FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms IDRs of Dominion Energy, Select Subs; Upgrades DESC

Mon 26 Jul, 2021 - 1:27 PM ET

Fitch Ratings - New York - 26 Jul 2021: Fitch Ratings has affirmed the 'BBB+' Long-Term (LT) Issuer Default Rating (IDR) of Dominion Energy, Inc. (DEI). DEI subsidiaries LT IDR affirmations are as follows: Virginia Electric and Power Co. (VEPCo) at 'A-', Questar Gas Company (QGC) at 'A-', The East Ohio Gas Company, doing business as Dominion Energy Ohio (DEO) at 'A-' and Public Service Company of North Carolina, Inc. (PSNC) at 'BBB+'. Fitch has upgraded the LT IDR of Dominion Energy South Carolina, Inc. (DESC) to 'A-' from 'BBB+'. The Rating Outlook for the aforementioned entities is Stable. Fitch has affirmed the Short-Term IDRs of DEI, VEPCo, and DESC at 'F2' and the Short-Term IDR of QGC at 'F1'.

The affirmation of DEI reflects the relatively stable earnings profile of the company's regulated and contracted assets and the continued progress to lower consolidated leverage. After a period of elevated leverage, Fitch expects DEI's FFO leverage to return to just below, or at, its current downgrade threshold of 5.0x. However, Fitch expects that DEI parent-level debt will remain high for its rating and is likely to approach or exceed 40% initially during the 2021-2023 forecast period, which remains a credit concern. The upgrade of DESC reflects the financial improvement since DEI ownership in the form of equity contributions, debt reductions and the recent favorable rate case outcome.

KEY RATING DRIVERS

DEI

Diversified Asset Base: DEI's geographically diverse portfolio consists of six state-regulated electric and gas utilities, nuclear power generation, contracted renewables and a 50% ownership in Cove Point LNG. State-regulated operations are expected to comprise 85%-90% of DEI's operating earnings compared with 70%-75% prior to the 2019 divestiture of Dominion Energy Gas Holdings (DEGH) and cancellation of Atlantic Coast Pipeline (ACP). VEPCo remains the largest contributor with approximately 60% of expected operating earnings.

Gas Infrastructure Divestiture: DEI completed the sale of DEGH to Berkshire Hathaway Energy (BHE) In November 2020 for approximately $2.7 billion in cash proceeds and the assumption by BHE of approximately $5.3 billion of related long-term debt. A second part of the transaction to BHE, the sale of Dominion Energy Questar Pipeline (Q-Pipe), was expected to be completed in early 2021. DEI received a cash deposit from BHE of approximately $1.3 billion in November 2020 in anticipation of the Q-Pipe sale. Additionally, DEI expected to transfer around $430 million of related debt to BHE upon the closing of the second part of the transaction.

The Q-Pipe transaction did not receive timely Hart-Scott-Rodino clearance and the sale has been recently terminated. DEI is remarketing Q-Pipe to alternative buyers and anticipates it could complete a second transaction by year-end or early 2022. The company has entered into, and fully drawn, a $1,265 million 364-day term loan credit agreement to secure funds to return to BHE the Q-Pipe deposit. The term loan matures on Dec. 31, 2021; however, it can be extended to June 30, 2022.

Atlantic Coast Pipeline Cancellation: DEI and its partner, Duke Energy (DUK; not rated) announced the cancellation of the ACP in July 2020 due to ongoing delays and escalating costs. The cancellation announcement came on the heels of a favorable U.S. Supreme Court decision regarding the Appalachian Trail crossing. However, significant other legal challenges remained and may have resulted in additional delays. DEI was a 53% equity investor in ACP and the operator. The company recognized a $2.8 billion pretax charge ($2.2 billion after tax) in its 2020 earnings for the cancellation of ACP and a related pipeline project.

Large Capex Plan: Fitch expects DEI's capex program to remain elevated as a result of utility spending, including VEPCo's offshore wind (OFW) program. Fitch expects the company's 2021-2023 capital forecast to be approximately $23 billion.

