BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF ENBRIDGE GAS UTAH TO INCREASE DISTRIBUTION RATES AND CHARGES AND MAKE TARIFF MODIFICATIONS	Docket No. 25-057-06

DIRECT TESTIMONY OF

WARREN S. REINISCH

FOR

ENBRIDGE GAS UTAH

May 1, 2025

EGU Exhibit 3.0

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I. WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name, position, business address.

A. My name is Warren S. Reinisch. I am the Director of Treasury Planning of Enbridge, Inc. My business address is 425 – 1st Street S.W., Calgary, Alberta, Canada, T20 3L8. I, as well as other employees of Enbridge, Inc. and its subsidiaries, perform services for Questar Gas Company d/b/a Enbridge Gas Utah ("Questar Gas", "Enbridge Gas" or the "Company").

Q. Please describe your education and business background.

A. I have a degree in Economics from the University of Manitoba, a Bachelor of Commerce, Honours, from the University of Windsor, and a Master of Business Administration from the Ross School of Business at the University of Michigan. I have worked for Enbridge, Inc. for over 20 years in a variety of capacities. I have worked within the Ontario natural gas utility, Enbridge Gas, Inc. (and its predecessors) in Gas Supply, Business Development, Regulatory, Sales & Marketing, and Finance.

Q. What are your primary job responsibilities?

A. My current role is Director, Treasury Planning. I lead a team responsible for planning capital structures and financing requirements, and managing interest expense for Enbridge, Inc. and all of its subsidiaries. I am also responsible for Cost of Capital related matters and managing the credit rating agency relationships for Enbridge, Inc. and all its subsidiaries.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain and to support Questar Gas's proposed capital structure, discuss the Company's credit profile, and discuss the importance of maintaining strong credit ratings as the Company continues to make capital investments in its natural gas assets for the benefit of Questar Gas's customers. Within that context, I detail the emphasis from rating agencies placed on constructive regulatory environments and outcomes within their analyses. My testimony will also support the cost of debt requested in this case.

II. CAPITAL MARKET OVERVIEW

Q. Please discuss the capital markets that Questar Gas operates within.

A. Questar Gas has issued debt in both the public and private placement markets. In more recent offerings, the Company has issued debt through the private placement market. Factors that could lead the Company to issue debt via private placement include, but are not limited to, indicative pricing, the timing of funding needs, and flexibility related to the number and size of tranches. Minimum tranche size is not required or expected by investors in a private placement deal, allowing the issuer to leverage investor demand and price sensitivities between tranches at the time of issuance to achieve the preferred outcome. Conversely, utilizing a 144A public offering would allow the Company to offer the securities to a broader set of investors but would require a single larger tranche offering to achieve index eligibility and may provide the issuer with less leverage to achieve the best pricing. Issuance costs are also factored into the decision on which market to use. Prior to each issuance, Questar Gas evaluates the options and determines the appropriate market in which to issue debt.

III. QUESTAR GAS CREDIT RATINGS

Q. What are Questar Gas's current credit ratings?

A. Questar Gas is rated A- by Fitch Ratings Inc. ("Fitch"), A- on a stand-alone basis by Standard & Poor's Global Ratings ("S&P"), and Baa1 by Moody's Investor Service ("Moody's").

Q. What factors do rating agencies consider when assessing Questar Gas' credit ratings?

A. Each rating agency has unique criteria for determining a rating. These criteria include numerous quantitative factors, such as financial ratios, as well as qualitative factors such as regulatory environment and regulator support for local distribution companies credit risk profiles.

Q. Has Questar Gas's credit rating changed since 2022?

A. Yes. While Fitch and S&P have maintained their A- ratings for Questar Gas since 2022, Moody's downgraded Questar Gas's Long-Term Rating from A3 to Baa1 on February 23, 2024.

Q. Why did Moody's downgrade Questar Gas's long-term rating?

A. Moody's downgraded Questar Gas's long-term rating as a direct result of the reduced equity capitalization, from 55% to 51%, approved by the Utah Public Service Commission's (UPSC) December 2022 general rate case order. While Moody's "does not view the rate order as a sign of regulatory contentiousness", it stated, "The downgrade of Questar Gas reflects its more leveraged regulatory capital structure which will reduce the utility's financial metrics on a sustained basis."[1] Moody's now expects CFO-to-debt ratios to be around 16% compared to averages of about 19% prior to the order.

Q. How do the rating agencies view regulatory outcomes in their assessments of a company's creditworthiness?

A. Rating agencies place significant importance on regulatory outcomes when assessing an issuer's business risk. They closely monitor regulatory developments and decisions, as these factors can impact the stability and predictability of a company's operating cash flows, which can influence the overall credit rating of the entity.

For example, as recent as December 2024, the credit ratings of Connecticut Light & Power, Yankee Gas Services Company, Connecticut Natural Gas Corporation, and Southern Connecticut Gas Company were lowered due to adverse regulatory developments from the Connecticut's Public Utilities Regulatory Authority ("PURA"). S&P noted in their rating action: "We downwardly revised our assessment of Connecticut's regulatory construct"[2] as the lead rational for taking these negative rating actions. S&P assessed PURA's rate

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[1] Rating Action: Moody's downgrades Questar Gas to Baa1; stable outlook (February 23, 2024).
[2] Rating Action: Connecticut Natural Gas Corp. And Southern Connecticut Gas Co. Downgraded To 'BBB+' On Final Rate Orders, Outlook Stable (December 6, 2024). Rating Action: Eversource Energy Issuer Credit Rating Lowered To 'BBB+' from 'A-'; Subsidiaries Ratings Also Lowered; Outlook Stable (December 9, 2024).

orders over the past two years as not credit supportive. These rate orders have resulted in credit metrics materially lower than S&P's base case assumption. Rating agencies such as S&P expect utilities to operate in regulatory environments that support credit quality by allowing full and timely recovery of operating and capital costs. They also look for a consistent and predictable regulatory framework that promotes cash flow stability. When these expectations are not met, credit downgrades can follow.

