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CREDIT OPINION

30 January 2019

Update

 Rate this Research

RATINGS

Questar Gas Company

Domicile	Salt Lake City, Utah, United States
Long Term Rating	A2
Type	Senior Unsecured - Dom Curr
Outlook	Negative

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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Questar Gas Company

Update to credit analysis

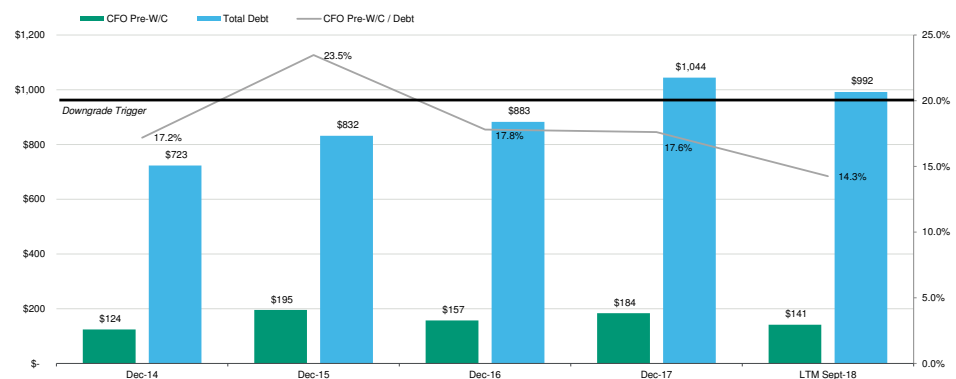
Summary

Questar Gas Company's (A2 negative) 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) an expectation for more conservative financial policies with regard to capital structure over the next 12-18 months.

The Questar Gas credit profile is constrained by 1) very weak financial metrics versus peers, 2) a base rate freeze and tax reform impacts that will reduce cash flow metrics through 2020 and 3) a highly levered parent company (i.e., Dominion Energy Inc. (DEI, Baa2 stable).

Exhibit 1

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



Source: Moody's Financial Metrics

Credit strengths

- » Stable and predictable cash flow derived from cost recovery mechanisms on around \$1 billion of rate base
- » Cooperative relationships with regulators in Utah and Wyoming
- » Management financial policies are improving the capital structure
- » 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
- » Carbon transition exposure

Rating outlook

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

Factors that could lead to an upgrade

- » Cash flow to debt metrics above 25% on a sustainable basis, while maintaining the same degree of regulatory support that it currently has.

Factors that could lead to a downgrade

- » Cash flow to debt metrics below 20%, on a sustainable basis.
- » If regulatory provisions in either Utah or Wyoming were to become less supportive.

Key indicators

Exhibit 2

Questar Gas Company [1]

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Sept-18
CFO Pre-W/C + Interest / Interest	5.2x	7.4x	6.1x	6.2x	4.6x
CFO Pre-W/C / Debt	17.2%	23.5%	17.8%	17.6%	14.3%
CFO Pre-W/C – Dividends / Debt	13.5%	17.8%	14.4%	17.6%	14.3%
Debt / Capitalization	42.4%	44.0%	43.9%	51.2%	48.8%

[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

Profile

Questar Gas is a local gas distribution company that serves over 1 million customers primarily in Utah but also in Wyoming and Idaho. Questar Gas is primarily regulated by the PSCU and the PSCW and generates around \$950 million of revenue and about \$220 million of EBITDA through its LDC operations.

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

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's.com for the most updated credit rating action information and rating history.

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 in a flat to declining demand environment, which mitigates volume risk. We note that while the company is experiencing declining use on a per-customer basis, the overall service territory demand is experiencing growth of around 2.0% per year - a credit positive.

The company's infrastructure rider accelerates the recovery of certain distribution system investments, once the projects are complete. This will be particularly helpful as the company makes capital expenditures associated with a multi-year high-pressure natural gas feeder-line replacement program. We expect this replacement program to continue to keep Questar Gas' capital expenditures elevated for several years, therefore the rider will accelerate the recovery of this investment and help to maintain a stronger financial profile than would otherwise be possible.

While timely cost recovery has been the norm in Utah and Wyoming, we note that a condition of the Dominion acquisition approval included a base rate freeze for Questar Gas, in both jurisdictions, through 2020. This is credit negative which we expect to result in declining financial metrics over the next two years, but assume that rates and cash flow would increase thereafter.

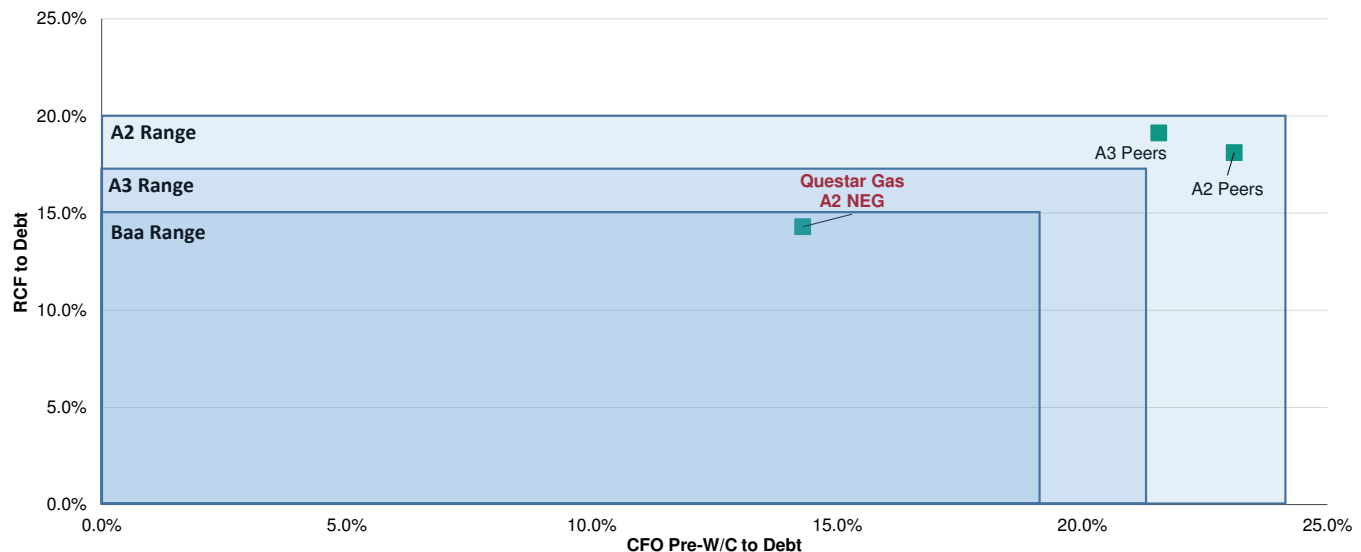
Weakened cash flow will persist over the next 18 months, but managing financial policies should help improve metrics

