S&P Global
Ratings

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Dominion Energy Inc.

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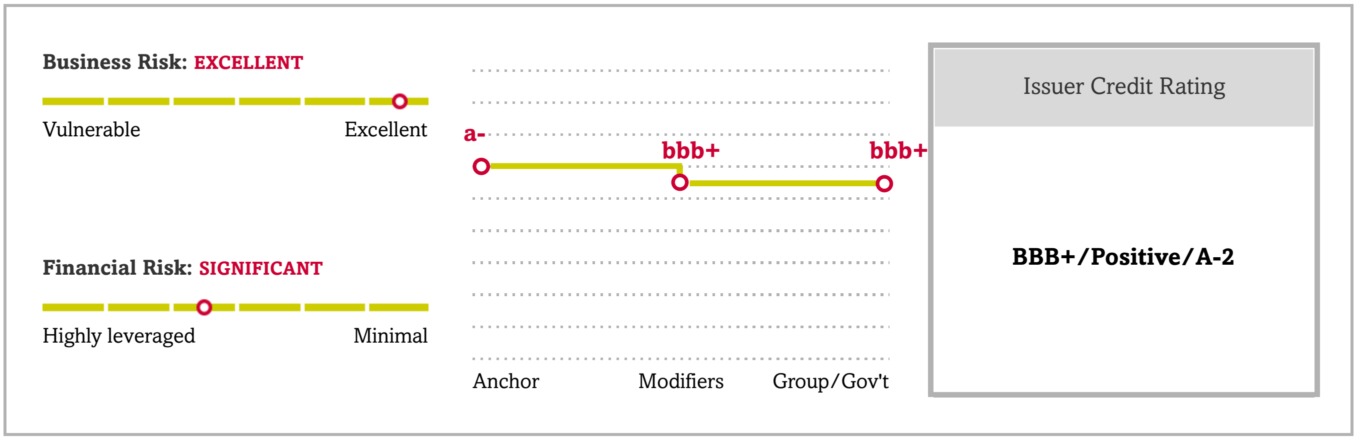
Dominion Energy Inc.



Credit Highlights

Overview

Key strengths	Key risks
Large multistate presence provides operating and regulatory diversity.	Elevated capital spending program requires ongoing balanced funding and timely cost recovery to support the credit profile.
Mostly lower-risk, rate-regulated utility assets.	Continued negative discretionary cash flow indicates external funding needs.
Effective management of regulatory risk.	

Dominion Energy Inc. (DEI) has completed the sale of majority of its gas transmission and storage assets to Berkshire Hathaway Energy Co. (BHE) for approximately $2.7 billion in cash proceeds and $5.3 billion of related long-term debt.

This strategic transformation allows the company to focus on its higher-growth utility businesses and decrease business risk by reducing its exposure to commodity risks, volumetric risks, and operational risks. Also, DEI's consolidated financial measures are in line with prior expectations, given the asset sale transferred about $5.3 billion of DEI's long-term debt.

Outlook: Positive

The positive outlook reflects a one-in-three likelihood that we will raise the ratings over the next 24 months. The sale of its midstream operations and the cancellation of the Atlantic Coast Pipeline strengthen DEI's business risk profile by reducing risk and focusing growth on its lower-risk, regulated utility operations. On a pro forma basis, we expect its regulated utility businesses will account for about 85%-90% of the consolidated company. We expect DEI's financial measures generally remain in line with expectations and DEI's funds from operations (FFO) to debt will be 15%-16% through the forecast periods.

Downside scenario

We could affirm the ratings and revise the outlook to stable within the next 24 months if the company is unable to complete the sale of the midstream businesses, if management of regulatory risk in South Carolina does not consistently improve, or if FFO to debt declines to consistently below 15%.

Upside scenario

We could raise the ratings within the next 24 months if the company is able to reduce risk by completing the sale of its midstream businesses, improve its regulatory relationship and outcomes in South Carolina, and maintain FFO to debt consistently above 15%. Our rating upgrade would also reflect no other material increases to the company's nonutility assets and continued effective management of regulatory risk in all of the company's service territories.

