

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION  
OF DOMINION ENERGY UTAH TO  
INCREASE DISTRIBUTION RATES AND  
CHARGES AND MAKE TARIFF  
MODIFICATIONS

Docket No. 19-057-02

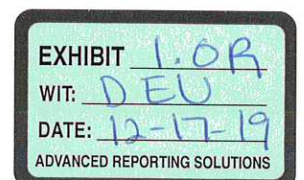
**REBUTTAL TESTIMONY OF**

**KELLY B MENDENHALL FOR**

**DOMINION ENERGY UTAH**

November 14, 2019

**DEU Exhibit 1.0R**



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1

## I. INTRODUCTION

2 **Q. Please state your name and business address.**

3 A. My name is Kelly B Mendenhall.

4 **Q. Did you file direct testimony in this proceeding?**

5 A. Yes.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. I address issues and concerns raised by witnesses representing the Division of Public  
8 Utilities (DPU), Office of Consumer Services (OCS), Utah Association of Energy Users  
9 (UAE), Federal Executive Agencies (FEA) and American Natural Gas Council (ANGC).  
10 Specifically, I address issues these parties have raised concerning the proposed capital  
11 structure, Infrastructure Rate Adjustment Tracker (Infrastructure Tracker) and the merger  
12 commitments.

13

## II. CAPITAL STRUCTURE

14 **Q. Please summarize the capital structure testimony of the parties that you address?**

15 A. I address the direct testimony of Bruce Oliver representing the ANGC and Michael P.  
16 Gorman representing FEA. Specifically, I address their proposals to reduce the common  
17 equity ratio of 55% proposed by the Company. While Mr. Hevert addresses the technical  
18 aspects of these witnesses' proposals, I focus mainly on Commission precedent with  
19 respect to determining capital structure.

20 **Q. What has caused the increase in capital structure since the last case?**

21 A. Increased pressure on credit metrics due to tax reform and the withdrawal of the 2016  
22 rate case has put pressure on the Dominion Energy Utah's (Dominion Energy or  
23 Company) cash flows and credit metrics. As a result, the Company has been required to  
24 issue additional equity to replace debt to help improve these credit metrics.

25 **Q. What evidence do you have that this has been a problem?**

26 A. The credit agencies see it as an issue. On August 19, 2019, Moody's issued a credit  
27 downgrade for Dominion Energy Utah. A copy of this report is attached as DEU 1.01R.  
28 In that report, Moody's states that "Base rate freeze through 2020 and tax reform impacts  
29 will weaken financial metrics."

30 **Q. The base rate freeze and tax reform impacts have created challenges for the**  
31 **Company, but have they been beneficial to customers?**

32 A. Yes. On July 1, 2016, the Company filed a required general rate case with the Utah  
33 Commission asking for a \$22 million increase. The Company withdrew this filing on  
34 August 16, 2016 as a condition of the merger. This provided an immediate benefit to  
35 customers. In addition, as discussed in more detail below, customers received and will  
36 continue to receive the benefit of tax reform in paying lower rates than they otherwise  
37 would have had to pay.

38 **Q. Do you agree that this was not a full \$22 million benefit to customers because the**  
39 **case was not audited and historically the Company does not receive everything they**  
40 **ask for?**

41 A. Yes. It should also be noted, however, that in the last twenty years, the Company has  
42 filed five other general rate cases all of which resulted in rate increases. The withdrawal  
43 of the 2016 rate case would likely have resulted in some rate increase that was avoided  
44 and was beneficial to customers. In addition, the Company had a three-year stay out  
45 provision that prohibited it from filing a rate case for three years. Absent this provision,  
46 the Company would most likely have filed a rate case earlier than 2019.

47 **Q. How did tax reform benefit customers?**

48 A. The passage of the Tax Cuts and Jobs Act (TCJA) on December 22, 2017 resulted in a  
49 \$15 million reduction in customers' rates due to the drop in income tax rates from 35% to  
50 21%. It will also result in additional cost savings due to the return of excess deferred

51 income taxes to customers. This amount will be between \$4 to \$6 million depending on  
52 the results of this rate case.

53 **Q. How did the TCJA negatively impact the Company's cash flows?**

54 A. Tax reform eliminated bonus depreciation, which was beneficial to the Company on a  
55 cash flow basis because the Company was receiving large tax deductions for capital  
56 investment which deferred any cash tax payments that the Company needed to make.

57 **Q. Was this issue addressed by any of the three credit rating agencies that cover**  
58 **Dominion Energy Utah?**

59 A. Yes. As Mr. Gorman discussed in his testimony, on January 19, 2018, Moody's changed  
60 its outlook on 25 regulated utilities primarily impacted by tax reform. Dominion Energy  
61 Utah was one of the identified Companies. This ratings action is attached as DEU  
62 Exhibit 1.02R. In the action, Moody's stated that these companies "had limited cushion  
63 in their rating for deterioration in financial performance, will be incrementally impacted  
64 by changes in the tax law and where we now expect credit metrics to be lower for  
65 longer."

66 **Q. Did the Company try to use this as an excuse to delay or stop tax refund payments**  
67 **to customers?**

68 A. No. While other utilities in the state held back some of the funds and tried to delay the  
69 return to customers, Dominion Energy Utah returned all of the savings to customers as  
70 quickly as possible. It did this even though it put additional strain on the Company's  
71 cash flow and credit metrics.

72 **Q. Were there other factors that put a strain on the Company's cash flow situation?**

73 A. Yes. During the merger, the Company committed to maintain capital expenditures at  
74 above \$200 million per year. While these expenditures were necessary to maintain the  
75 high growth rate, and the safety and reliability of the system, it nonetheless was a strain  
76 on cash flow.

77 **Q. How did the Company manage to maintain capital expenditures and refund tax**  
78 **benefits to customers without the benefit of bonus depreciation to help with cash**  
79 **flows?**

80 A. Dominion Energy Utah has not paid a dividend to its parent since the merger.  
81 Additionally, DEU has had to issue additional equity to buy back long-term debt. This  
82 put the equity level at 60%, which would have violated a merger commitment to cap the  
83 equity level at 55%. This merger commitment was ultimately modified in Docket 18-  
84 057-23. As part of this modification, the Company agreed to hold customers harmless for  
85 anything over 55% equity level. In the current situation, it is the shareholders who are  
86 absorbing the difference in equity. The proposal of Mr. Oliver and Mr. Gorman to reduce  
87 the equity level even further would be punitive. While the proposed equity level is higher  
88 in this case than it was in prior rate cases, the benefits of a withdrawn rate case and \$20  
89 million in tax savings more than make up for the additional cost that comes from a higher  
90 equity level. Additionally, as Mr. Hevert explains, in 2019, the average and median  
91 equity levels have risen by 200 basis points on average for utilities due to the TCJA.

92 **Q. In his testimony, Mr. Oliver states that DEU's actual capital structure should have**  
93 **no bearing on the capital structure the Commission approves for ratemaking**  
94 **purposes in this proceeding.<sup>1</sup> Is this consistent with how the Company's capital**  
95 **structure has been determined in prior proceedings?**

96 A. No. The last dockets where the Commission made a determination on capital structure  
97 were during a 10-year period from 1993 to 2002 in Docket 93-057-01, Docket 99-057-20  
98 and Docket 02-057-02.

99 **Q. Please summarize the Commission decisions in those dockets.**

100 A. In Docket 93-057-01, the Commission determined: "We find it is proper to use Mountain  
101 Fuel's actual capital structure to derive overall return on rate base".<sup>2</sup> In Docket 99-057-  
102 01, the Commission similarly stated, "Using the actual capital structure reported by the

<sup>1</sup> Direct Testimony of Bruce R. Oliver, lines 965-975.

<sup>2</sup> Report and Order, Docket 93-057-01, issued January 10, 1994, page 23.

103 Company consisting of 44.96 percent debt and 55.04 percent common equity, with a cost  
104 of debt of 8.38% and a Commission-determined cost of equity of 11.0 percent, we  
105 conclude that a rate of return on investment of 9.82 percent is fair and reasonable.”<sup>3</sup> In  
106 Docket 02-057-02, the Commission also adopted the Company’s recommended capital  
107 structure, which was based on the Company’s actual capital structure.