Improved Credit Metrics: After a period of elevated leverage, Fitch expects DEI's FFO leverage to return to just below or at its current downgrade threshold of 5.0x. While the divestiture of DEGH improves DEI's risk profile, the transaction did not result in a meaningful change in leverage due to the stock buyback program executed in conjunction with the DEGH divestiture. As a result, DEI has limited to no head room in its credit metrics at the current rating level. Additionally, Fitch expects that DEI parent-level debt will remain high for its rating and is likely to approach or exceed 40% initially during the 2021-2023 forecast period, which remains a credit concern.

Limited Impact from Coronavirus: Fitch expects minimal ongoing impact to DEIs utilities from the coronavirus pandemic. Electric sales benefited from offsetting impacts from increased higher-margin residential sales, stability from data center load and limited industrial customers, especially at VEPCo. VEPCo and DESC have agreed to forgive customer past due balances of $206 million and $15 million, respectively as part of legislative mandates or regulatory agreements. DEI's gas utilities were minimally affected by the pandemic due to favorable rate design, and revenue decoupling in most jurisdictions.

Parent Subsidiary Rating Linkages: DEI's subsidiaries have operational, financial and functional ties to their parent, resulting in moderate rating linkages. Fitch typically limits the notching difference between DEI and its subsidiaries to one to two notches due to these linkages. The treasury function is centrally managed, and DEI, VEPCo, QGC and DESC are individually borrowers under DEI's joint revolving credit facility.

DEO and PSNC are not borrowers under DEI's credit facility, and rely solely on DEI for their short-term liquidity needs. Legal ties are weak, as DEI does not guarantee the debt obligations of its subsidiaries. However, there is cross-acceleration language from VEPCo to DEI. Fitch applied a bottom-up approach in rating DEI's utility subsidiaries. Fitch rates DEI on a consolidated basis.

VEPCo

Constructive Regulatory Environment: Fitch considers the regulatory environment in Virginia and North Carolina to be constructive, due largely to rider mechanisms that provide timely cost recovery of invested capital, including incentive returns on certain generation projects. In Virginia, VEPCo's primary regulatory jurisdiction, adjustment clauses are in place to recover costs for new generation projects, Federal Energy Regulatory Commission (FERC)-approved transmission costs, energy efficiency and renewable energy programs and other items.

Modest Coronavirus Impacts: VEPCo's electric unit sales decreased approximately 1% in 2020 compared with the prior year. Residential sales, which account for approximately 57% of the company's 2020 electric revenues and approximately 44% of the company's unit sales, were flat. However, the financial impact to VEPCO has been somewhat mitigated by higher margin residential sales, stability from data center load and limited industrial customers. The company estimates that data centers account for approximately 30% of the company's commercial load. Thus far, the company has not experienced any operational or supply chain issues.

VEPCo voluntarily suspended disconnections, late charges and other fees in March 2020. In mid-November, a Virginia law became effective that reinstated and extended indefinitely the moratoriums originally enacted by the Virginia State Corporation Commission (SCC) in March 2020. The law also specifies that VEPCo will be required to forgive customer balances that are more than 30 days past due as of Sept. 30, 2020. As of March 31, 2021, those balances totaled approximately $203 million. While the forgiven balances will be excluded from VEPCO's cost of service calculation in the company's upcoming 2021 triennial review, the company will be able to offset earnings above the test period's authorized band with the forgiven amounts.

2021 Triennial Review: VEPCo filed its first base rate case since 2015 on March 31, 2021 as mandated by Virginia's 2018 Grid Transformation and Security Act (GTSA). The current review covers the four-year period of 2017-2020; however, subsequent reviews will be every three years. Rider investments (which comprise approximately 40% of the VEPCO's rates) are outside the scope of the review. In its filing, VEPCO requests no rate increase and has proposed base rates remain the same. While the company calculates its earned ROE as 10.85% over the four-year period; the inclusion of arrears forgiveness results in an earned ROE of 10.04%. Various components of the GTSA limit VEPCO's potential for significant rate reductions. Fitch expects the outcome of the Triennial Review to result in the continuation of VEPCo's stable cashflow.