At about 14%, Questar Gas' ratio of CFO pre-WC to debt through LTM 3Q18, is much lower than A2 LDC peers that have averaged around 23% over the same period. We expect that Questar Gas' financial profile will remain relatively weak through 2020 as a result of the Utah and Wyoming base rate freezes, a robust capital plan and cash flow headwinds due to December 2017 tax reform. For example, we expect cash flow from operations to stagnate around \$180 million.

However, management has taken steps to stabilize and improve the company's financial profile until new rates can begin in mid-2020. For example, Questar Gas has made no dividend payments since 4Q16 and has received approval from the UPSC to temporarily increase the equity component of the LDC's capital structure, as a means to improve financial credit metrics. In January 2019, Questar Gas received commission approval to exceed the 55% equity layer of capitalization that was ordered in the 2016 merger approval. This should help stave off the pace of increasing debt during the cash flow stagnation and keep CFO pre-WC to debt - and CFO pre-WC less dividends to debt - between 16-18%.

Despite the greater retained cash flow, the company's financial profile remains weak compared to peer LDCs that have similar cost recovery mechanisms and operate in very supportive regulatory jurisdictions. Exhibit 3 shows a comparison of CFO pre-WC to debt and CFO pre-WC less dividends to debt for Questar Gas and its peers.

Exhibit 3



Source: Moody's Financial Metrics

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 three merchant power generation plants and its 50% interest in 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 around \$180 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.

To supplement the company's negative free cash flow, Questar Gas has direct access to Dominion's \$6.0 billion master credit facility, by way of a \$250 million sub-limit. On 30 September, Questar Gas had \$110 million of commercial paper (CP) outstanding, leaving around \$140 million of available borrowing capacity per the sub-limit. 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 facilities contain 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.

Questar's P-1 CP rating is currently derived from Questar Gas' A2 long-term rating and recognizes that sub-limits for Dominion subsidiaries can be changed at the option of Dominion multiple times per year.

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 P-1 of Questar Gas would be downgraded and could result in negative ratings implications for its long-term debt as well.

Questar Gas also has \$40 million and \$110 million in notes maturing in December 2024 and December 2027, respectively.

Exhibit 4

Dominion's credit facility profile as of 30 September 2018 [1]

Company	Current Sub-Limit	CP Outstanding	Letters of Credit	Total Use as % of Sub-Limit	Sub-Limit Available
Total	\$ 6,000	\$ 2,928	\$ 132	51%	\$ 2,940
DEI	\$ 3,500	\$ 1,743	\$ 71	52%	\$ 1,686
VEPCO	\$ 1,500	\$ 934	\$ 61	66%	\$ 505
DEGH	\$ 750	\$ 141	\$ -	19%	\$ 609
Questar Gas	\$ 250	\$ 110	\$ -	44%	\$ 140

Dominion represents Dominion Energy Inc.'s parent and unregulated operations

[1] This does not incorporate any of the cash receipts from the sale of Blue Racer, merchant assets, and settlement of forward equity sale.

Source: Company reports

Rating methodology and scorecard factors

Exhibit 5

Rating Factors

Questar Gas Company

Regulated Electric and Gas Utilities Industry Grid [1][2]			Current LTM 9/30/2018		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score			Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A			A	A
b) Consistency and Predictability of Regulation	A	A			A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)						
a) Timeliness of Recovery of Operating and Capital Costs	A	A			A	A
b) Sufficiency of Rates and Returns	A	A			A	A
Factor 3 : Diversification (10%)						
a) Market Position	Baa	Baa			Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A			N/A	N/A
Factor 4 : Financial Strength (40%)						
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.3x	Aa			5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.6%	A			16% - 18%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.1%	A			16% - 18%	A
d) Debt / Capitalization (3 Year Avg)	44.2%	A			40% - 44%	A
Rating:						
Grid-Indicated Rating Before Notching Adjustment		A2				A3
HoldCo Structural Subordination Notching	0	0			0	0
a) Indicated Rating from Grid		A2				A3
b) Actual Rating Assigned		A2				A2

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

[2] As of 9/30/2018(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

Appendix

Exhibit 6

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	LTM Sept-18
As Adjusted					
FFO	162	179	157	184	141
+/- Other	(37)	16	-	-	-
CFO Pre-WC	124	195	157	184	141
+/- ΔWC	5	(63)	44	(43)	63
CFO	129	132	201	141	205
- Div	27	47	30	-	-
- Capex	175	217	240	215	252
FCF	(72)	(132)	(69)	(74)	(47)
(CFO Pre-W/C) / Debt	17.2%	23.5%	17.8%	17.6%	14.3%
(CFO Pre-W/C - Dividends) / Debt	13.5%	17.8%	14.4%	17.6%	14.3%
FFO / Debt	22.3%	21.5%	17.8%	17.6%	14.3%
RCF / Debt	18.6%	15.9%	14.4%	17.6%	14.3%
Revenue	961	918	921	947	948
Cost of Good Sold	603	553	528	550	561
Interest Expense	30	30	31	35	39
Net Income	56	60	65	70	70
Total Assets	1,969	2,193	2,507	2,698	2,695
Total Liabilities	1,372	1,571	1,853	1,977	1,929
Total Equity	597	621	654	721	766