108 **Q. Have there been additional rate cases since 2002?**

109 A. Yes. The Company filed general rate cases in Docket 07-057-13, 09-035-23, and 13-057-  
110 05. In all of these cases, the debt/equity ratio was settled based upon the proposed capital  
111 structure in the test period. This is the same methodology that is being proposed by the  
112 Company in this case.

113 **II. INFRASTRUCTURE TRACKER**

114 **Q. Is there anything in your direct testimony that you would like to clarify or correct?**

115 A. In my testimony, I used the term consumer price index (CPI) and IHS (Formerly Global  
116 Insight) GDP deflator interchangeably. This was incorrect as they are two distinct  
117 indices, and the Company uses the IHS GDP deflator and not the CPI to adjust its  
118 allowed budget each year. Mr. Orton<sup>4</sup> correctly points this out in his direct testimony,  
119 and I agree with him.

120 **Q. Does this change impact any of the conclusions in you direct testimony?**

121 A. No. While the CPI and GDP deflator are separate indices, their inflationary impacts are  
122 similar and the construction costs of mainline replacements has exceeded both of these  
123 indices.

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<sup>3</sup> Report and Order, Docket 99-051-01, August 11, 2000, page 3.

<sup>4</sup> Direct Testimony of Eric Orton (Orton Direct), page 4, lines 85-86, footnote 7.

124 **Q. In your direct testimony, you present evidence that the construction costs related to**  
125 **the infrastructure replacement program are outpacing inflation and that, as a**  
126 **result, an increase in the Infrastructure Tracker funds is necessary. Did any of the**  
127 **other parties in this docket take positions related to The Company's proposal to**  
128 **increase the Infrastructure Tracker budget?**

129 A. Yes. The parties in general agree that the Infrastructure Tracker should continue because  
130 it is in the public interest as it allows the Company to make necessary replacements of  
131 aging infrastructure while balancing the interests of customers and shareholders.<sup>5</sup> On the  
132 subject of an increase, the UAE proposes that no inflation increase should be granted  
133 going forward, while the OCS and DPU propose that no budget increase be granted, but  
134 that current budget levels be approved going forward as adjusted for inflation with the  
135 GDP deflator.

136 **Q. What evidence do the parties submit to support their recommendation that no**  
137 **Infrastructure Tracker increase be granted?**

138 A. Each witness makes different arguments and I address them individually below.

139 **Q. Why is Mr. Higgins proposing that no Infrastructure Tracker increase be granted?**

140 A. Mr. Higgins points to the importance of cost containment as a reason for proposing no  
141 increase and no inflation adjustment to the Infrastructure Tracker budget. He points out  
142 that the Company can make any expenditures necessary above the cap in any given year.<sup>6</sup>

143 **Q. How do you respond?**

144 A. If adopted, Mr. Higgins' "cost containment" argument would increase not decrease costs.  
145 Specifically, for each year that replacements are deferred, inflation will increase the  
146 ultimate cost of each project for customers. In addition, because the Company would not  
147 be able to recover excess costs through the Tracker, the Company would have to file

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<sup>5</sup> Direct Testimony of Alyson Anderson (Anderson Direct), lines 94-100; Orton Direct, lines 139 through 143;  
Direct Testimony of Kevin Higgins (Higgins Direct), lines 473-475.

<sup>6</sup> Higgins Direct, lines 477.



148 more frequent rate cases, which bring delay in the recovery of costs, increased carrying  
149 costs, and additional transaction costs.

150 **Q. Why can't the Company replace additional pipe outside of the Infrastructure**  
151 **Tracker as Mr. Higgins suggests?**

152 A. The Company can and it does. The Company is committed to maintaining a safe and  
153 reliable system and takes necessary steps to do so. In fact, as DEU Exhibit 1.03R shows,  
154 over the past five years, the Company has replaced an average of \$90 million on  
155 relocations, reinforcements and replacements outside of the Infrastructure Tracker. This  
156 amounts to about 43% of the average annual capital budget. However, these projects do  
157 not generate any incremental revenue and recovery is not included in rates until a general  
158 rate case. Replacing tracker-eligible pipe outside of the tracker simply increases the need  
159 for more frequent general rate cases, and defeats one of the primary purposes the  
160 Infrastructure Tracker was implemented to begin with. The Company is already  
161 shouldering a large amount of investment in between rate cases, and the proposal to  
162 replace additional high-pressure pipe outside of the tracker is unreasonable. The tracker  
163 creates a good balance for customers and shareholders by balancing safety, reliability,  
164 rate stability and regulatory efficiency.

165 **Q. Ms. Anderson states that the Infrastructure Tracker represents 33% of the total**  
166 **capital budget and that this ratio is reasonable going forward.<sup>7</sup> How do you**  
167 **respond?**

168 A. Ms. Anderson's calculation is based on a reduced 2020 capital budget as proposed by Ms.  
169 Ramas. As Mr. Stephenson shows, the Company needs the full \$277 million 2020 capital  
170 budget and has detailed projects to support this level of spending. Dividing the \$80  
171 million proposed Infrastructure Tracker increase by the total 2020 capital budget of \$277  
172 results in 29%, a percentage that is lower than the 33% level suggested by Ms. Anderson  
173 as being a reasonable ratio.

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<sup>7</sup> Anderson, lines 246-249.

174 **Q. Witness Anderson also states that “The potential or real cost savings are not**  
175 **reflected in the Infrastructure Tracker surcharge, and the underlying reason the**  
176 **Office opposes trackers.”<sup>8</sup> Is this factually accurate?**

177 A. No. As I discussed on page 26 of my direct testimony, the replacement of these mains  
178 has contributed to a lower depreciation rate for mains and results in a depreciation  
179 expense reduction of \$2 million per year. This updated depreciation rate will also be  
180 incorporated into the Infrastructure Tracker rate calculation. Currently, a depreciation  
181 rate of 2.14% is used. Going forward, the new depreciation rate of 1.93% will be used in  
182 the calculation. This will result in lower costs in each of the Infrastructure Tracker  
183 applications.

184 **Q. Please describe Mr. Orton’s criticisms with the Company’s proposal to increase the**  
185 **Infrastructure Tracker.**

186 A. While Mr. Orton agrees that construction costs have increased faster than inflation,<sup>9</sup> he  
187 takes exception to my comparison of the GDP deflator and steel prices and suggests that  
188 my analysis is too narrow and might be distorted.<sup>10</sup>

189 **Q. Does a broader analysis result in different results?**

190 A. No. DEU Exhibit 1.04R provides a comparison of multiple construction indices with the  
191 IHS GDP deflator. For this analysis, the Company looked at every possible inflation  
192 factor that IHS Markit tracked related to main line construction. The exhibit shows six  
193 different historical inflation rates compared to the GDP deflator, ranging from labor to  
194 steel prices. As the exhibit shows, these pipeline specific costs have increased between  
195 19.7% and 32.2% since 2011, while the GDP deflator has increased just 9.0%. As a  
196 result, the Company is not able to replace as much pipe within the Infrastructure Tracker  
197 program as it could when the program began. This is a good reason to increase the

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<sup>8</sup> Anderson Direct, lines 226-228.

<sup>9</sup> Orton Direct, lines 72-78.

<sup>10</sup> Orton, Lines 88-111.

198 Infrastructure Tracker budget to \$80 million. Going forward, it may be useful to replace  
199 the GDP deflator with an index that is more indicative of main line construction costs.

200 **III. MERGER COMMITMENTS**

201 **Q. Did any of the parties raise concerns that the Company had not complied with the**  
202 **merger provisions in Docket 16-057-01?**

203 A. With respect to merger commitment No. 47, Mr. Orton recommends that the Commission  
204 require the Company to file a remediation plan on how it will improve its deficient  
205 customer metrics and penalize the Company if the deadlines are not met.