2020 Virginia Legislation: In April 2020, the governor of Virginia signed into law the Virginia Clean Economy Act (VCEA), which replaced the state's voluntary renewable energy portfolio with a mandatory program. The legislation mandates fossil plant retirements, deems renewable investments to be in the public interest and eligible for rider recovery, increases thresholds for energy efficiency and directs VEPCo to participate in a carbon trading program, among other aspects.

As envisioned, VCEA will result in significant investment by VEPCo in offshore wind, solar, onshore wind and energy storage. VEPCo's five-year plan (2020-2024) for the affected asset classes is as follows: offshore wind, $3.5 billion; solar and onshore wind, $5.5 billion; and energy storage, $0.9 billion. The $9.9 billion total is a 71% increase in spending for these categories compared with the 2019-2023 plan. If VCEA is implemented as planned, Fitch expects a significant increase in VEPCo's rate base, which was $25 billion as of YE20. The company has submitted a permit application for the first 2.6 gigawatts (GW) of offshore wind. The U.S. Bureau of Ocean Energy Management recently issued a Notice of Intent, thus beginning the two-year permitting process for the initial $8 billion project. VEPCO's capex is anticipated to increase in 2023, with full-scale construction commencing in 2024 and commensurate increases in capex. The company plans to make its initial rider filing with the SCC in late 2021.

Large Capex Plan: Capex is expected to average approximately $4.7 billion annually 2021-2023, a 65% increase from 2018-2020. The timely cost-recovery mechanisms available to VEPCo soften the financial strain of funding the capex plan. While VCEA is expected to result in significant increases in VEPCo's capex, Fitch notes there could be long timeframes required for permitting and construction of some of the assets envisioned. As a result, Fitch expects significant expenditures due to VCEA to be largely outside the current forecast period.

Strong Credit Profile: VEPCo's current and projected credit metrics support the company's ratings. VEPCo's FFO leverage for the LTM ended Dec. 31, 2020 was 3.9x. Fitch forecasts FFO leverage to approximate 3.5x over the next few years. While VEPCo's metrics are strong for its 'A-' rating, Fitch expects VEPCo's leverage will increase by the end of the forecast period owing to increased capex for OFW. Fitch assumes that DEI will reduce dividends from VEPCO as needed during the OFW buildout to maintain metrics consistent with the subsidiary's current 'A-' rating.

DESC

Improving Regulatory Environment: DESC's ratings reflect the resolution of the highly contentious legal and regulatory issues resulting from SCANA's 2017 abandonment of the V. C. Summer Nuclear Station expansion project and evidence of improved regulatory relationship under DEI ownership. A multidocketed proceeding resulted in a PSC final order in January 2019 that addressed the ratemaking treatment for $2.8 billion of the $4.7 billion in abandoned nuclear costs, as well as approving $2.0 billion in rate relief. DESC is allowed to earn a 9.9% ROE on $2.8 billion of new nuclear development rate base with 52.81% equity capitalization.

Recent Base Rate Settlement: DESC reached a comprehensive settlement in the company's first electric rate case filing as a DEI subsidiary. The near unanimous settlement was verbally approved by the Public Service Commission of South Carolina on July 21, 2021. Among the terms of the settlement are: net revenue increase of $35.6 million ($61.6 million before accelerated return of deferred income taxes); regulatory capital structure of 51.62% equity; authorized ROE of 9.5%; and rate base amount $5.8 billion. Additionally, the company has committed up to $15 million to forgive past due accounts of more than 60 days as of May 31, 2021 and allocate $15 million to energy efficiency and safety repairs to customer homes. The settlement includes a stay-out provision (absent a change in tax rate) under which DESC will not file a rate case until July 1, 2023 for new rates effective Jan. 1, 2024. Fitch views the collaborative nature of the settlement as evidence of improved regulatory and customer relationships in South Carolina.