Our Base-Case Scenario

Assumptions

- Capital spending of about $7 billion-$8.5 billion for the forecast periods;
- Dividends payment averaging about $2 billion annually;
- Continued negative discretionary cash flow; and
- All debt maturities to be refinanced.

Key metrics

	2020a	2021f	2022f
FFO/debt (%)	15.3	15-16	15-16
Debt/EBITDA (x)	4.9	4.5-5.0	5.0-5.5

All figures are S&P Global Ratings adjusted. a--Actual. f--Forecast. FFO--Funds from operations.

Company Description

Dominion Energy Inc., one of the nation's largest producers and distributors of energy, provides electricity, natural gas, and related services to more than 7 million customers across 16 states. DEI's regulated electric and natural gas utility businesses account for about 85%-90% of its consolidated EBITDA. The company's nonregulated operations consist of primarily long-term contracted electric generation operations (including nuclear and renewable merchant generation) and its investment in Cove Point.

Peer Comparison

Table 1

Dominion Energy Inc.--Peer Comparison

Industry Sector: Combo

	Dominion Energy Inc.	DTE Energy Co.	Public Service Enterprise Group Inc.	Sempra Energy	Southern Co.
Ratings as of June 25, 2021	BBB+/Positive/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	A-/Negative/A-2
	--Fiscal year ended Dec. 31, 2020--				
(Mil. $)					
Revenue	14,172.0	12,177.0	9,603.0	11,370.0	20,375.0
EBITDA	7,401.2	3,833.5	3,979.0	6,326.9	10,022.0
Funds from operations (FFO)	5,504.7	3,518.2	3,250.2	3,762.7	8,351.6
Interest expense	1,680.5	870.6	653.8	1,341.1	2,153.4
Cash interest paid	1,604.5	675.3	579.8	1,179.1	1,606.4
Cash flow from operations	5,223.7	3,743.2	3,144.2	3,676.7	7,075.6
Capital expenditure	5,929.8	3,837.3	3,034.0	4,637.7	7,652.0
Free operating cash flow (FOCF)	(706.1)	(94.1)	110.2	(961.0)	(576.4)
Discretionary cash flow (DCF)	(6,699.8)	(925.2)	(880.8)	(2,867.8)	(3,764.5)
Cash and short-term investments	172.0	514.0	543.0	960.0	1,065.0
Debt	36,039.5	18,630.4	18,261.9	25,424.2	50,783.5
Equity	28,803.5	14,494.0	15,984.0	24,858.5	36,992.5
Adjusted ratios					
EBITDA margin (%)	52.2	31.5	41.4	55.6	49.2
Return on capital (%)	6.8	7.6	7.8	8.6	6.5
EBITDA interest coverage (x)	4.4	4.4	6.1	4.7	4.7
FFO cash interest coverage (x)	4.4	6.2	6.6	4.2	6.2
Debt/EBITDA (x)	4.9	4.9	4.6	4.0	5.1
FFO/debt (%)	15.3	18.9	17.8	14.8	16.4

Table 1

Dominion Energy Inc.--Peer Comparison (cont.)

Industry Sector: Combo

	Dominion Energy Inc.	DTE Energy Co.	Public Service Enterprise Group Inc.	Sempra Energy	Southern Co.
Cash flow from operations/debt (%)	14.5	20.1	17.2	14.5	13.9
FOCF/debt (%)	(2.0)	(0.5)	0.6	(3.8)	(1.1)
DCF/debt (%)	(18.6)	(5.0)	(4.8)	(11.3)	(7.4)