[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 7

Peer Comparison Table [1]

(in US millions)	Questar Gas Company			South Jersey Gas Company			UGI Utilities, Inc.			ONE Gas, Inc			Public Service Co. of North Carolina, Inc.		
	A2 Negative			A2 Negative			A2 Stable			A2 Stable			A3 Negative		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
	Dec-16	Dec-17	Sept-18	Dec-16	Dec-17	Sept-18	Sep-16	Sep-17	Sept-18	Dec-16	Dec-17	Sept-18	Dec-16	Dec-17	Sept-18
Revenue	921	947	948	461	517	538	768	888	1,092	1,427	1,540	1,632	423	470	498
CFO Pre-W/C	157	184	141	118	172	200	215	298	344	296	376	462	128	157	123
Total Debt	883	1,044	992	837	984	1,060	1,000	1,095	1,138	1,608	1,702	1,621	572	747	886
CFO Pre-W/C / Debt	17.8%	17.6%	14.3%	14.1%	17.5%	18.9%	21.4%	27.2%	30.2%	18.4%	22.1%	28.5%	22.4%	21.0%	13.8%
CFO Pre-W/C - Dividends / Debt	14.4%	17.6%	14.3%	14.1%	15.4%	17.0%	16.7%	22.0%	25.8%	13.9%	16.9%	22.6%	16.5%	16.2%	9.0%
Debt / Capitalization	43.9%	51.2%	48.8%	39.3%	45.4%	45.2%	40.5%	40.3%	43.3%	35.6%	40.0%	38.0%	34.9%	43.3%	47.1%

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

Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
QUESTAR GAS COMPANY	
Outlook	Negative
Senior Unsecured	A2
Commercial Paper	P-1
ULT PARENT: DOMINION ENERGY, INC.	
Outlook	Stable
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Source: Moody's Investors Service

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Research Update:

Questar Gas Co. Ratings Affirmed, Stand-Alone Credit Profile Revised To 'a-' On Tax Reform; Outlook Remains Negative

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FEBRUARY 26, 2018 1

Research Update:

Questar Gas Co. Ratings Affirmed, Stand-Alone Credit Profile Revised To 'a-' On Tax Reform; Outlook Remains Negative

Overview

- We expect a modest weakening to Questar Gas Co.'s stand-alone financial measures reflecting the recently revised U.S. corporate tax code, reflecting a reduction to the utility's revenue requirement.
- We are affirming our 'BBB+' long-term corporate credit and senior unsecured debt ratings on Questar Gas Co. (QGC). The outlook remains negative.
- We are revising Questar Gas' stand-alone credit profile (SACP) to 'a-' from 'a'.
- The negative outlook continues to reflect parent Dominion Energy Inc.'s consolidated weak financial measures for the current rating and our expectation that the financial measures will remain at or below the downgrade threshold over the forecast period.

Rating Action

On Feb. 26, 2018, S&P Global Ratings affirmed its 'BBB+' long-term issuer credit rating and senior unsecured debt ratings on Utah-based gas utility operator Questar Gas Co. (QGC). The outlook remains negative

At the same time, we revised QGC's stand-alone credit profile (SACP) to 'a-' from 'a', reflecting a modest weakening of QGC's stand-alone credit metrics because of tax reform.

Rationale

Our ratings affirmation of QGC reflects our assessment of QGC as a core subsidiary of parent Dominion Energy Inc. (DEI). We assess QGC as a core subsidiary of DEI, under our group rating methodology. This reflects our view that QGC is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. As a result, we assess issuer credit rating on QGC as in line with parent DEI's 'bbb+' group credit profile.

Our revised stand-alone assessment of QGC reflects our assessment of the company's excellent business risk profile and significant financial risk profile. We expect a modest weakening of the financial measures within the company's financial risk profile, reflecting the assumed cash-flow impact of

Research Update: Questar Gas Co. Ratings Affirmed, Stand-Alone Credit Profile Revised To 'a-' On Tax Reform; Outlook Remains Negative

tax reform. On a forward-looking basis, we expect funds from operations (FFO) to debt at about 18%, previously we expected FFO to debt of about 20%.

Our stand-alone business risk assessment of QGC reflects the utility's low-risk regulated natural gas distribution business, above-average size, and its effective management of regulatory risk.

QGC serves approximately 1 million customers in Utah (about 97%), southwestern Wyoming, and southeastern Idaho. Constructive regulation in Utah strengthens the company's management of regulatory risk incorporating a credit supportive rate design and the use of multiple regulatory mechanisms including a fuel cost adjustment, a weather normalization adjustment, decoupling, and an infrastructure cost tracking adjustment. QGC cash flows are generally stable and largely insulated from fluctuations in gas prices, weather, and usage. Furthermore, most of the customer base is residential and commercial, providing an additional measure of cash flow stability. Marginally affecting the company's business risk profile is the general lack of business or regulatory diversity.

QGC has good access to gas supply due to its relationship with Wexpro (65% of the utility's supply), a cost-of-service exploration and production operation company providing natural gas to QGC at cost plus a fixed return. This relationship minimizes QGC's price risk compared to peers.

We assess the company's financial measures using more moderate financial benchmarks compared to the typical corporate issuer, reflecting its low-risk regulated utility business and its effective management of regulatory risk.

Under our base-case scenario, which includes improving economic conditions in the company's service territory, a rate case increase in 2020, tax reform, capital spending of about \$220 million, and dividends of about \$40 million, we expect financial measures consistent with the middle of the range the company's financial risk category. Specifically, we expect FFO to debt of about 18%. Prior to tax reform we expected FFO to debt of about 20%.