Modest Coronavirus Impacts: DESC's electric unit sales decreased approximately 4% in 2020 compared with the prior year, led by a 6.2% decline in commercial and industrial sales. DESC's residential sales accounted for approximately 51% of the company's 2020 electric revenues, but approximately 40% of the company's unit sales. DESC voluntarily suspended disconnections, late charges and other fees in March 2020. South Carolina lifted its State of Emergency in early June 2020. At that time, the company modified its disconnection and collection practices to minimize customer impact. As part of the recent electric rate settlement, DESC has agreed to forgo $15 million in collection of past due accounts.

Improved Credit Metrics: DESC metrics have improved under DEI's ownership starting with the 2019 contribution of $818 million in equity capital and reduction of almost $1.9 billion in long-term debt. DESC's FFO leverage was 3.5x as of TTM Dec. 31, 2020 compared with 5.0x as of TTM Dec. 31, 2018. Over the forecast period, DESC is expected to grow rate base by approximately 7%, driven in part by $2.6 billion of capex over 2021-2023. Fitch expects DEI to initiate dividends from DESC during the forecast period, resulting in forecasted FFO leverage of approximately 4.0x, which Fitch considers consistent of a 'A-' rated utility in a supportive regulatory jurisdiction.

PSNC

DEI Ownership and Merger Approval: PSNC became an indirect subsidiary of DEI effective Jan. 1, 2019. Among the regulatory conditions ordered by the North Carolina Utilities Commission (NCUC) in its merger approval are $1.25 million annual rate credits in 2019-2021 and a GRC moratorium, which ended April 2021, with new rates not in effect before November 2021. Additionally, the agreed-to code of conduct specifies maintenance of PSNC's investment-grade ratings, limitation on dividends if PSNC's equity capitalization falls below 45%, and various reporting requirements pertaining to DEI's corporate structure and business mix.

Pending Rate Case: PSNC is seeking a $53 million gas rates increase premised on a 10.25% ROE and 55% equity capitalization structure. The requested ROE is above the average ROEs decided in rate cases for gas utilities nationwide during 2020 and is intended to provide adequate return for ongoing system upgrades. A rate case decision is expected in the second half of 2021. A favorable rate case outcome could result in further strengthening of credit metrics and may warrant an upgrade.

Supportive Regulatory Environment: Fitch considers NCUC to be a supportive commission. PSNC's last base rate case was determined through partial settlement in October 2016, in which the company was awarded a $19.1 million rate increase based upon a 9.7% ROE and 52% equity capitalization. The company is also able to use a tracker mechanism to recover the cost of ongoing pipeline integrity management (PIM) programs between base rate cases. PSNC filed biannual applications in 2018 to adjust its rates related to PIM and received a combined incremental $15.8 million increase. The company received a subsequent increase of $1.7 million effective March 1, 2019. PSNC also benefits from revenue decoupling for residential and commercial customers.

Stable Credit Metrics: PSNC's leverage and interest coverage measures are expected to remain stable over the forecast period with FFO Leverage averaging 5.0x, adequate for the current rating level. While Fitch expects PSNC's credit metrics to benefit as DEI provides equity, as needed and reduces costs, additional significant credit improvement is likely to be contingent on the 2021 rate case.

Demand and Capex Growth: PSNC plans to invest approximately $800 million in growth capital from 2021 to 2025 for pipeline replacement, customer growth and system enhancements. Net population immigration into the service area combined with a buoyant local economy and record low natural gas prices are driving low single-digit customer and weather-adjusted volume growth. PSNC's three-year customer growth CAGR was 2.7% as of 2020.