Business Risk: Excellent

We assess DEI's business risk profile based on its very large size and high proportion of lower-risk, rate-regulated utility assets reflecting about 85%-90% of EBITDA and operating across eight states. The asset sales help strengthen DEI's business risk profile by reducing exposure to commodity risks, volumetric risks, and operational risks. DEI's business mix represents stable revenue provided by state-regulated utilities, above-average geographical diversity, large customer base, and mostly credit-supportive regulatory environments. Overall, we assess most of the DEI utilities as very low risk with operations under constructive regulated frameworks. The exception is Dominion Energy South Carolina Inc. (DESC), whose effectiveness in managing regulatory risk eroded after construction of two new nuclear units were canceled. Despite DEI's acquisition of DESC, our assessment of DESC incorporates a much less supportive regulatory environment in South Carolina than before the company's cancellation of the nuclear plants.

The balance of DEI's nonutility businesses consist of contracted assets (about 10%-15% of EBITDA), which consist of merchant nuclear, renewable generation, and liquefied natural gas (LNG). We assess the merchant nuclear contracted asset as having the highest risk from the company's portfolio of contacted assets. The merchant nuclear exposes the company to higher operating risks, volumetric risks, counterparty credit risk, and commodity risks. Although we generally view the long-term contracted LNG businesses as more credit supportive than a typical industrial company, we still view them as modestly riskier than the low-risk, regulated utility business. This reflects our view that over the long term, contracted assets are generally modestly higher risk than regulated utility assets because of counterparty credit risk and the possibility of an unforeseen event that could erode margins. Because of these higher risks, we continue to assess Dominion at the lower half of the range for its business risk profile category.

Financial Risk: Significant

We assess DEI's financial measures using our medial volatility table reflecting the company's focus on lower-risk regulated utility growth strategy and effective management of regulatory risk. Our assessment also incorporates the impact of assets sale and cancellation of the Atlantic Coast Pipeline. Our base-case scenario includes continued use of regulatory mechanisms, dividends payment averaging about $2 billion annually, and capital spending of about $7 billion-$8.5 billion throughout the forecast periods. We expect DEI's FFO to debt will remain at 15%-16% in the next few years.

Financial summary

Table 2

Dominion Energy Inc.--Financial Summary					
Industry Sector: Combo					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	14,172.0	16,572.0	13,366.0	12,586.0	11,737.0
EBITDA	7,401.2	7,336.4	6,361.3	6,769.3	5,600.8
Funds from operations (FFO)	5,504.7	5,523.8	4,824.8	5,488.3	4,454.5
Interest expense	1,680.5	2,010.5	1,665.8	1,511.0	1,210.3
Cash interest paid	1,604.5	1,706.5	1,447.4	1,272.0	1,001.3
Cash flow from operations	5,223.7	5,241.8	4,768.8	4,453.3	4,137.5
Capital expenditure	5,929.8	5,244.8	4,132.8	5,287.4	5,957.3
Free operating cash flow (FOCF)	(706.1)	(3.0)	636.0	(834.2)	(1,819.8)
Discretionary cash flow (DCF)	(6,699.8)	(3,035.4)	(1,628.7)	(2,842.6)	(3,638.1)
Cash and short-term investments	172.0	166.0	268.0	120.0	261.0
Gross available cash	172.0	166.0	268.0	120.0	261.0
Debt	36,039.5	36,190.4	33,557.2	36,444.7	33,210.7
Equity	28,803.5	36,574.0	24,401.5	21,723.5	20,193.5
Adjusted ratios					
EBITDA margin (%)	52.2	44.3	47.6	53.8	47.7
Return on capital (%)	6.8	7.6	7.8	7.7	7.9
EBITDA interest coverage (x)	4.4	3.6	3.8	4.5	4.6
FFO cash interest coverage (x)	4.4	4.2	4.3	5.3	5.4
Debt/EBITDA (x)	4.9	4.9	5.3	5.4	5.9
FFO/debt (%)	15.3	15.3	14.4	15.1	13.4
Cash flow from operations/debt (%)	14.5	14.5	14.2	12.2	12.5
FOCF/debt (%)	(2.0)	(0.0)	1.9	(2.3)	(5.5)
DCF/debt (%)	(18.6)	(8.4)	(4.9)	(7.8)	(11.0)