206 **Q. Has Mr. Orton's concern been resolved in another proceeding?**

207 A. Yes. While Mr. Orton does not specifically state which metrics he would like the  
208 Company to file a remediation plan for, a review of the most recent quarterly report  
209 shows that the only two deficient metrics are "Read each meter monthly" and "Response  
210 time to investigate meter problems and notify customer within 15 business days." The  
211 report with all of the metrics is attached as DEU Exhibit 1.05R. These two deficient  
212 metrics are both related to the Company's transponder replacement program, and will be  
213 resolved when the transponder replacement program is complete on September 30, 2020.  
214 This issue is being resolved in Docket 19-057-25, and the Company will provide  
215 quarterly updates on its remediation plan in that docket.

216 **VII. CONCLUSION**

217 **Q. Would you please summarize your recommendations?**


218 A. Yes. I have offered evidence that the Commission should find the 55% proposed equity  
219 level to be in the public interest because it best reflects the capital structure that will be in  
220 effect during the test period. I have also offered evidence that the Commission should  
221 approve an increase to the Infrastructure Tracker budget to \$80 million to take into  
222 account the fact that construction costs have outpaced general inflation.

223 Q. Does this conclude your testimony?

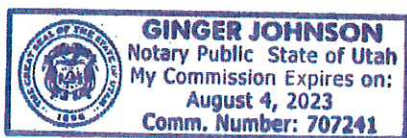
224 A. Yes.

State of Utah )  
 ) ss.  
County of Salt Lake )

I, Kelly B Mendenhall, 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. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

  
\_\_\_\_\_  
Kelly B Mendenhall

SUBSCRIBED AND SWORN TO this November 14, 2019.



  
\_\_\_\_\_  
Notary Public

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**CREDIT OPINION**

19 August 2019

Update

Rate this Research

**RATINGS**

**Questar Gas Company**

Domicile	Salt Lake City, Utah, United States
Long Term Rating	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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**CLIENT SERVICES**

Americas	1-212-553-1653
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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

**Questar Gas Company**

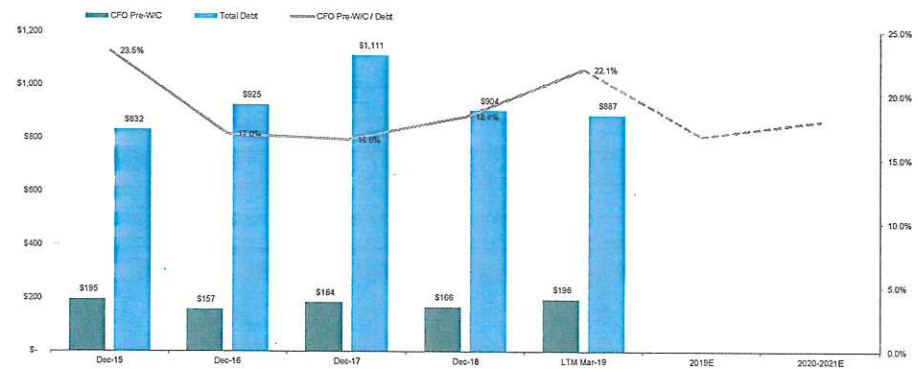
Update following downgrade to A3

**Summary**

Questar Gas Company's credit profile reflects 1) low-risk operations as a local gas distribution company (LDC), 2) supportive regulators in Utah and Wyoming, 3) stable cash flow production through its suite of cost recovery mechanisms and 4) recent conservative financial policies; albeit these are expected to be temporary.

The Questar Gas credit profile is constrained by weak financial metrics versus peers and a highly levered parent company (i.e., Dominion Energy Inc. (Dominion, Baa2 stable)) with over \$350 million of parent-level interest expense and \$2.5 billion in corporate dividends, annually.

Exhibit 1  
 Historical and Projected CFO Pre-WC, Total Debt and CFO Pre-WC to Debt (\$MM)



Source: Moody's Financial Metrics and Moody's projection estimates

**Credit strengths**

- » Stable and predictable cash flow derived from an estimated \$1.8 million of rate base
- » Cooperative relationships with regulators in Utah and Wyoming
- » Ring-fencing like provisions helps offset some risk of its highly levered parent

## Credit challenges

- » Base rate freeze through 2020 and tax reform impacts will weaken financial metrics
- » Elevated capital spend over the next three years
- » Highly levered parent that carries higher credit risk

## Rating outlook

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 17-19% for the next two to three years) and that short-term debt and upstream dividends will be increasing.

## Factors that could lead to an upgrade

- » Cash flow to debt metrics above 20% on a sustainable basis, while maintaining the same degree of regulatory support that it currently has
- » A material improvement in cost recovery provisions

## Factors that could lead to a downgrade

- » Cash flow to debt metrics below 16%, on a sustained basis
- » If regulatory support or the ability to recover costs were to decline

## Key indicators

Exhibit 2

### Questar Gas Company [1]

	Dec-15	Dec-16	Dec-17	Dec-18	LTM Mar-19
CFO Pre-W/C + Interest / Interest	7.4x	6.1x	6.2x	5.2x	6.1x
CFO Pre-W/C / Debt	23.5%	17.0%	16.6%	18.4%	22.1%
CFO Pre-W/C – Dividends / Debt	17.8%	13.7%	16.6%	18.4%	22.1%
Debt / Capitalization	44.0%	45.0%	52.7%	41.3%	39.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.  
Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

