowed on Kern River Pipeline or Questar Gas. In one  
187 sentence he states that Questar Gas has not allowed Summit Energy to pool its customers  
188 when natural gas is sourced from Kern River pipeline. Later, he states that Pooling is a  
189 service provided by local distribution companies like Questar Gas.

190 **Q. Do you agree that marketers should be allowed to nominate to a pool on Kern River's**  
191 **system?**

192 **A.** Questar Gas has no opinion on this matter. That is a decision that should be made between  
193 the marketers and Kern River.

194 **Q. Do you agree that pooling should be allowed on the Questar Gas system?**

195 **A.** No. The Commission has previously addressed this issue. In Docket No. 14-057-31,  
196 Summit Energy LLC (the organization for whom Mr. Chisolm works and a member of  
197 ANGC) (Summit) argued that Questar Gas should allow transportation customers to  
198 aggregate or "pool" volumes delivered on behalf of their customers in order to avoid  
199 transportation imbalance charges associated with daily imbalances. The Commission  
200 rejected the proposal, noting that allowing such pooling "would put . . . the objectives of  
201 the daily imbalance charge in jeopardy and could create artificial market incentives among  
202 Agents". Docket No. 14-057-31, Order issued November 9, 2015, Page 36. As a result,  
203 Questar Gas' practice has not changed, and it does not allow its transportation customers  
204 to aggregate volumes.

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205 Mr. Chisolm's proposal in this docket seems to be similar. He defines pooling to be a  
206 "service provided by local distribution gas companies like Questar Gas that allows  
207 suppliers . . . to deliver to the company the natural gas supplies that are needed to serve the  
208 full firm requirements of all of the firm transportation customers that are part of the  
209 supplier's pool." Chisolm Direct at lines 41-45. This appears to be an attempt to revisit  
210 the very issue that the Commission decided in Docket No. 14-057-31.

211 **Q. Should the Commission consider requiring Dominion Questar Gas to implement this**  
212 **new service in this docket?**

213 A. No. I propose the Commission reaffirm its decision in Docket 14-057-31.

214 **Q. How do you respond to Mr. Chisolm's suggestion that Dominion Questar Gas**  
215 **"establish a relationship directly with Summit and other suppliers."**

216 A. The Commission should reject this request. The Commission addressed this issue in Docket  
217 No. 14-057-31 and noted that the Commission's "mandate is to regulate Questar's  
218 relationship with its customers" not with agents and gas suppliers. Docket No. 14-057-31,  
219 Order issued November 9, 2015, Page 36. Gas suppliers like Summit are not Questar Gas's  
220 customers. The Commission has provided their decision on this matter in Docket No. 14-  
221 057-31, and it need not be revisited here.

222 **Q. Would "establishing a relationship with Summit and other suppliers" eliminate the**  
223 **\$4,500 fee?**

224 A. The administrative fee includes not only account management costs, but also costs for  
225 nominations, gas control, and billing. The costs of these groups would continue to exist if  
226 Dominion Questar Gas established a direct relationship with Summit. If the administrative  
227 fee were eliminated these costs would need to be collected in volumetric rates. Thus, Mr.  
228 Chisolm's proposal to eliminate the \$4,500 Administrative Fee results in either a "general



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229 rate increase” or a “general rate decrease” and should only be considered within a general  
230 rate case. The Commission should not consider addressing this proposed rate change here.

231 **Q. Does this conclude your testimony?**

232 A. Yes.

State of Utah )

) ss.

County of Salt Lake )

I, David M. Curtis, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief.

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David M. Curtis

SUBSCRIBED AND SWORN TO this \_\_ day of July, 2016.

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Notary Public