Reconciliation

Table 3

Dominion Energy Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts									
	--Fiscal year ended Dec. 31, 2020--								
Dominion Energy, Inc. reported amounts (mil. $)									
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
	36,874.0	26,117.0	6,181.0	2,055.0	1,377.0	7,401.2	5,227.0	2,873.0	6,020.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(292.0)	--	--	--

Table 3

Dominion Energy Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

Cash interest paid	--	--	--	--	--	(1,519.0)	--	--	--
Reported lease liabilities	710.0	--	--	--	--	--	--	--	--
Operating leases	--	--	68.0	21.8	21.8	(21.8)	46.2	--	--
Equity-like hybrids	(1,600.0)	1,600.0	--	--	--	--	--	--	--
Intermediate hybrids reported as debt	(742.5)	742.5	--	--	(40.7)	40.7	40.7	40.7	--
Postretirement benefit obligations/deferred compensation	23.7	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(172.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	103.0	(103.0)	(103.0)	--	(103.0)
Share-based compensation expense	--	--	64.0	--	--	--	--	--	--
Dividends received from equity investments	--	--	102.0	--	--	--	--	--	--
Power purchase agreements	35.0	--	14.2	1.4	1.4	(1.4)	12.8	--	12.8
Asset-retirement obligations	1,007.3	--	218.0	218.0	218.0	--	--	--	--
Nonoperating income (expense)	--	--	--	329.0	--	--	--	--	--
Noncontrolling interest/minority interest	--	344.0	--	--	--	--	--	--	--
Debt: Other	(96.0)	--	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(61.0)	(61.0)	--	--	--	--	--
EBITDA: Settlement (litigation/insurance) costs	--	--	90.0	90.0	--	--	--	--	--
EBITDA: Other income/(expense)	--	--	504.0	504.0	--	--	--	--	--
EBITDA: Other	--	--	221.0	221.0	--	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	1,794.0	--	--	--	--	--
Depreciation and amortization: Other	--	--	--	(504.0)	--	--	--	--	--
Total adjustments	(834.6)	2,686.5	1,220.2	2,614.2	303.5	(1,896.5)	(3.3)	40.7	(90.2)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditure
	36,039.5	28,803.5	7,401.2	4,669.2	1,680.5	5,504.7	5,223.7	2,913.7	5,929.8

Liquidity: Adequate

We assess the company's liquidity as adequate because we believe sources are likely to cover uses by more than 1.1x over the next 12 months and meet cash outflows even with a 10% decline in EBITDA. The assessment also reflects DEI's generally prudent risk management, sound relationship with banks, and generally satisfactory standing in credit markets.

Principal liquidity sources

- Credit facility availability of $6 billion;
- Cash FFO of about $6 billion; and
- Minimal cash on hand.

Principal liquidity uses

- Debt maturities of about $5.2 billion, including outstanding commercial paper;
- Dividend payment of about $2 billion; and
- Capital spending of about $7.2 billion.

Environmental, Social, And Governance

DEI has committed to achieve net-zero emissions by 2050. As part of the commitment, the company plans to reduce methane emissions by 65% by 2030 and 80% by 2040 compared to its 2010 level. Through 2019, the company has cut carbon emissions from electric generating units by 57% since 2005, and it has reduced methane emissions from natural gas operations by 25% since 2010. To reach its net-zero emission goal, DEI is trying to extend the licenses of its zero-carbon nuclear fleet in Virginia, rapidly expanding wind and solar generation, investing in carbon-beneficial renewable natural gas, expanding its industry-leading methane emissions-reduction programs, and using low-carbon natural gas to support the integration of wind and solar generation facilities into the grid. The company has already begun closing coal-fired plants to meet its target.