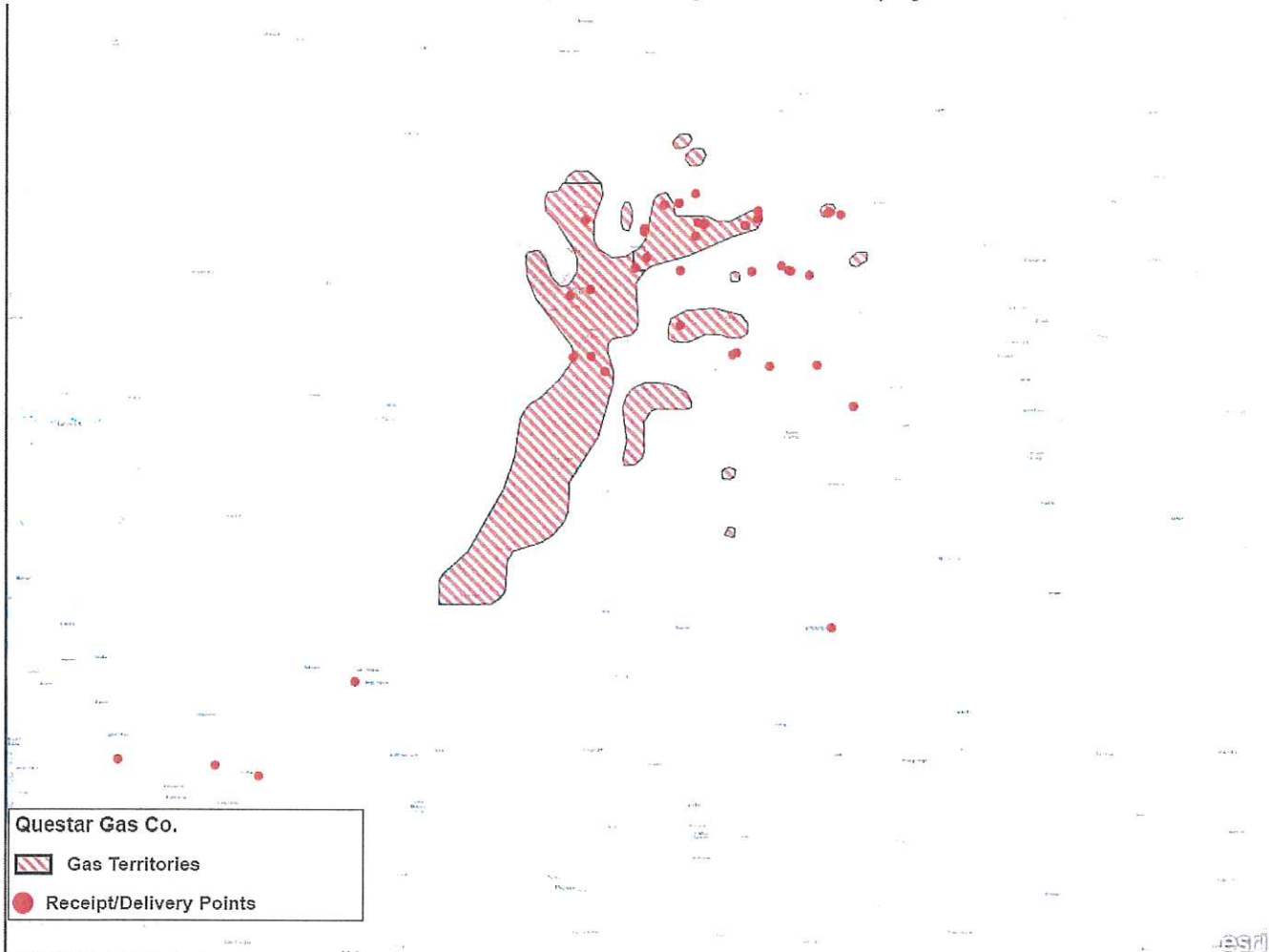


**Profile**

Questar Gas is a local gas distribution company that serves over 1.1 million customers primarily in Utah but also in Wyoming and Idaho. Questar Gas is primarily regulated by the Public Service Commission of Utah (PSCU) and the Wyoming Public Service Commission (WPSC) with a rate base expected to be about \$1.8 billion in 2019.

Exhibit 3

Questar's service territory spans the length of Utah and supports customer growth of about 2% per year



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 Source: SPGMI

Questar Gas' ultimate parent company is Dominion Energy Inc. (Dominion, Baa2 stable), one of the nation's largest producers and transporters of energy, headquartered in Richmond, VA.

## Detailed credit considerations

### Supportive regulatory environments with key cost recovery features

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

Some of the key regulatory provisions include the company's revenue decoupling mechanism and weather normalization adjustment, which help to provide revenue and cash flow certainty despite fluctuations in customer use patterns. Importantly, the decoupling mechanism also helps Questar Gas to recover its fixed charges, even in a declining demand environment, which mitigates volume risk.

Another supportive mechanism is a pilot infrastructure rider, which allows the company to recover up to about \$70 million of annual capital spending on certain infrastructure replacement projects between general rate cases. This helps to accelerate a degree of capex recovery (e.g., \$70 million is roughly 30% of the \$218 million capex that Questar spent in 2018) thus supporting company cash flow and limiting the use of debt financing.

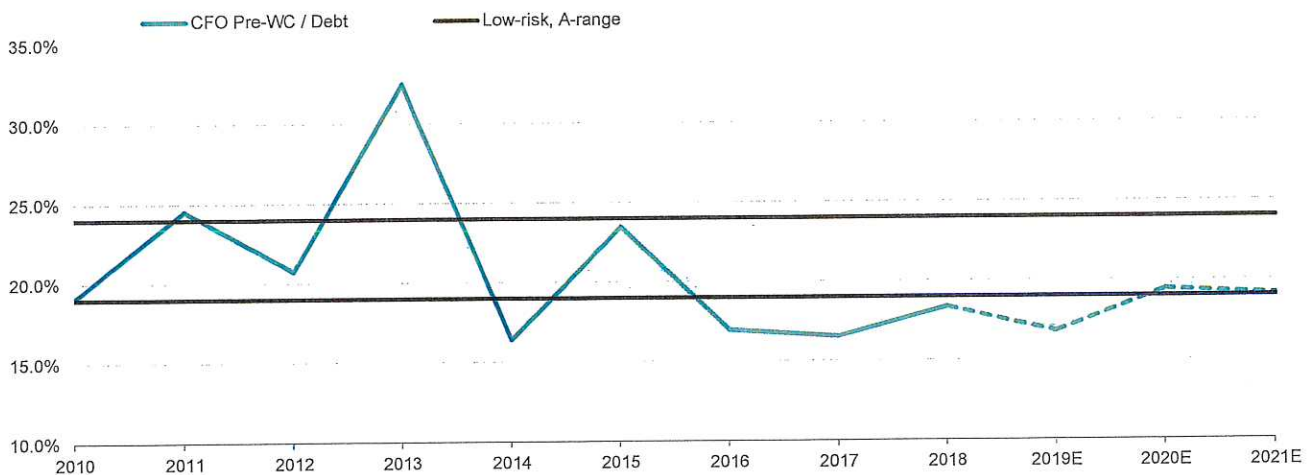
In July, Questar Gas filed for its first general rate increase since 2014 with the PSCU. The filing requests just over a \$19 million annual revenue increase, based on a \$1.8 billion rate base with a 10.5% allowed ROE on an equity layer of 55%. The filing also requests a continuation of the infrastructure rider and that 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.

### Despite current rate case, financial metrics expected to remain lower than historical levels

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. However, we also think it likely that the ultimate order will authorize an allowed ROE and equity layer that is less than the company's request of a 10.5% allowed ROE and 55% equity layer, since these levels are high for what the commission has allowed for rate making purposes.

In all, we do not envision this rate case providing enough financial uplift to bring cash flow to debt metrics back to the low-20% range that the company exhibited before tax reform and its acquisition by Dominion that precipitated a rate freeze. For example, even when applying the full company request of a \$1.8 billion rate base, 55% equity layer and 10.5% allowed ROE, Moody's sees annual cash flow from operations persisting at around \$200 million and cash flow to debt ratios remaining between 17-19% over the next three years. These levels are at, or below, the low end of the range expected for low-risk utilities with a CFO pre-WC to debt metric in the A-range.

Exhibit 4  
Questar Gas' CFO pre-WC to debt is expected to average around 18% through 2021



Source: Moody's Investors Service

### Recent financial policies have helped the balance sheet, but we view them as temporary measures

In recent years, Questar Gas' parent, Dominion, has taken steps to bolster the balance sheet by infusing \$200 million of equity into the utility, paying-down short-term debt, withholding dividends over the last two years and by seeking regulatory approval of a higher level of equity capitalization (i.e., 55% from around 52%).

While supportive, Moody's sees these steps as temporary since short-term debt balances will grow for seasonal gas purchases and upstream dividends will likely be reinstated to help support over \$550 million of parent-level interest expense and over \$2.5 billion in corporate dividends. The maintenance of Questar Gas' 55% equity layer – which is high compared to what the PSCU has typically allowed – will also come under scrutiny in the company's current rate case.

### Parent contagion risk reduced by utility ring-fencing type provisions and de-risking events in 2018

The ring-fencing like provisions put in place by the PSCU and PSCW help to support Questar Gas' standalone credit profile and provide some downside protections from its highly levered parent. For example, by instituting measures focused on minimum equity levels, rating levels, intercompany lending restrictions, liquidity facility requirements and a "Special Bankruptcy Director" for Questar Gas, we see added regulatory focus on maintaining Questar Gas' individual credit quality. Some of these features also govern the degree to which Dominion can increase Questar Gas' leverage ratios – a credit positive.

Moreover, Dominion 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 \$8.0 billion (\$5.0 billion on a consolidated basis) by way of selling two merchant power generation plants and its 50% interest in the Blue Racer (Ba1 stable) midstream gas business with higher risk operations. Furthermore, the acquisition of SCANA Corp. (Ba1 positive) added over \$800 million of rate regulated utility cash flow to the consolidated operations and provides more geographic and regulatory diversity going forward.

### Low carbon transition risk

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.

### Liquidity analysis

Questar Gas' internal liquidity consists of cash flow from operations of around \$200 million, versus capital expenditures above \$230 million. We expect that Questar Gas will maintain a lower dividend payout through 2019, in-line with the past 12 months, but will still require external liquidity sources to maintain an adequate liquidity profile.

Questar Gas has direct access to Dominion's \$6.0 billion master credit facility, by way of a \$250 million sub-limit. On 30 June 2019, Questar Gas had no commercial paper (CP) outstanding. The sub-limit can be increased or decreased multiple times per year and if Questar Gas has liquidity needs in excess of its sub-limit, its needs can be satisfied through short-term intercompany borrowings from Dominion.