Liquidity

QGC has adequate liquidity, in our view, and can more than cover its needs for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months, which is the minimum threshold for an adequate liquidity assessment under our criteria. Under our stress scenario, we do not expect the company would require access to the capital markets during that period to meet liquidity needs. Our assessment also reflects the company's stable cash flow generation, generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in the credit markets.

Principal liquidity sources:

- FFO of about \$175 million;
- Credit facility sub-limit of \$250 million; and

Research Update: Questar Gas Co. Ratings Affirmed, Stand-Alone Credit Profile Revised To 'a-' On Tax Reform;
Outlook Remains Negative

- Minimal cash of about \$10 million.

Principal liquidity uses:

- Long-term debt maturities of about \$120 million in 2018;
- Maintenance capital spending of about \$125 million; and
- Dividends of about \$40 million.

Outlook

The negative outlook on QGC reflects parent DEI's weak financial measures for the current rating and our expectation that the financial measures will continue to remain at or below the downgrade threshold over the outlook period.

Downside scenario

We could lower the ratings on QGC over the next 9 to 18 months if we lower the rating on parent DEI. This could happen if DEI acquires SCANA and the financial measures do not consistently reflect the middle of the range for DEI's financial risk profile category (FFO to debt of 15%-21%). Specifically, we would lower the ratings if FFO to debt is consistently at or below 15%.

Upside scenario

We could affirm our rating on QGC and revise the outlook to stable over the next 9 to 18 months if parent DEI demonstrates a sound strategy that reasonably and consistently reflects financial measures that are consistent with the middle of the range for its financial risk profile category (FFO to debt of 15%-21%).

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Negative/A-2

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)

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Research Update: Questar Gas Co. Ratings Affirmed, Stand-Alone Credit Profile Revised To 'a-' On Tax Reform; Outlook Remains Negative

- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: bbb+
- Entity status within group: Core (-1 notch from SACP)

Issue Ratings--Subordination Risk Analysis

We rate Questar Gas' unsecured debt the same as the issuer credit rating because it is unsecured debt of a qualifying investment-grade regulated utility.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Questar Gas Co.

Corporate Credit Rating
Senior Unsecured
Commercial Paper

BBB+/Negative/A-2
BBB+
A-2

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Outlook Remains Negative*

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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July 1 through September 30, 2019



Rate & Regulatory Update

A Summary of State Rate & Regulatory Activity

A Publication for AGA Members

This document is intended to provide AGA members with a summary of information relative to state rate and regulatory proceedings and other related matters on a timely basis. Additional information and archived versions of the Rate & Regulatory Update can be found at the following web link: <https://www.aga.org/rate-alerts>

Rate Case Data for this Period	
Orders Issued	12
Average ROE	9.94
Trends and Analysis	
<p>The average ROE authorized gas utilities was 9.94% in the third quarter of 2019 compared to 9.69% in the second quarter. Six of the rate cases decided this quarter contained a definitive ROE determination. The average ROE authorized for gas utilities was 9.68% in cases decided during the first nine months of 2019, just above the 9.59% in full-year 2018. There were only 10 gas cases that included an ROE determination in the first three quarters of 2019, versus 40 in 2018. In the first nine months of 2019, the median authorized ROE for gas utilities was 9.72%, versus 9.60% in 2018.</p> <p>Increased costs associated with environmental compliance, infrastructure upgrades and expansion, storm and disaster recovery, cybersecurity and employee benefits argue for the continuation of an active rate case agenda over the next several years.</p> <p>Furthermore, rising interest rates may also play a role in increased rate case activity. However, with concerns of slowing growth, fears of a global recession and the impact of U.S.-China trade tensions negatively weighing on the U.S. economy, the Fed, after more than a decade without a cut, has lowered rates twice by a quarter point in July and again in September; the new target range is now 1.75% to 2%. Fed watchers expect a third cut of similar magnitude later in October.</p> <p>While increases in the federal funds rate do not move in lockstep with longer-term treasuries and authorized ROEs do not move in lockstep with interest rates, the expectation is that as interest rates change, authorized ROEs would also begin to change in similar fashion. However, several factors impact the timing and magnitude of this anticipated shift. Normal regulatory lag, i.e., the amount of time it takes for a utility to put together a rate case filing and tender it to the commission and then for the commission to process the case, would without any other influences delay a change in average authorized ROEs relative to interest rates.</p> <p>To counter the negative cash flow impact of the Tax Cuts and Jobs Act, many utilities sought higher common equity ratios, and the average authorized equity ratio adopted by utility commissions in the first nine months of 2019 were modestly higher than the levels observed in 2018 and 2017. The average allowed equity ratio for gas utilities nationwide was 52.52% in the first nine months of 2019; compared to 50.09% in 2018 and 49.88% in 2017. The aforementioned averages include allowed equity ratios adopted by utility commissions in Arkansas, Florida, Indiana and Michigan – jurisdictions that authorize capital structures that include cost-free items or tax credit balances.</p>	

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Rate & Regulatory Update

Taking a longer-term view, equity ratios have generally increased over the last 15 years — the average equity ratio approved in gas rate cases decided during 2004 was 45.81%.

Other Regulatory Developments

Commission Changes & Updates

CA: Marybel Batjer was appointed to serve as president of the California Public Utilities Commission. Batjer will replace current PUC President Michael Picker, who had announced that he would retire after almost five years on the job. The term extends to January 2021.

ME: The Maine Senate recently confirmed Philip Bartlett, a former state lawmaker and Democratic Party chair, to serve as a commissioner on the Maine Public Utilities Commission for a six-year term that extends to March 2025. Mills also designated Bartlett as PUC chair.

MI: Gov. Whitmer recently named Tremaine Phillips to the Michigan PSC to serve a term expiring July 2, 2025. The appointment is subject to state Senate confirmation. He succeeds Norm Saari, whose term expired July 2. Phillips' term will commence Sept. 9 and expire July 2, 2025.

NH: Dianne Martin was nominated to succeed Martin Honigberg as chair of the New Hampshire Public Utilities Commission. Honigberg resigned on Aug. 29 to serve as a state Superior Court judge. Confirmed by the Executive Council, Martin's new six-year term will extend to June 2025.