Limited Commodity and Volumetric Risk: PSNC operates with a purchased gas adjustment (PGA) clause and a customer utilization tracker (CUT) that together limit commodity price and volumetric risk exposure. The PGA provides full recovery of all prudently incurred gas costs from customers, while the CUT allows periodic rate adjustments if average consumption deviates from expected levels. The CUT applies to residential and commercial customers and is not limited to weather-related volumetric changes.

Low Risk Business Profile: DEO's ratings reflect its relatively predictable earnings and cash flows as a gas utility with favorable regulation. The company is one of the largest gas utilities in Ohio, serving 1.2 million customers in the Cleveland, Akron and Canton metropolitan areas. Ohio is a gas retail choice state, and as a result, DEO bears no commodity risk. Additionally, 90% DEO's customers are residential and 80% of customer margins are devoid of usage or throughput risk.

Constructive Regulatory Environment: DEO has had a straight fixed variable (SFV) rate design since 2008, which significantly reduces the company's reliance on volumetric sales for recovery of fixed charges. Additionally, DEO has rider recovery for pipeline replacement, maintenance capex and bad debt expense. DEO's last base rate proceeding was in 2008, where it was authorized a 10.4% ROE based upon 51% equity capitalization. DEO is not required to file a base rate case until 2024.

Limited Coronavirus Impact: DEO experienced minimal impact on sales, given the company's large residential customer base and SFV rate design. DEO has a full bad debt tracker and is expected to recover any bad debt amounts in subsequent periods. The company experienced no operational or supply chain issues.

Increased Capex: DEO's capex is expected to significantly increase over the next three years. Capex is projected to average approximately $470 million per year over the 2021-2023 forecast period, a 25% increase from the 2018-2020 average of approximately $370 million. Approximately 80% of the capex program is expected to be covered under two rider programs: Pipeline Infrastructure Replacement and Capital Expenditure Program.

The Pipeline Infrastructure Replacement rider has been in place since 2008. Pipeline Infrastructure Replacement designated expenditures accrue a carrying cost of 6.5% during the calendar year and earn an approved return of 9.9% via annual filings with the PUCO. The company received approval of its Capital Expenditure Program (CEP) rider in late 2020. The CEP rider would enable the company to begin recovering capital investments deferred since 2011 that are not covered by the PIR. Capital Expenditure Program rider-eligible costs accrue a carrying cost of 6.5%.

Adequate Credit Metrics: Despite the large capex program, DEO's FFO leverage is expected to average around 4.5x over the forecast period, owing to reduced regulatory lag. FFO interest coverage is robust, averaging above 7.0x. Although the company's thick equity ratio supports DEO's credit quality, leverage metrics are likely to vary, depending on the level of dividends upstreamed to DEI. Fitch expects DEI will manage dividends from DEO to stay within the stated downgrade threshold of 4.5x FFO leverage.

QGC

Low-Risk Business Profile: QGC is a local gas distribution utility serving customers in Utah, Wyoming and Idaho. The majority of the company's customers are located in the state of Utah, which continues to experience significant growth. QGC's customer growth increased by 2.4% in 2020, and is expected to continue to increase over the forecast period in line with the service territories' economic growth.

Supportive Regulatory Environment: Utah implemented numerous rider mechanisms, including weather normalization, revenue decoupling, infrastructure replacement and purchased gas adjustment, that serve to reduce regulatory lag and stabilize credit metrics. ROEs granted in Utah are generally in line with the industry averages. As a condition of the DEI acquisition, QGC had been precluded from filing a base rate case in Utah before July 2019 and from filing a general rate case (GRC) in Wyoming with an effective date earlier than January 2020. Fitch expects QGC to file a rate case filing in the outer years of its forecast.

Recent Base Rate Case Decision: On July 1, 2019, QGC filed its first base rate case since DEI ownership with the Utah Commission, requesting a $19 million rate increase based upon a 10.5% ROE and 55% equity capitalization. In February 2020, the Utah Commission accorded QGC a $2.7 million rate increase premised upon a 9.5% ROE and 55% capitalization. The authorized ROE is below the average of returns granted to gas utilities in 2019. QGC's last Utah rate decision was in 2014, when it was granted a $7.6 million rate increase based on a 9.85% ROE and 52.07% equity capitalization.