The master credit facility is a joint facility that also names affiliates Virginia Electric and Power Company (A2 stable) and Dominion Energy Gas Holdings, LLC (A3 stable) as co-borrowers. The facility matures in March 2023. The joint facility contains no material adverse change clause for borrowings but do contain a maximum 67.5% debt to capitalization covenant (Questar Gas' specific covenant is 65%), and all four borrowers have reported that they remain comfortably in compliance with this covenant restriction.

We also note that while it is common practice for Dominion and its subsidiaries to limit CP issuances to amounts available under the revolver backstop, the program documentation has no overt language that restricts CP issuance in this manner. We expect Dominion to continue its practice of maintaining 100% backup, at all times, for funded commercial paper in the form of cash balances and its \$6.0 billion of committed bank credit facility. Should there be a deviation of this practice, the liquidity and long-term credit quality of Questar Gas would be negatively affected.

The next debt maturities at Questar Gas include \$40 million of notes due in December 2024 and \$110 million on December 2027.

Exhibit 5

## Dominion's credit facility profile as of 30 June 2019 [1]

Company	Current Sub-Limit	CP Outstanding	Letters of Credit	Total Use as % of Sub-Limit	Sub-Limit Available
<b>Total</b>	\$ 6,000	\$ 2,526	\$ 91	44%	\$ 3,383
DEI	\$ 3,000	\$ 976	\$ 85	35%	\$ 1,939
VEPCO	\$ 1,500	\$ 1,300	\$ 6	87%	\$ 194
DEGH	\$ 750	\$ 250	\$ -	33%	\$ 500
Questar Gas	\$ 250	\$ -	\$ -	0%	\$ 250
DESC	\$ 500	\$ -	\$ -	0%	\$ 500

Dominion represents Dominion Energy Inc.'s parent and unregulated operations  
Source: Company reports

## Rating methodology and scorecard factors

Exhibit 6

## Rating Factors

## Questar Gas Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2019		Moody's 12-18 Month Forward View As of Date Published [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.0x	Aa	5.5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.0%	A	17% - 19%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.3%	A	17% - 19%	A
d) Debt / Capitalization (3 Year Avg)	42.6%	A	41% - 45%	A
<b>Rating:</b>				
Scorecard Indicated Outcome Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Scorecard Indicated Outcome from Grid		A2		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 3/30/2019(L)

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics

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Moody's Questar Gas Credit Opinion

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## Appendix

Exhibit 7

## Cash Flow and Credit Metrics [1]

CF Metrics	Dec-15	Dec-16	Dec-17	Dec-18	LTM Mar-19
As Adjusted					
FFO	179	157	184	166	196
+/- Other	16	-	-	-	-
CFO Pre-WC	195	157	184	166	196
+/- ΔWC	(63)	44	(43)	47	(116)
CFO	132	201	141	213	80
- Div	47	30	-	-	-
- Capex	217	240	215	218	195
FCF	(132)	(69)	(74)	(5)	(115)
(CFO Pre-W/C) / Debt	23.5%	17.0%	16.6%	18.4%	22.1%
(CFO Pre-W/C - Dividends) / Debt	17.8%	13.7%	16.6%	18.4%	22.1%
FFO / Debt	21.5%	17.0%	16.6%	18.4%	22.1%
RCF / Debt	15.9%	13.7%	16.6%	18.4%	22.1%
Revenue	918	921	947	918	904
Cost of Good Sold	553	528	550	534	512
Interest Expense	30	31	35	40	39
Net Income	60	65	70	52	58
Total Assets	2,193	2,507	2,698	2,816	2,823
Total Liabilities	1,571	1,853	1,977	1,808	1,751
Total Equity	621	654	721	1,007	1,072

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics

Exhibit 8

## Peer Comparison Table [1]

(in US millions)	Questar Gas Company			DTE Gas Company			Southwest Gas Corporation			Public Service Co. of North Carolina, Inc.			UGI Utilities, Inc.		
	A3 Stable			A3 Stable			A3 Stable			A3 Negative			A2 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
	Dec-17	Dec-18	Mar-19	Dec-17	Dec-18	Mar-19	Dec-17	Dec-18	Jun-19	Dec-17	Dec-18	Mar-19	Sep-17	Sep-18	Mar-19
Revenue	947	918	904	1,368	1,415	1,510	1,302	1,358	1,367	470	500	526	888	1,092	1,038
CFO Pre-W/C	184	166	196	310	337	333	433	428	423	157	113	146	298	344	353
Total Debt	1,111	904	887	1,784	1,826	1,786	2,121	2,369	2,397	747	853	755	1,095	1,138	1,199
CFO Pre-W/C / Debt	16.6%	18.4%	22.1%	17.4%	18.5%	18.7%	20.4%	18.1%	17.6%	21.0%	13.3%	19.4%	27.2%	30.2%	27.8%
CFO Pre-W/C - Dividends / Debt	16.6%	18.4%	22.1%	11.5%	12.3%	12.2%	16.6%	14.4%	13.9%	16.2%	8.1%	13.5%	22.0%	25.8%	25.3%
Debt / Capitalization	52.7%	41.3%	39.4%	46.4%	43.9%	42.7%	50.9%	51.2%	49.4%	43.3%	44.9%	40.8%	40.3%	43.3%	42.4%

[1] All figures &amp; ratios calculated using Moody's estimates &amp; standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months.

Source: Moody's Financial Metrics

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## Ratings

Exhibit 9

Category	Moody's Rating
<b>QUESTAR GAS COMPANY</b>	
Outlook	Stable
Senior Unsecured	A3
Commercial Paper	P-2
<b>ULT PARENT: DOMINION ENERGY, INC.</b>	
Outlook	Stable
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Source: Moody's Investors Service

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## MOODY'S INVESTORS SERVICE

### Rating Action: Moody's changes outlooks on 25 US regulated utilities primarily impacted by tax reform

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Global Credit Research - 19 Jan 2018

New York, January 19, 2018 -- Moody's Investors Service, ("Moody's") has changed the rating outlooks to negative from stable for 24 regulated utilities and utility holding companies; and to stable from positive for one utility holding company in the United States. The short-term and long-term ratings for all 25 companies were affirmed.

#### RATINGS RATIONALE

"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 changes in the tax law and where we now expect key credit metrics to be lower for longer," said Jim Hempstead, a Managing Director at Moody's. "Utilities will work closely with state regulators to try to mitigate the negative impact of tax reform and in some cases they may seek to refine their corporate financial policies. Where successful, their rating outlooks could revert to stable."

Tax reform is credit negative for US regulated utilities because the lower 21% statutory tax rate reduces cash collected from customers, while the loss of bonus depreciation reduces tax deferrals, all else being equal. Moody's calculates that 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 - 250 basis points on average, depending to some degree on the size of the company's capital expenditure programs. From a leverage perspective, Moody's estimates that debt to total capitalization ratios will increase, based on the lower value of deferred tax liabilities.

The change in outlook to negative from stable for the 24 companies affected in this rating action primarily reflects the incremental cash flow shortfall caused by tax reform on projected financial metrics that were already weak, or were expected to become weak, given the existing rating for those companies. The negative outlook also considers the uncertainty over the timing of any regulatory actions or other changes to corporate finance policies made to offset the financial impact.

The change in outlook to stable from positive for American Electric Power Company, Inc. (AEP, Baa1 stable) reflects Moody's calculations that the projected ratio of cash flow before changes in working capital to debt, incorporating the effects of tax reform, will remain in the mid-teens range. At this level, Moody's believes AEP's Baa1 rating is appropriate.

The vast majority of US regulated utilities, however, continue to maintain stable rating outlooks. We do not expect the cash flow reduction associated with tax reform to materially impact their credit profiles because sufficient cushion exists within projected financial metrics for their current ratings. Nonetheless, further actions could occur on a company specific basis.