PA: Commissioner Norman Kennard participated in his last open commission meeting on Sept. 19. Kennard was serving beyond the end of a term that expired in April 2019 through the end of September. In June, Gov. Tom Wolf nominated Ralph Yanora to succeed Kennard.

RI: Laura Olton, nominated to chair the Rhode Island Public Utilities Commission, withdrew her name from consideration following issues that surfaced about her residency.

WV: Gov. Jim Justice appointed Charlotte Lane to the PSC for a term that extends to June 30, 2025. Lane will also serve as commission chairman. She is to begin serving immediately, but her appointment is subject to state Senate confirmation.

Other Noteworthy Regulatory Action

The following companies initiated rate proceedings during Q3 2019: Questar Gas Co. (UT), Columbia Gas of Virginia (VA), Kansas Gas Service Co. (KS), Washington Gas Light Co. (VA), Fitchburg Gas & Electric Light (MA), and NSTAR Gas Co. (MA).

M&A Activity

Aqua America Inc./Peoples Natural Gas Co. LLC — Aqua America Inc. agreed to acquire PNG Companies LLC from infrastructure funds managed by SteelRiver Infrastructure Partners LP in an all-cash deal valuing the natural gas distribution company at approximately \$4.28 billion. Aqua America plans to fund the deal through a fully committed bridge facility. The deal is scheduled to close in mid-2019, pending regulatory approvals from the public utility commissions of Pennsylvania, Kentucky and West Virginia.

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Rate Case Decisions	
July 17, 2019	
Company	New Mexico Gas Co.
State	New Mexico
Docket Number	Case No. 18-00038-UT
Approved Increase	\$2.5 million
Approved ROE	
Intervenors	New Mexico Attorney General, US Department of Energy, National Nuclear Security Administration, and New Mexico Industrial Energy Consumers
Case Summary	
<p>On July 17, 2019 the New Mexico Public Regulation Commission adopted a settlement authorizing New Mexico Gas Company a \$2.5 million two-step rate increase, less than one-third of the single-step increase initially sought by the company.</p> <p>The agreement and order are silent with respect to the rate of return and other ratemaking parameters underlying the stipulated rate increase. While no specific ratemaking adjustments were identified, it is important to note that the case relies on a test year that was historical at the time the proceeding was initiated, and because it took more than 17 months for the case to be decided, the test year was close to two years old when the company was permitted to implement the first step of the rate increase in August 2019.</p> <p>Per the Phase 1 settlement, the PRC order authorized NMGC a \$2.5 million two-step increase. The \$1 million first step rate increase was implemented with the first billing cycle in August 2019, and an incremental \$1.5 million second-step increase is to become effective with the first billing cycle in August 2020.</p> <p>The settlement allows for a pilot weather normalization adjustment program applied to the residential and small general service classes. The WNA is to be in place for a five-year period, beginning with the first billing cycle in October.</p> <p>The Phase II settlement solely addressed issues related to the disposition of any over-collections stemming from the lag between the effective date of reduction in corporate federal income taxes to 21% from 35%, Jan. 1, 2018, and the date new rates were implemented, in August 2019. The parties to the Phase II settlement agreed that should the PRC order refunds, the amount of the refund would be \$7.8 million.</p>	
August 20, 2019	
Company	Oklahoma Natural Gas Company
State	Oklahoma
Docket Number	Ca-PUD201900018
Approved Increase	-28,236,690
Approved ROE	
Intervenors	

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Case Summary

In the proceeding, the company indicated that it earned above the upper end of the deadband for the evaluation period. The company proposed to implement an aggregate \$28.1 million rate reduction/credit that includes a \$14.7 million credit pursuant to the terms of the PBR plan, adjusted to reflect the terms of the commission's Jan. 8, 2019, order addressing the impact of federal tax reform that requires the company to credit ratepayers in this case with all earnings in excess of a 9.5% ROE. The proposed rate reduction/credit also includes \$0.7 million of interest for the period between Jan. 8, 2019, and February 2019, when base rates were reduced to reflect the lower corporate income tax rate that is also reflected in the instant filing; and a one-time annual credit of \$12.7 million associated with excess deferred income taxes, or ADIT.

The company's performance-based ratemaking, or PBR, plan incorporates a 100-basis-point dead-band around a 9.5% authorized ROE benchmark. If the earned ROE were to exceed the benchmark return by more than 50 basis points (above a 10% ROE), the incremental return is to be allocated 75%/25% to ratepayers and shareholders. In addition, should the company's earned ROE fall below the lower end of the dead-band (below a 9% ROE), rates would be increased to achieve the mid-point ROE (9.5%). There is to be no rate adjustment if the earned ROE falls within the dead-band.

A settlement was subsequently filed calling for a \$15.6 million PBR credit and an additional credit of \$12.7 million associated with excess ADIT. An administrative law judge recommended that the OCC approve the settlement. The settlement was approved by the commission without any modifications.

August 21, 2019

Company	Union Electric Company
State	Missouri
Docket Number	GR-2019-0077
Approved Increase	-\$1,000,000
Approved ROE	9.4% to 9.95%
Intervenors	Missouri School Boards' Association, Missouri Division of Energy, Renew Missouri, The Missouri Industrial Energy Consumers, National Housing Trust, and Spire Missouri.

Case Summary

On August 21 the Missouri Public Service Commission adopted partial settlements providing for Ameren Corp. subsidiary Union Electric Co. to implement a \$1 million permanent gas distribution base rate reduction. After consideration of a \$1.9 million interim rate reduction that was implemented earlier in the proceeding, the incremental impact to ratepayers is effectively a \$0.9 million rate hike.

The settling parties had said, and the commission agreed, that a return on equity in a range of 9.4% to 9.95% is deemed to be "reasonable." For purposes of prospective rate adjustments under the company's infrastructure system replacement surcharge rider, a 9.725% ROE is to be used.