From a social perspective, the company is exposed to risks of gas leaks, which could lead to significant financial liabilities and disrupt the communities it serves--about 30% of its operations consist of natural gas transmission and distribution. However, this risk is partially mitigated by ongoing investments to enhance the safety and reliability of its natural gas infrastructure by fully replacing or upgrading it over the next 15 years. DEI is one of only three utility companies with an environmental justice policy. This ensures all stakeholders, including local communities, have a voice in decisions on infrastructure investments.

We view governance factors as supportive of the company's investment-grade credit quality and in line with those of its peers. DEI has created a sustainability and corporate responsibility committee to oversee the environmental justice policy, emission-reduction performance, and other facets of its environmental, social, and governance and sustainability programs.

Group Influence

We view Dominion Energy Inc. as the parent of a group that includes Virginia Electric & Power Co. (VEPCO), Questar Gas Co., Dominion Energy Gas Pipeline LLC, Dominion Energy Gas Holdings LLC, SCANA Corp., Dominion Energy South Carolina, Public Service Co. of North Carolina Inc., and South Carolina Fuel Co. Dominion Energy Inc.'s group credit profile is 'bbb+', leading to an issuer credit rating of 'BBB+'.

Issue Ratings - Subordination Risk Analysis

Capital structure

DEI's capital structure consists of approximately $40 billion of debt, of which about $23 billion is outstanding at its subsidiaries.

Analytical conclusions

- The short-term rating is 'A-2' based on our long-term issuer credit rating on the company.
- The unsecured debt issued at DEI is rated 'BBB', one notch lower than the issuer credit rating. This is due to the significant proportion of priority debt at the company's subsidiaries.
- The junior subordinated notes are subordinated and not deferrable, and we therefore rate them in line with the senior unsecured debt at 'BBB', one notch below our issuer credit rating.
- DEI's enhanced junior subordinated notes are rated 'BBB-', two notches below the issuer credit rating. We classify the enhanced junior subordinated notes as hybrid securities premised on their permanence, deferability, and subordination features.
- DEI's equity units are hybrid securities that incorporate equity risk and are therefore also rated 'BBB-', two notches below the issuer credit rating.
- The unsecured debt issues at Dominion Energy Questar Pipeline LLC are rated 'BBB+', the same as the issuer credit rating, because there is no secured or priority debt that ranks ahead of these issues in its capital structure.
- The unsecured debt issues at VEPCO and Questar Gas Co. are rated 'BBB+', the same as the issuer credit rating, as these are unsecured debt issues of a qualifying investment-grade regulated utility.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Positive/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)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Stand-alone credit profile : bbb+

- **Group credit profile:** bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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 | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 28, 2021)*

Dominion Energy, Inc.	
Issuer Credit Rating	BBB+/Positive/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BBB
Junior Subordinated	BBB-
Senior Unsecured	BBB
Issuer Credit Ratings History	
07-Jul-2020	BBB+/Positive/A-2
27-Dec-2018	BBB+/Stable/A-2
03-Jan-2018	BBB+/Negative/A-2
Related Entities	
Dominion Energy Ohio	
Issuer Credit Rating	BBB+/Positive/--
Senior Unsecured	BBB+
Dominion Energy Questar Pipeline, LLC	
Issuer Credit Rating	BBB+/Watch Pos/--
Senior Unsecured	BBB+/Watch Pos
Dominion Energy South Carolina, Inc	
Issuer Credit Rating	BBB+/Positive/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB-
Senior Secured	A
Dominion Resources Capital Trust III	
Preference Stock	BBB-
Public Service Co. of North Carolina Inc.	
Issuer Credit Rating	BBB+/Positive/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+

Ratings Detail (As Of June 28, 2021)*(cont.)	
Questar Gas Co.	
Issuer Credit Rating	BBB+/Positive/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
SCANA Corp.	
Issuer Credit Rating	BBB+/Positive/A-2
South Carolina Fuel Co.	
Issuer Credit Rating	--/--/A-2
Virginia Electric & Power Co.	
Issuer Credit Rating	BBB+/Positive/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB-
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.