Over the next 12 to 18 months, Moody's will continue to monitor the financial impact of tax reform on each company, including its regulatory approach to rate treatment and any changes to corporate finance strategies. This will include balance sheet changes due to the reclassification of excess deferred tax liabilities as a regulatory liability and the magnitude of any amounts to be refunded to customers. If the financial impact of tax reform is more severe than Moody's initial estimates or the companies fail to materially mitigate any weaknesses in their financial profiles, the ratings could be downgraded.

That said, Moody's expects that most utilities will attempt to manage any negative financial implications of tax reform through regulatory channels. Corporate financial policies could also change. The actions taken by utilities will be incorporated into the credit analysis on a prospective basis. As a result, it is conceivable that some companies will sufficiently defend their credit profiles. For these companies, it is possible for the outlook to return to stable.

Potential regulatory offsets to tax-related cash leakage could include: accelerated cost recovery of certain regulatory assets or future investment; changes to the equity layer or allowed ROEs in rates, and other actions. Changes to corporate financial policies could include changes to capitalization, the financing of future

investments, dividend growth, or others. Some of these corporate measures could have a more immediate boost to projected metrics than certain regulatory provisions, which may take time to approve and implement.

Outlook Actions:

..Issuer: American Electric Power Company, Inc.

....Outlook, Changed To Stable From Positive

..Issuer: Avista Corp.

....Outlook, Changed To Negative From Stable

..Issuer: Avista Corp. Capital II

....Outlook, Changed To Negative From Stable

..Issuer: Duke Energy Corporation

....Outlook, Changed To Negative From Stable

..Issuer: Entergy Corporation

....Outlook, Changed To Negative From Stable

..Issuer: New Jersey Natural Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: Northwest Natural Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: ONE Gas, Inc

....Outlook, Changed To Negative From Stable

..Issuer: Piedmont Natural Gas Company, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Public Service Company of Oklahoma

....Outlook, Changed To Negative From Stable

..Issuer: Questar Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: South Jersey Gas Company

....Outlook, Changed To Negative From Stable

..Issuer: Alabama Power Capital Trust V

....Outlook, Changed To Negative From Stable

..Issuer: Alabama Power Company

....Outlook, Changed To Negative From Stable

..Issuer: Southern Company (The)

....Outlook, Changed To Negative From Stable

..Issuer: Southern Elect Generating Co

....Outlook, Changed To Negative From Stable

..Issuer: Southwestern Public Service Company

....Outlook, Changed To Negative From Stable

..Issuer: Wisconsin Gas LLC

....Outlook, Changed To Negative From Stable

..Issuer: American Water Capital Corp.

....Outlook, Changed To Negative From Stable

Issuer: American Water Works Company, Inc.

....Outlook, Changed To Negative From Stable

Outlook Actions:

..Issuer: Consolidated Edison Company of New York, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Consolidated Edison, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Orange and Rockland Utilities, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Brooklyn Union Gas Company, The

....Outlook, Changed To Negative From Stable

..Issuer: KeySpan Gas East Corporation

....Outlook, Changed To Negative From Stable

Affirmations:

..Issuer: American Electric Power Company, Inc.

.... Commercial Paper, Affirmed P-2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Junior Subordinated Shelf, Affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Avista Corp.

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Underlying Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Medium-Term Note Program, Affirmed (P)A2

....Senior Secured Regular Bond/Debenture, Affirmed A2

....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa1

..Issuer: Avista Corp. Capital II

....Pref. Stock Preferred Stock, Affirmed Baa2  
..Issuer: Duke Energy Corporation  
.... Issuer Rating, Affirmed Baa1  
....Junior Subordinated Regular Bond/Debenture, Affirmed Baa2  
....Senior Unsecured Shelf, Affirmed (P)Baa1  
....Senior Unsecured Bank Credit Facility, Affirmed Baa1  
....Senior Unsecured Commercial Paper, Affirmed P-2  
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1  
..Issuer: Entergy Corporation  
.... Issuer Rating, Affirmed Baa2  
....Senior Unsecured Commercial Paper, Affirmed P-2  
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2  
....Senior Unsecured Shelf, Affirmed (P)Baa2  
..Issuer: New Jersey Natural Gas Company  
.... Commercial Paper, Affirmed P-1  
..Issuer: Northwest Natural Gas Company  
.... Commercial Paper, Affirmed P-2  
....Senior Secured Medium-Term Note Program, Affirmed (P)A1  
....Senior Unsecured Medium-Term Note Program, Affirmed (P)A3  
....Senior Secured Shelf, Affirmed (P)A1  
....Senior Unsecured Shelf, Affirmed (P)A3  
....Preferred Shelf, Affirmed (P)Baa2  
....Senior Secured First Mortgage Bonds, Affirmed A1  
....Senior Secured Regular Bond/Debenture, Affirmed A1  
..Issuer: ONE Gas, Inc  
....Senior Unsecured Commercial Paper, Affirmed P-1  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2  
..Issuer: Piedmont Natural Gas Company, Inc.  
....Senior Unsecured Commercial Paper, Affirmed P-1  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2  
..Issuer: Public Service Company of Oklahoma  
.... Issuer Rating, Affirmed A3  
....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Questar Gas Company  
....Senior Unsecured Commercial Paper, Affirmed P-1  
....Senior Unsecured Medium-Term Note Program, Affirmed (P)A2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2  
..Issuer: Alabama Power Capital Trust V  
....Pref. Stock Preferred Stock, Affirmed A2  
..Issuer: Alabama Power Company  
.... Commercial Paper, Affirmed P-1  
.... Issuer Rating, Affirmed A1  
....Senior Unsecured Shelf, Affirmed (P)A1  
....Preferred Shelf, Affirmed (P)A3  
....Preference Shelf, Affirmed (P)A3  
....Pref. Stock Preferred Stock, Affirmed A3  
....Senior Unsecured Bank Credit Facility, Affirmed A1  
....Senior Unsecured Commercial Paper, Affirmed P-1  
....Senior Unsecured Regular Bond/Debenture, Affirmed A1  
..Issuer: Columbia (Town of) AL, Industrial Dev. Board  
....Senior Unsecured Revenue Bonds, Affirmed A1  
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1  
..Issuer: Eutaw (City of) AL, Industrial Dev. Board  
....Senior Unsecured Revenue Bonds, Affirmed A1  
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1  
..Issuer: Mobile (City of) AL, I.D.B.  
....Senior Unsecured Revenue Bonds, Affirmed A1  
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1  
..Issuer: Walker County Econ & Ind Dev Authority  
....Senior Unsecured Revenue Bonds, Affirmed A1  
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1  
..Issuer: West Jefferson (Town of) AL, Ind. Devel. Bd.  
....Senior Unsecured Revenue Bonds, Affirmed A1  
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1  
..Issuer: Wilsonville (Town of) AL, I.D.B.  
....Senior Unsecured Revenue Bonds, Affirmed A1  
....Senior Unsecured Revenue Bonds, Affirmed VMIG 1