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Union Electric is to implement a “volume indifference reconciliation to normal,” or VIRN, rider that is effectively a partial decoupling mechanism for residential and commercial customers

Union Electric’s ratemaking capital structure is its actual capital structure as of May 31, 2019, and apparently includes a 52.05% common equity component.

The settlements and PSC order are otherwise silent regarding rate of return and rate base. Union Electric is required to file its next gas rate case at the same time as its next electric base rate case.

August 23, 2019

Company	CenterPoint Energy Resources
State	Arkansas
Docket Number	D-17-010-FR
Approved Increase	\$7,300,000
Approved ROE	
Intervenors	The Office of the Arkansas Attorney General, Arkansas Gas Consumers, Inc., and the Board of Trustees of the University of Arkansas on behalf of the University of Arkansas System

Case Summary

Initially filed in April 2019 CenterPoint Energy Resources asked the Arkansas Public Service Commission for a \$15.4 million, or 8.14%, gas base rate increase, based on a 9.5% return on equity (32.22% of a regulatory capital structure) and a 4.84% return on year-end rate base valued at \$825.8 million for a test period ending Sept. 30, 2020. While the revenue change needed to restore the company's target ROE is \$15.4 million, its requested revenue change is limited to \$13.4 million due to the formula rate plan, or FRP, requirement that no rate class receive a revenue change greater than 4% in any given year.

Legislation enacted in 2015 allows Arkansas utilities to seek PSC approval to operate under an annually adjusted FRP. In filing to operate under an FRP, the utilities are be required to select either an historical or a projected test year. All FRPs must incorporate a plus-or-minus 50 basis point deadband around the ROE most recently approved for the utility; no rate adjustment is made if the company's earned ROE is within the deadband.

CenterPoint on 7/31/19 filed a joint settlement agreement with staff and certain other intervenors including the Arkansas attorney general that reflects a total increase of \$7.3 million.

August 28, 2019

Company	Vectren Energy Delivery Ohio
State	Ohio
Docket Number	Case No. 18-0298-GA-AIR
Approved Increase	\$22,700,000
Approved ROE	

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Intervenors	Ohio Consumers' Counsel, Ohio Partners for Affordable Energy and The Environmental Law & Policy Center, Retail Energy Supply Association, IGS Energy, City of Dayton, and Honda of America Mfg., Inc,
Case Summary	
<p>The Public Utilities Commission of Ohio adopted a settlement on Aug. 28, providing for CenterPoint Energy Inc. subsidiary Vectren Energy Delivery of Ohio Inc. to increase its gas distribution base rates by \$22.7 million.</p> <p>The settlement and PUC order are largely silent regarding rate of return parameters but specify an overall return that approximates the upper-end of the return range recommended by the PUC staff earlier in the proceeding. The approved settlement provides for VEDO to continue to use its distribution replacement rider for investments to be made through at least Dec. 31, 2023, subject to certain per-customer rate caps, and to utilize a straight-fixed-variable rate design for certain customers that were not already subject to such provisions.</p> <p>The authorized rate increase is premised upon a 7.48% return on a \$622.3 million rate base. The settlement and PUC order are silent regarding return on equity and capital structure. The PUC acknowledged that the stipulated return was within the range of returns recommended by the staff and is a "reasonable compromise and, as part of the entire settlement package, is in the public interest."</p> <p>The approved settlement provides for VEDO to continue to use its distribution replacement rider to account for investments to be made through at least Dec. 31, 2023, subject to certain monthly per-customer rate caps.</p> <p>VEDO is to credit ratepayers, through a rider that is to be implemented at the conclusion of Case No. 19-0029-GA-ATA, the excess accumulated deferred income taxes, or EADIT, attributable to federal tax reform and the reduced income tax expense for the "stub" period Jan. 1, 2018, through Sept. 1, 2019, the date new rates took effect in this case.</p> <p>VEDO is also required to implement a modified version of its proposed energy conversion factor. The company is required to submit a notice of intent to file its next rate case utilizing a "date certain" to value rate base of no later than Dec. 31, 2024.</p>	
August 29, 2019	
Company	Virginia Natural Gas Inc.
State	Virginia
Docket Number	C-PUR-2019-00095
Approved Increase	\$4,923,633
Approved ROE	9.50%
Intervenors	
Case Summary	
<p>On August 29 the State Corporation Commission of Virginia approved the annual SAVE Rider update for Virginia Natural Gas. The order approved the Company's recovery of SAVE Rider revenues through a fixed rather than a volumetric rate. The SCC approved a rate increase of \$4.9</p>	

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million based on a 9.5% return on equity and 6.86% return on year-end rate base valued at \$66.9 million for a test period ending August 31, 2020.

The requested ROE is as agreed by the parties to the company's 2017 base rate case for use in "non-base-rate-case" proceedings.

Staff proposed modest adjustments to plant retirements, property taxes and other items that modestly increased the revenue requirement. While the commission approved the slightly higher revenue requirement proposed by the staff, the company will implement rates that are designed to reflect the lower initially proposed amount, in keeping with typical commission practice. The related under collection will be addressed as part of the true-up in the next SAVE rider adjustment proceeding.

September 4, 2019

Company	Northern States Power Co – WI
State	Wisconsin
Docket Number	Docket 4220-UR-124
Approved Increase	\$1,079,829
Approved ROE	10%
Intervenors	Walmart, Wisconsin Industrial Energy Group, Citizens Utility Board, RENEW Wisconsin, and Wisconsin Paper Council

Case Summary

The Public Service Commission of Wisconsin issued an interim order on Sept. 4 approving a settlement with Northern States Power Co. - Wisconsin and intervenors that authorizes a modest natural gas rate increase of \$1.1 million.

The rate change is premised upon a 10% return on equity (52.5% of capital) and a gas rate base valued at \$160.9 million for a 2020 test year.