Additionally, $71.1 million of expenditures made under the Utah infrastructure tracker program were rolled into base rates. The annual cap was increased to $72.2 million, equating to allowed recovery of $8.1 million per year, compared with $7 million in the prior year. QGC was authorized a $1.5 million base rate increase in Wyoming in June 2020, effective September 2020. The increase is based on a 9.35% ROE and 55% equity capitalization.

Wexpro Agreements: QGC obtains approximately one-half of its natural gas supply from DEI affiliate, Wexpro Company, in accordance with Wyoming and Utah regulatory agreements. Under these arrangements, Wexpro produces and sells gas at a regulated cost of service for the benefit of QGC's customers. The longstanding arrangement results in lower costs and less volatile customer bills.

Financial Metrics in Line: QGC's 2020 rate increases are adequate, and numerous riders help stabilize cashflow. Additionally, the approved equity capitalization of 55% underpins QGC's credit quality. QGC will continue to experience increased capex for growth, reliability and infrastructure upgrades. The company announced that it plans to spend $1.2 billion in growth capital from 2021-2025. Credit metrics are expected to remain within the rating sensitivity thresholds following pressure in 2021 and 2022 due to the LNG storage facility buildout.

DERIVATION SUMMARY

DEI is currently weakly positioned in the 'BBB+' rating category. However, the company significantly improved its credit metrics and capital structure over the last two years through asset sales, equity proceeds, subsidiary financing and the completion of the SCANA Corporation merger in 2019. After closing of the announced DEGH transaction and cancellation of ACP, Fitch expects approximately 85%-90% of DEI's EBITDA to come from state-regulated utility businesses over the forecast period. This is in line with The Southern Company's (BBB+/Stable) utility EBITDA of 86% and Sempra Energy's (BBB+/Stable) 79%, but compares more favorably than NextEra Energy, Inc.'s (A-/Stable) 70%.

Fitch's forecast for DEIs average FFO leverage of approximately 5.0x is higher than Sempra's (4.5x) and NextEra's (4.2x-4.4x), but in line with Southern's expected consolidated FFO leverage of approximately 5.0x. DEI-level debt has been reduced as a result of the previously completed credit initiatives, but at the expected level of 35%-40%, remains higher than the 20%-30% range of most of its peers.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for the Issuer

-- Questar Pipeline assets expected to be divested in late 2021 or early 2022;

-- Capex of approximately $23 billion for 2021-2023;

-- Equity of approximately $3.0-$3.5 billion for 2021-2023, including the conversion to equity of $1.6 billion series A corporate units;

-- Dividend payout rate of 65%;

-- DEI-level debt sustained at 35%-40% of total indebtedness;

-- VEPCo's base rates remain frozen through the forecast period;

-- Maintenance of utility subsidiaries capital structures in line with regulatory capital structures;

-- No adverse regulatory changes;

-- Retained ownership of 50% of Cove Point to be held at DEI;

-- No significant change in credit quality of Cove Point offtakers or contract terms.

RATING SENSITIVITIES

DEI

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action is not expected at this time given the large capital investment plan and high consolidated leverage. However, ratings could be upgraded if FFO leverage was to be below 4.3x on a sustainable basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO leverage above 5.0x on a sustained basis;

- Unfavorable regulatory developments;

- DEI-level debt above 40% on a sustained basis;

- A downgrade of VEPCo's IDR to 'BBB+'.

VEPCo

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action is not expected in the near future given the capex plan and rate freeze. However, ratings could be upgraded if FFO leverage goes below 3.5x on a sustainable basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An increase in FFO leverage above 4.3x on a sustainable basis;

- Unfavorable regulatory developments;

- A downgrade of two notches or more at DEI under Fitch's parent and subsidiary linkage criteria.