....Underlying Senior Unsecured Revenue Bonds, Affirmed A1  
..Issuer: South Jersey Gas Company  
.... Issuer Rating, Affirmed A2  
....Senior Secured First Mortgage Bonds, Affirmed Aa3  
....Senior Secured Medium-Term Note Program, Affirmed (P)Aa3  
....Senior Secured Regular Bond/Debenture, Affirmed Aa3  
....Senior Unsecured Commercial Paper, Affirmed P-1  
..Issuer: New Jersey Economic Development Authority  
....Senior Secured Revenue Bonds, Affirmed Aa3  
....Underlying Senior Secured Revenue Bonds, Affirmed Aa3  
....Senior Secured Revenue Bonds, Affirmed Aa2  
....Underlying Senior Secured Revenue Bonds, Affirmed Aa2  
..Issuer: Southern Company (The)  
.... Commercial Paper, Affirmed P-2  
....Junior Subordinated Regular Bond/Debenture, Affirmed Baa3  
....Senior Unsecured Shelf, Affirmed (P)Baa2  
....Junior Subordinated Shelf, Affirmed (P)Baa3  
....Senior Unsecured Bank Credit Facility, Affirmed Baa2  
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2  
..Issuer: Southern Elect Generating Co  
.... Issuer Rating, Affirmed A2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A1  
..Issuer: Southwestern Public Service Company  
.... Issuer Rating, Affirmed Baa1  
....Senior Secured Shelf, Affirmed (P)A2  
....Senior Unsecured Shelf, Affirmed (P)Baa1  
....Senior Secured First Mortgage Bonds, Affirmed A2  
....Senior Unsecured Bank Credit Facility, Affirmed Baa1  
....Senior Unsecured Commercial Paper, Affirmed P-2  
....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1  
..Issuer: Wisconsin Gas LLC  
.... Commercial Paper, Affirmed P-1  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: American Water Capital Corp.  
.... Issuer Rating, Affirmed A3  
....Senior Unsecured Shelf, Affirmed (P)A3  
....Senior Unsecured Commercial Paper, Affirmed P-2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A3  
..Issuer: American Water Works Company, Inc.  
.... Issuer Rating, Affirmed A3  
..Issuer: Berks County Industrial Development Auth., PA  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: California Pollution Control Financing Auth.  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: Illinois Development Finance Authority  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: Illinois Finance Authority  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: Indiana Finance Authority  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: MARICOPA COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY,  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: Northampton County I.D.A., PA  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: Owen (County of) KY  
....Senior Unsecured Revenue Bonds, Affirmed A3  
..Issuer: Consolidated Edison Company of New York, Inc.  
.... Issuer Rating, Affirmed A2  
....Senior Unsecured Shelf, Affirmed (P)A2  
....Subordinate Shelf, Affirmed (P)A3  
....Preferred Shelf, Affirmed (P)Baa1  
....Senior Unsecured Commercial Paper, Affirmed P-1  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2  
....Underlying Senior Unsecured Regular Bond/Debenture, Affirmed A2  
..Issuer: New York State Energy Research & Dev. Auth.  
....Senior Unsecured Revenue Bonds, Affirmed A2  
....Underlying Senior Unsecured Revenue Bonds, Affirmed A2

..Issuer: New York State Research & Development Auth.  
....Senior Unsecured Revenue Bonds, Affirmed A2  
....Underlying Senior Unsecured Revenue Bonds, Affirmed A2

..Issuer: Consolidated Edison, Inc.  
.... Issuer Rating, Affirmed A3  
....Senior Unsecured Shelf, Affirmed (P)A3  
....Senior Unsecured Commercial Paper, Affirmed P-2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Orange and Rockland Utilities, Inc.  
.... Issuer Rating, Affirmed A3  
....Senior Unsecured Commercial Paper, Affirmed P-2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A3

..Issuer: Brooklyn Union Gas Company, The  
....LT Issuer Rating, Affirmed A2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: New York State Energy Research & Dev. Auth.  
....Backed LT IRB/PC Insured, Affirmed A2  
...Underlying LT IRB/PC, Affirmed A2

Issuer: KeySpan Gas East Corporation  
....LT Issuer Rating, Affirmed A2  
....Senior Unsecured Regular Bond/Debenture, Affirmed A2

The principal methodology used in rating Public Service Company of Oklahoma, Southwestern Public Service Company, Southern Company (The), Alabama Power Company, Alabama Power Capital Trust V, Southern Elect Generating Co, South Jersey Gas Company, Wisconsin Gas LLC, American Electric Power Company, Inc., Duke Energy Corporation, Piedmont Natural Gas Company, Inc., Avista Corp., Avista Corp. Capital II, ONE Gas, Inc, New Jersey Natural Gas Company, Northwest Natural Gas Company, Questar Gas Company, Entergy Corporation, Consolidated Edison, Inc., Consolidated Edison Company of New York, Inc., Brooklyn Union Gas Company, The, KeySpan Gas East Corporation, and Orange and Rockland Utilities, Inc. was Regulated Electric and Gas Utilities published in June 2017. The principal methodology used in rating American Water Works Company, Inc. and American Water Capital Corp. was Regulated Water Utilities published in December 2015. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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# DEUWI Maintenance Capital Budget History

11-12-2019

Row#	DISTRIBUTION	2018	2017	2016	2015	2014	Average
7	Dist M&R Stations	11,028,184	13,619,942	13,096,886	9,925,723	6,080,568	
8	New Stations \$	6,535,773	6,722,967	3,304,616	2,669,782	1,995,624	
9	Repl/Reloc Stations \$	1,927,402	3,194,295	3,106,021	3,762,012	1,862,832	
10	Remod Stations	1,343,799	1,094,205	1,702,639	2,176,971	457,339	
11	Station Properties	1,021,161	1,180,565	881,600	659,269	511,931	
12	Misc/Odorant/Controls	200,048	1,234,062	612,776	245,780	578,772	
13	Hunter Park Remod	0	193,848	3,489,596	0	0	
14	Feeder Lines	19,643,193	29,454,145	26,784,797	36,688,327	16,485,065	
15	Misc FL Projects	2,148,722	4,496,779	2,538,694	5,446,682	3,146,105	
16	FL/Tapline Extensions	7,998,578	12,874,904	15,843,981	16,618,329	2,526,597	
17	Cathodic Protection	4,520,795	6,726,151	5,315,886	5,066,142	3,599,079	
18	System Integrity	4,975,098	5,356,311	3,086,236	9,194,790	6,018,627	
19	Washington Co HP Reinf.	0	0	0	0	1,197,932	
20	Lakeside II	0	0	0	0	214,182	
21	Compressor Plants	4,534	2,125	95,842	303,120	1,118,169	
22	HP M&R Remods	291,332	580,229	842,959	730,279	263,350	
23	<b>HP Total</b>	<b>30,967,244</b>	<b>43,656,441</b>	<b>40,820,484</b>	<b>47,647,449</b>	<b>23,947,152</b>	
25	Mains - Other	26,167,663	23,870,100	29,930,079	26,532,674	16,560,671	
26	BelLine Repl (TRACKER)						
27	Steel IHP Repl						
28	Cathodic Protection	588,099	592,610	625,881	1,031,059	465,903	
29	Services - Other	7,162,617	9,249,339	12,301,315	11,791,934	10,229,428	
30	Continental Risers	961,418	793,731	962,688	1,052,830	1,158,575	
31	IHP Meters - Other	13,447,763	37,620,427	20,440,987	11,782,212	10,010,714	
32	Transponder Replacements	10,308,878	32,471,957	13,480,162	5,428,635	3,316,509	
33	<b>Repl IHP Total</b>	<b>46,778,044</b>	<b>70,739,866</b>	<b>62,672,381</b>	<b>50,106,820</b>	<b>36,800,813</b>	
35	<b>Total Non-Tracker Maint.</b>	<b>77,745,287</b>	<b>114,396,307</b>	<b>103,492,865</b>	<b>97,754,269</b>	<b>60,747,965</b>	<b>90,827,339</b>
38	<b>Total Year End Spend</b>	<b>212,196,347</b>	<b>210,724,042</b>	<b>238,951,771</b>	<b>233,951,221</b>	<b>161,541,240</b>	<b>211,472,924</b>
	(includes New Main, Service, Meters, Trackers and General Plant)						
40	<b>Total Maintenance % of CAPEX</b>	<b>36.6%</b>	<b>54.3%</b>	<b>43.3%</b>	<b>41.8%</b>	<b>37.6%</b>	<b>42.9%</b>