The approved settlement agreement also includes an earnings sharing mechanism for 2020 and 2021, under which NSP-W retains all earnings if its return on equity, or ROE, is less than or equal to 10.25%. NSP-W will return to customers an amount equal to 50% of earnings between 10.25% and 10.75% ROE. Finally, NSP-W will return to customers 100% of earnings greater than 10.75% ROE.

September 12, 2019

Company	Pacific Gas & Electric Co.
State	California
Docket Number	Application 17-11-009
Approved Increase	\$31,299,000
Approved ROE	
Intervenors	Calpine Corporation, Northern California Generation Coalition, Indicated Shippers, Public Advocates Office at the California Public Utilities Commission, The Utility Reform Network, Sacramento Municipal Utility

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District, ABAG POWER, California Manufacturers & Technology Association, Coalition of California Utility Employees, and Commercial Energy of California,

Case Summary

The California Public Utilities Commission on Sept. 12 voted to authorize Pacific Gas and Electric Co. a \$31.3 million, or 2.4%, increase in gas transmission and storage rates premised upon a \$4.46 billion penalty-adjusted average rate base and a calendar 2019 test year.

The PUC also authorized incremental "attrition" rate increases of \$99.7 million, \$84.3 million and \$64.3 million in 2020, 2021 and 2022, respectively. In this case, the commission took the unusual step of granting a fourth attrition year. The PUC has opened a rulemaking into considering a fourth attrition year for all investor-owned utilities. Rate of return was not an issue in this proceeding, as it was determined in a separate automatic adjustment mechanism incorporating a 10.25% return on equity (52% of capital) and a 7.69% overall return authorized for the company for 2018.

The PUC authorized a test-year 2019 rate base of \$4.98 billion. However, the commission reduced the rate base to \$4.46 billion to account for a safety penalty adjustment associated with the Sept. 9, 2010, gas transmission pipeline explosion and subsequent fire in San Bruno, Calif. The commission authorized penalty-adjusted post-test year rate bases of \$4.98 billion, \$5.37 billion and \$5.71 billion for 2020, 2021 and 2022, respectively.

A significant issue in the latest rate case involved PG&E's gas storage fields. The PUC approved PG&E's request to decommission or sell its Los Medanos and Pleasant Creek gas storage fields, which represented a policy shift for the PUC to favor independent storage providers over incumbent utility ownership of storage fields. Under a settlement between PG&E and intervenors and filed with the commission, PG&E agreed to seek to sell the storage fields but, if a sale is not possible, to decommission them beginning no later than Jan. 2, 2022.

PG&E also proposed a new two-way gas storage balancing account to address uncertainty surrounding other anticipated, but not definitive, DOGGR regulations and proposed a new memorandum account to track costs related to other anticipated new regulations.

The PUC found PG&E's request for the new two-way gas storage balancing account reasonable and ordered the utility to provide an analysis of total recorded costs with the authorized amount for a PUC reasonableness review in its next rate case.

September 19, 2019

Company	UGI Utilities Inc.
State	Pennsylvania
Docket Number	Docket No. R-2018-3006814
Approved Increase	\$30,000,000
Approved ROE	10%
Intervenors	UGI Energy Services Inc., PUC Bureau of Investigation and Enforcement, PUC Office of Consumer Advocate, PUC Office of Small Business Advocate, the Coalition for Affordable Utility Services and Energy Efficiency

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in Pennsylvania, the Commission for Economic Opportunity, the Natural Gas Supplier Parties, the Retail Energy Supply Association, Direct Energy, and the Laborers' District Council of Eastern Pennsylvania

Case Summary

On September 19, the Pennsylvania Public Utility Commission adopted, with only minor modifications, a settlement providing for the consolidation of the rate structures for UGI subsidiaries UGI Utilities Inc., UGI Penn Natural Gas Inc. and UGI Central Penn Gas Inc. The consolidated entity will do business as UGI Utilities - Gas Division, or UGI Gas. The PUC action comports with the administrative law judge's August 22 recommendation that the commission adopt a "black box" agreement calling for a \$30 million rate increase.

The \$30 million base rate increase specified in the settlement is less than half that initially sought by UGI Gas. The agreement was silent with respect to the rate of return and rate base parameters giving rise to the stipulated rate increase. As a result, for purposes of calculating the revenue requirement under its distribution system improvement charge, UGI Gas will use the 10% equity return specified by the PUC in conjunction with the release of the staff's quarterly review of the utilities' earnings.

Vice Chairman David Sweet submitted a motion modifying the settlement and law judge's recommendation to omit a line regarding recovery of information technology costs through the utility's USP rider. The motion passed unanimously and provided a five-day period in which the settling parties may withdraw from the settlement.

The USP rider is to include a 9.2% CAP bad debt offset if CAP enrollment exceeds 19,672 customers. UGI Gas is to eliminate a restriction on its budget billing program that precludes customers with overdue balances from participating.

The approved agreement also implements consolidated rate structures for UGI subsidiaries UGI Utilities Inc., UGI Penn Natural Gas Inc. and UGI Central Penn Gas Inc. The three companies were merged in October 2018 and now do business as UGI South District, UGI North District and UGI Central District, respectively. Going forward, the consolidated entity will do business as UGI Utilities - Gas Division, or UGI Gas.

The filing identified revenue requirement increases of \$46.5 million for the South District, \$17.8 million for the North District and \$8.2 million for the Central District and rate bases valued at \$1.303 billion for the South District, \$669.6 million for the North District and \$404.6 million for the Central District.

The approved agreement also provides that following implementation of new rates in this case, UGI Gas would be eligible to include plant additions in the Distribution System Improvement Charge, or DSIC, once the total net plant balances reach the levels projected by the company to be in service as of Sept. 30, 2020: \$2.875 billion.

New rates are to become effective Oct. 1.

