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## ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director  
Artie Powell, Energy Section Manager  
Doug Wheelwright, Technical Consultant  
Jeff Einfeldt, Utility Analyst

Date: December 17, 2018

Re: **Docket No. 18-057-23**

Dominion Energy Utah – Application for Modification of Order in 16-057-01, to allow equity infusion greater than 55%. Division’s Review and Recommendation – Approve Settlement.

### **RECOMMENDATION (Approve Settlement)**

The Division of Public Utilities (“Division”) has reviewed Dominion Energy Utah’s (“DEU”) Application for Modification of Memorandum Opinion, Findings and Order Approving Joint Application in Docket No. 16-057-01 (“Application to Modify Merger Agreement” or “Application”). The Division finds the Stipulation to Modify Commission Order in Docket 16-057-01 and Approve Amended Settlement Stipulation (“Stipulation”), signed October 24, 2018, by the various interested parties to be just, reasonable, and in the public interest. The Division recommends the Utah Public Service Commission (“Commission”) approve the Stipulation.

## **ISSUE**

The Commission issued an Action Request on November 20, 2018 for the Division to review DEU's Application to Modify the Merger Order with recommendations due by December 19, 2018. This is the Division's response to the Commission's Action Request.

## **BACKGROUND**

On August 22, 2016, the Commission granted Questar's motion and approved the Settlement Stipulation as a condition of approving the merger of Questar Corporation and Dominion Resources, Inc. On September 14, 2016, the Commission issued a written order memorializing that ruling. Under the terms of the merger, Questar Corporation became a wholly owned subsidiary of Dominion Resources, Inc. Questar Gas Corporation became known as Dominion Questar Gas and subsequently its name was changed to Dominion Energy Utah ("DEU"). As part of the Settlement Stipulation to the merger, paragraph number 23 states; "Dominion, through Dominion Questar, will provide equity funding, as needed, to Dominion Questar Gas in order to maintain an end-of-year common equity percentage of total capitalization in the range of 48-55 percent (48%-55%) through December 31, 2019."<sup>1</sup>

Subsequently, the Federal government passed the Tax Cuts and Jobs Act of 2017 ("Tax Reform Act") in December 2017 that became effective January 1, 2018. Included in the Tax Reform Act is a reduction of corporate income tax rates from 35 percent to 21 percent. The various credit rating agencies, including Moody's Investors Service ("Moody's"), noted the Tax Reform Act will have an adverse impact on the cash flows and related credit metrics of regulated utilities. Moody's issued a ratings outlook change in January from "stable" to "negative", specifically for 24 regulated utilities. DEU was one of the 24 named utilities. Moody's downgraded its outlook to "negative" for the entire regulated utilities sector in June 2018 and maintained the negative outlook as of November 2018.<sup>2</sup>

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<sup>1</sup> Docket No. 16-057-01, Settlement Stipulation, Terms and Conditions, page 8, paragraph 23.

<sup>2</sup> *MarketWeek* article, "Moody's expects U.S. utilities to lean more on debt after equity spike", dated 12/7/2018.

## **DISCUSSION**

DEU has negotiated a Stipulation to Modify Commission Order in Docket 16-057-01 and Approve Amended Settlement Stipulation (“Stipulation to Modify”) on October 24, 2018 with all the parties to the original Merger Order. The current Stipulation to Modify will allow DEU to issue additional equity to replace debt in an attempt to avoid a credit downgrade. This issuance of additional equity may cause DEU’s equity to exceed the 55 percent limit set forth in paragraph 23 of the original Settlement Stipulation approved by the Merger Order. The current Stipulation to Modify proposes replacing the original paragraph 23 in its entirety with the following:

Dominion through Questar Gas will provide equity funding, as needed, for the first four calendar years following the Effective Time, in order for Questar Gas to maintain an end-of-year common equity percentage of total capitalization in the range of 48 to 55 percent through December 31, 2019. If, during the first four calendar years following the Effective Time, Questar Gas increases its common equity percentage of total capitalization above 55% to maintain credit metrics, the equity percentage of total capitalization proposed by Questar Gas in its first general rate case after the Effective Time shall not exceed 55%. In the second general rate case following the Effective Time, Questar Gas will work to maintain and propose equity levels that are within the equity level ranges of a basket of A rated peers. If it proposes an equity level above the equity level ranges of a basket of A rated peers, it must specifically identify factors unique to Questar Gas that prevent being within that range. The Parties do not intend that allowing equity capitalization at or above 55% creates any presumption that the outcome of a general rate case would allow equity capitalization at or above 55%.

The Division believes this new stipulation preserves the Division’s rights and responsibilities to analyze, present evidence, and recommend equity levels less than 55% in immediately

anticipated and future rate cases if the Division feels such lower equity levels are prudent and in the public interest.

## **CONCLUSION**

The Division has reviewed and analyzed the original Merger Order, the Tax Reform Act, related circumstances causing negative pressures on credit metrics and possible credit downgrades, and the possible adverse effects such downgrades could have on rate-payers. The Division participated in the current Stipulation to Modify presented in this docket to allow DEU to increase its equity position in excess of the Commission approved 55% limit.

The Division believes the current Stipulation to Modify is just, reasonable and in the public interest. The Division recommends the Commission approve the current Stipulation to Modify dated October 24, 2018.

cc: Kelly B. Mendenhall, DEU  
Michele Beck, Office of Consumer Services  
Gary A. Dodge, Utah Association of Energy Users  
Stephen F Mecham, American Natural Gas Council, Inc.  
Laura Nelson, State of Utah, Governor's Office of Energy Development  
Terri Carlock, Idaho Public Utilities Commission Staff