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(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
Year	Real GDP	Nominal GDP	Deflator	Inflation Rate (Using GI GDP Deflator)		Mains. Steel:	Gas Trans. Line Pipe:	Steel Distr. Pipe:	Heavy Contr. Trades Labor	Gas Transmission Plant:	Mains:
1	2011	15,020.6	15,517.9	1.03							
2	2012	15,369.2	16,163.2	1.05	1.8%	9.6%	13.1%	13.7%	3.4%	7.7%	8.8%
3	2013	15,710.3	16,768.1	1.07	1.5%	-1.3%	-5.2%	-3.7%	1.0%	-1.6%	-2.5%
4	2014	16,899.8	17,521.7	1.04	-2.9%	0.2%	11.5%	-1.6%	2.2%	6.2%	7.3%
5	2015	17,386.7	18,219.3	1.05	1.1%	0.2%	-6.7%	-6.3%	2.3%	-2.0%	-2.8%
6	2016	17,659.2	18,707.2	1.06	1.1%	-1.9%	-6.4%	-5.2%	1.2%	-2.1%	-2.9%
7	2017	18,050.7	19,485.4	1.08	1.9%	6.0%	8.8%	8.7%	4.3%	5.4%	6.1%
8	2018	18,571.3	20,500.6	1.10	2.3%	7.4%	13.8%	10.8%	2.2%	7.4%	8.4%
9	2019	19,011.5	21,412.8	1.13	2.0%	4.5%	2.3%	6.2%	1.6%	2.2%	2.0%
10	Total (Lines 2-9)				9.0%	26.8%	32.2%	22.4%	19.7%	24.9%	26.0%
11	IHS Code					JUGPDM@PLA	JBUPGTL	JBUPSD	JBLHV@PLA	JUGPT@PLA	JUGPTM@PLA

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**CUSTOMER SATISFACTION STANDARDS  
QUARTERLY REPORT**

Service	2019 Annual Goal	Measurement Source	Q4 2018	Q1 2019	Q2 2019	Q3 2019	12 Mo. Ended 9/30/19
<b>Overall Impression of QGC</b>							
1 How satisfied are you with the product and services you receive	6.0	CSS	6.3	6.1	6.2	6.3	6.2
2 Delivers natural gas to my home/good value for price paid	5.5	CSS	5.9	5.8	5.8	5.9	5.9
3 Keeps me informed when/why natural gas rates change before it happens	5.0	CSS	5.3	5.3	5.4	5.4	5.3
4 Consistently delivers natural gas to my home without disruption	6.5	CSS	6.7	6.6	6.7	6.6	6.7
5 Is honest and open in its dealings	5.5	CSS	5.9	5.8	5.9	5.9	5.9
6 Safely delivers natural gas to my home	6.5	CSS	6.6	6.7	6.6	6.6	6.6
7 Demonstrates care and concern for people like me	5.0	CSS	5.6	5.7	5.7	5.7	5.7

(1 to 7 scale: 1= do not agree at all; 7= strongly agree)  
CSS - Customer Satisfaction Survey

**CUSTOMER SATISFACTION STANDARDS  
QUARTERLY REPORT**

	Service	2019 Annual Goal	Measurement Source	Q4 2018	Q1 2019	Q2 2019	Q3 2019	12 Mo. Ended 9/30/19
<b>Customer Care</b>								
1	Percentage of calls answered within 60 seconds after customer chooses menu option	85%	Internal Statistics	83.1%	92.4%	93.3%	92.6%	90.4%
2	Percentage of emergency calls answered within 60 seconds by agent	99%	Internal Statistics	99.3%	99.7%	99.5%	99.6%	99.5%
3	Average wait for customer after menu selection	less than 45 seconds	Internal Statistics	88	30	28	28	44
4	Callers that hang up after menu choice is made	less than 2%	Internal Statistics	2.2%	0.8%	0.8%	0.8%	1.2%
5	Amount of time talking with customer and completing request	less than 5 minutes	Internal Statistics	5.1	4.9	5.0	4.9	5.0
6	The phone staff was courteous	6.0	CSS	6.7	6.5	6.6	6.7	6.6
7	The phone staff was knowledgeable	6.0	CSS	6.6	6.3	6.2	6.4	6.4
8	My call was answered quickly	5.5	CSS	6.2	6.0	6.1	6.2	6.1
9	The person I spoke with was able to resolve my issue	6.0	CSS	6.4	6.0	6.3	6.3	6.2
10	The automated menu was easy to use	5.7	CSS	5.9	5.9	5.8	5.8	5.9
11	How satisfied are you with the actions taken by Questar Gas in response to your call	5.8	CSS	6.3	5.9	6.1	6.0	6.1

(1 to 7 scale; 1= do not agree at all; 7= strongly agree)

CSS - Customer Satisfaction Survey

**CUSTOMER SATISFACTION STANDARDS  
QUARTERLY REPORT**

Service		2019 Annual Goal	Measurement Source	Q4 2018	Q1 2019	Q2 2019	Q3 2019	12 Mo. Ended 9/30/19
<b>Customer Affairs</b>								
1	Respond to customer regarding any PSC complaint within 5 business days	100%	Public Service Commission Report	100%	100%	100%	100%	100%

Service		2019 Annual Goal	Measurement Source	Q4 2018	Q1 2019	Q2 2019	Q3 2019	12 Mo. Ended 9/30/19
<b>Service Calls - Ask-A-Tech</b>								
1	The technician was courteous	6.2	CSS	6.7	6.8	6.7	6.7	6.7
2	The technician was knowledgeable	6.2	CSS	6.6	6.5	6.2	6.4	6.4
3	The technician was able to help me quickly	5.9	CSS	6.6	6.6	6.5	6.4	6.5
4	The technician was able to help me resolve my issue	5.9	CSS	6.7	6.4	6.3	6.3	6.4
5	The automated menu was easy to use	5.7	CSS	6.1	6.3	6.3	6.1	6.2
6	How satisfied are you with the technician's overall performance	6.0	CSS	6.5	6.5	6.1	6.1	6.5

(1 to 7 scale: 1 = do not agree at all; 7 = strongly agree)

CSS - Customer Satisfaction Survey

**CUSTOMER SATISFACTION STANDARDS  
QUARTERLY REPORT**

	Service	2019 Annual Goal	Measurement Source	Q4 2018	Q1 2019	Q2 2019	Q3 2019	12 Mo. Ended 9/30/19
<b>Service Calls</b>								
1	The service technician was courteous	6.4	CSS	6.9	6.7	6.6	6.7	6.7
2	The service technician was knowledgeable	6.4	CSS	6.8	6.8	6.7	6.7	6.7
3	The service technician was able to help me quickly	6.2	CSS	6.6	6.6	6.7	6.5	6.6
4	The service technician was able to help me resolve my issue	6.2	CSS	6.6	6.6	6.6	6.6	6.6
5	How satisfied are you with the service technician's overall performance	6.3	CSS	6.8	6.6	6.7	6.6	6.7
6	Emergency calls - company representative is onsite within 1 hour of call	95%	Internal Statistics	98.1%	98.2%	98.3%	98.4%	98.2%
7	Remove meter seal within 1 business day requested by customer for activation	95%	Internal Statistics	100.0%	100.0%	100.0%	100.0%	100.0%
8	Activate or reactivate customers' gas service within 3 business days	95%	Internal Statistics	100.0%	100.0%	100.0%	100.0%	100.0%
9	Keeping customer appointments	95%	Internal Statistics	100.0%	100.0%	100.0%	98.6%	99.6%
10	Restore interrupted service caused by system failure within 1 business day (except for service interruptions caused by natural disasters, force majeure events and significant third party actions)	24 hours	Internal Statistics	100%	100%	100%	100%	100%

(1 to 7 scale: 1= do not agree at all; 7= strongly agree)

CSS - Customer Satisfaction Survey

**CUSTOMER SATISFACTION STANDARDS  
QUARTERLY REPORT**

	<b>Service</b>	<b>2019 Annual Goal</b>	<b>Measurement Source</b>	<b>Q4 2018</b>	<b>Q1 2019</b>	<b>Q2 2019</b>	<b>Q3 2019</b>	<b>12 Mo. Ended 9/30/19</b>
	<b>Billing</b>							
1	Read each meter monthly	99%	Billing Statistics	94.1%	94.6%	96.3%	97.9%	95.7%
2	Percent of adjustments	3% Annual	Billing Statistics	0.52%	0.48%	0.50%	0.65%	0.5%
3	Send corrected statement to customer	5 Business Days	Internal Report	3.27 days	3.5 days	3.8 days	3.5 days	3.11 days
4	Percentage of billing inquiries requiring investigation responded to within 7 business day	95%	Internal Statistics	93.0%	96.2%	96.2%	96.0%	95.4%
5	Response time to investigate meter problems and notify customer within 15 business days	95%	Internal Statistics	95%	82%	82%	83.0%	85%

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