July 1 through September 30, 2019



Rate & Regulatory Update

September 26, 2019	
Company	San Diego Gas & Electric
State	California
Docket Number	A-17-10-007
Approved Increase	\$71,710,000
Approved ROE	10.2%
Intervenors	Consumer Federation of California, Sierra Club, Union of Concerned Scientists, Calpine Corporation, City of Long Beach Gas & Oil Department, Protect Our Communities Foundation, The Utility Reform Network, Utility Consumers' Action Network, Indicated Shippers, Coalition of California Utility Employees, Small Business Utility Advocates, Southern California Generation Coalition, City of Lancaster, National Diversity Coalition, and National Asian American Coalition
Case Summary	
<p>The California Public Utilities Commission voted Sept. 26 to authorize a combined electric and gas rate increase of \$422 million in 2019 for San Diego Gas & Electric Co. and Southern California Gas Co., both subsidiaries of Sempra Energy.</p> <p>The commission authorized San Diego Gas & Electric a \$71.7 million increase in gas base rates effective beginning Jan. 1, 2019.</p> <p>The PUC decision also adopts post-test year revenue requirement adjustments for SDG&E's combined gas and electric operations of \$134.2 million for 2020 (a 6.74% increase) and \$102.5 million for 2021 (a 4.83% increase). The decision denied the utilities a third PTY revenue adjustment for 2022; however, the commission is considering a third PTY adjustment for all large investor-owned utilities under a separate proceeding.</p> <p>Cost of capital was not an issue in this proceeding, as it is determined in a separate automatic adjustment mechanism. SDG&E is currently authorized a 10.2% ROE (52% of capital) and a 7.55% overall return.</p> <p>A large part of the revenue requirement increases represent costs for incremental safety-related programs and activities that are being added to the rate case for the first time as a result of the PUC's Risk Assessment Mitigation Phase, which requires SDG&E and SoCalGas to identify key safety risks and to propose programs to mitigate them. The funding allows SDG&E and SCG to perform increased mitigation efforts to mitigate key safety risks such as wildfires caused by SDG&E equipment.</p>	

July 1 through September 30, 2019



Rate & Regulatory Update

September 26, 2019	
Company	Southern California Gas Co.
State	California
Docket Number	A-17-10-008
Approved Increase	\$314,356,000
Approved ROE	10.05%
Intervenors	Consumer Federation of California, Sierra Club, Union of Concerned Scientists, Calpine Corporation, City of Long Beach Gas & Oil Department, Protect Our Communities Foundation, The Utility Reform Network, Utility Consumers' Action Network, Indicated Shippers, Coalition of California Utility Employees, Small Business Utility Advocates, Southern California Generation Coalition, City of Lancaster, National Diversity Coalition, and National Asian American Coalition
Case Summary	
<p>The California Public Utilities Commission voted Sept. 26 to authorize a combined electric and gas rate increase of \$422 million in 2019 for San Diego Gas & Electric Co. and Southern California Gas Co., both subsidiaries of Sempra Energy.</p> <p>The PUC authorized SoCalGas a \$314.4 million increase in gas base rates effective beginning Jan. 1, 2019.</p> <p>For SoCalGas, the decision also authorizes post-test-year revenue increases of \$219.5 million for 2020 (a 7.92% increase) and \$149.6 million for 2021 (a 5% increase). The decision denied the utilities a third PTY revenue adjustment for 2022; however, the commission is considering a third PTY adjustment for all large investor-owned utilities under a separate proceeding.</p> <p>Cost of capital was not an issue in this proceeding, as it is determined in a separate automatic adjustment mechanism. SoCal Gas is currently authorized a 10.05% ROE.</p> <p>A large part of the revenue requirement increases represent costs for incremental safety-related programs and activities that are being added to the rate case for the first time as a result of the PUC's Risk Assessment Mitigation Phase, which requires SDG&E and SoCalGas to identify key safety risks and to propose programs to mitigate them.</p>	
September 26, 2019	
Company	Consumers Energy Co.
State	Michigan
Docket Number	C-U-20322
Approved Increase	\$143,531,000
Approved ROE	9.9%
Intervenors	Residential Customer Group, Lansing Board of Water & Light, Michigan State University, Michigan Attorney General, Energy Michigan Inc., Retail Energy Supply Association, and Association of Businesses Advocating Tariff Equity.

July 1 through September 30, 2019



Rate & Regulatory Update

Case Summary

On Sept. 26, 2019, the PSC authorized Citizens Energy a \$143.5 million rate increase effective Oct. 1, 2019, premised upon a 9.90% return on equity (41.78% of a regulatory capital structure) and a 5.84% return on a rate base valued at \$6.429 billion and a test year ending Sept. 30, 2020.

While the PSC made several adjustments to net operating income, these adjustments do not appear to inhibit CE from earning its authorized return.

The PSC adopted a modestly lower equity ratio, finding that an equity ratio that is unnecessarily equity-heavy burdens ratepayers because equity capital is more expensive than debt capital and carries with it the additional expense of a tax burden that is not present with debt capital.

PSC adjustments to rate base reduced the revenue requirement by about \$6 million. The major adjustment appears to be related to CE's capital expenditures associated with a new business program with a group of three new agri-business customers in St. Johns, Mich. The commission also disallowed capital expenditures associated with the company's pipeline integrity transmission work.

In addition, the PSC disallowed costs related to CE's Vintage Service Replacements Program, which targets the replacement of vintage service lines, such as copper and bare steel lines that do not have active leaks and are not otherwise associated with a planned main replacement project under some other program. The company is expected to remove all remaining vintage service lines by 2036.

In its filing, CE proposed to continue to utilize a revenue decoupling mechanism and sought to continue to utilize an investment recovery mechanism to recover annual revenue requirements associated with incremental capital expenditures and associated direct expenses for specified distribution and transmission programs beyond the level provided in rates through the projected test year. Both mechanisms were approved in the company's previous base rate cases. The company withdrew its request for an investment recovery mechanism in its rebuttal testimony after concerns were raised by the PSC staff and attorney general.

The commission authorized the continuation of the revenue decoupling mechanism, which reduces the company's business risk going forward and gives the company a better opportunity to earn its authorized return. The commission also rejected an earnings sharing mechanism proposed by one of the case intervenors.

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