DESC

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained FFO leverage at or below 3.5x.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Unfavorable state regulatory or legislative developments;

- FFO leverage consistently and materially exceeding 4.3x.

PSNC

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained FFO leverage at or below 4.0x;

- Successfully outcome in 2021 rate case.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO leverage consistently and materially exceeding 5.0x;

- Unfavorable regulatory developments.

DEO

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FFO leverage below 3.5x on a sustainable basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An increase in FFO leverage above 4.5x on a sustainable basis;

- Unfavorable regulatory developments;

- Downgrade of two notches or more at DEI under Fitch's parent and subsidiary linkage criteria.

QGC

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FFO leverage below 3.5x on a sustainable basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- An increase in FFO leverage above 4.5x on a sustainable basis;

- Unfavorable regulatory developments;

- Downgrade of two notches or more at DEI under Fitch's parent and subsidiary linkage criteria.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: On June 9, 2021, DEI extended the maturity of its $6.0 billion joint revolving credit agreement to June 2026. The current subsidiary sublimits under this facility are as follows: DEI $3.50 billion, VEPCo $1.75 billion, DESC $500 million and QGC $250 million. If any of the above DEI subsidiaries have liquidity needs in excess of their respective current sublimit, the sublimit can be changed or such needs could be satisfied through short-term intercompany borrowings from DEI or intercompany money pool. DEI also entered into a $900 million Supplemental Credit Facility maturing June 2024. The Supplemental Credit Facility offers a reduced interest rate margin with respect to borrowed amounts allocated to certain environmental sustainability or social justice initiatives. PSNC and DEO are not borrowers under the facilities and rely solely on DEI for its short-term liquidity needs.

DEI does not guarantee the debt obligations of VEPCo, QGC, DESC, DEO or PSNC. However, the revolving credit agreement contains cross-acceleration language from VEPCo to DEI. Per the credit agreement, DEI's calculated total debt-to-total capital ratio is not to exceed 67.5%. As of Dec. 31, 2020, the actual ratio was 55.2%. As of March 31, 2021, DEI had total liquidity of $3.9 billion comprised of $3.4 billion total availability under its revolving credit agreement and $477 million of cash.

ISSUER PROFILE

DEI is a diversified utility holding company engaged in generation, transmission and distribution of electricity, natural gas distribution, merchant power generation, and oil and gas gathering and processing activities.

SUMMARY OF FINANCIAL ADJUSTMENTS

DEI's debt is adjusted by assigning 50% equity credit to DEI's enhanced junior subordinated debentures and to the series B fixed-rate reset cumulative redeemable perpetual preferred stock.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
The East Ohio Gas Company	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
• senior unsecured	LT	A	Affirmed	A
Dominion Energy, Inc.	LT IDR	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
• senior unsecured	LT	BBB+	Affirmed	BBB+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Barbara Chapman, CFA
Senior Director
Primary Rating Analyst
+1 646 582 4886
barbara.chapman@fitchratings.com
Fitch Ratings, Inc.
33 Whitehall Street New York, NY 10004

Shalini Mahajan, CFA
Managing Director
Secondary Rating Analyst
+1 212 908 0351
shalini.mahajan@fitchratings.com

Philip Smyth, CFA
Senior Director
Committee Chairperson
+1 212 908 0531
philip.smyth@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria (pub. 26 Aug 2020)

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 30 Apr 2021)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Dominion Energy South Carolina, Inc.	EU Endorsed, UK Endorsed
Dominion Energy, Inc.	EU Endorsed, UK Endorsed
Public Service Company of North Carolina, Incorporated	EU Endorsed, UK Endorsed
Questar Gas Company	EU Endorsed, UK Endorsed
The East Ohio Gas Company	EU Endorsed, UK Endorsed
Virginia Electric and Power Company	EU Endorsed, UK Endorsed

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