In order to access capital as needed, the Company must continuously maintain a strong credit profile, balance sheet, and cash flow coverage ratios to ensure that cash flows are sufficient to service debt and to realize adequate returns on equity. To achieve these goals, the Company needs appropriate rate determinations and correlated supportive regulatory decisions, including from this Commission. In its current rating methodology for regulated utilities published in April 2024[3], S&P notes that a supportive legislative and regulatory framework is a critical aspect that underlies regulated utilities' creditworthiness because "it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance." S&P also names "Four Pillars" that provide the foundation of regulatory support. These four pillars include regulatory stability, efficiency of tariff setting procedures, financial stability, and regulatory independence. S&P notes that the utility's business strategy and the tariff-setting process are also important aspects in the overall regulatory assessment.

As Moody's noted in a report on its ratings methodology for utilities published in August 2024,[4] it uses four "Broad Rating Factors" in its ratings analysis. The first factor, "Regulatory Framework," carries a 25% weight, including a component for "Consistency and Predictability of Regulation." The second broad factor, "Ability to Recover Costs and Earn Returns," is also given a 25% weight. This factor is split evenly into two sub-factors, "Timeliness of Recovery of Operating and Capital Costs" and "Sufficiency of Rates and Returns." These first two broad functions carry an overall sum of 50% of ratings

[3] S&P's Sector-Specific Corporate Methodology, Section 29: Regulated Utilities (April 4, 2024).
[4] Moody's Rating Methodology: Regulated Electric and Gas Utilities (August 6, 2024)

determination and are directly related to regulatory environment and regulatory supportiveness.

Following the Commission's December 2022 general rate case order, Moody's placed Questar Gas on negative outlook and subsequently downgraded its long-term rating. This further demonstrates that credit rating agencies continuously monitor regulatory outcomes to assess credit ratings.

Clearly, regulatory support will continue to be of vital importance in determining credit ratings and in turn influence investors' decisions on whether to provide capital to the Company. Investors are attuned to the Company's financial results and to regulatory commission decisions and will respond when the Company's prospects for future cash flows and returns are perceived to have diminished. A decision from this Commission that sets a return lower than what the market views as adequate and/or approves cost recovery mechanisms that increase regulatory lag or cash flows volatility would lead credit analysts and investors to conclude that this lower or more volatile return could be the norm of the regulatory process. This could make it more difficult for Questar Gas to secure the capital needed to continue to meet customers' demand for natural gas. This, in turn, could lead to more expensive financing costs for the Company and, ultimately, customers. Credit supportive decisions by this Commission should continue to reinforce the rating agency and investor views that Utah has a supportive regulatory environment.

Q. How do the Credit Rating Agencies view Questar Gas's current regulatory environment?

A. All three agencies have favorable views of the Utah regulatory environment. S&P's current credit report on Questar Gas states, "Enbridge Gas Utah's regulatory construct includes several credit supportive mechanisms that support credit quality, including use a fully forecast test year, revenue decoupling, weather normalization adjustments, and an infrastructure cost-recovery rider, all of which support stable cash flows".[5] Additionally,

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[5] S&P Ratings Direct: Questar Gas Co. (April 16, 2025).

Fitch notes in its current Rating Report of Questar Gas, "Questar Gas Company (QGC) operates under the regulatory oversight of the Utah and Wyoming Public Service Commissions, regulators Fitch considers to be supportive of QGC's credit quality".[6]

Even though Moody's downgraded Questar Gas in 2024, the decision focused on the negative impact of the 400-basis point reduction in equity thickness, from 55% to 51%, on Questar Gas's financial position and credit metrics as the reason for the downgrade and noted that "Moody's does not view the rate order in itself, or the Utah regulatory environment more broadly, to be punitive." That perception could change, however, if the Commission's order in this proceeding were viewed as a consecutive decision that provided a capital structure that is not perceived as sufficient to support the Company's current credit metrics.

IV. COMPANY CREDIT METRIC MANAGEMENT

Q. What are the Company's current target credit ratios?

A. The Company does not target specific credit ratios; rather, it emphasizes achieving strong investment grade credit ratings. We monitor ratios, such as Funds From Operations ("FFO") to Debt, in the context that these ratios are important factors rating agencies consider when determining the Company's credit ratings. It is our view that debt investors rely most on credit ratings, as opposed to ratios, to assess the creditworthiness of a company and to aid in making investment decisions and setting return expectations on their capital. Should the Company's credit profile, including credit metrics, business risk or the Credit Rating Agencies views on regulatory and other risks worsen, investors may demand higher interest rates to lend to Questar Gas, increasing the cost of debt.

Approximately 80% of North American natural gas, electric and water local distribution companies are rated BBB+ and above by Standard & Poor's Global Ratings on a stand-alone basis. Competing in debt markets with a strong investment grade credit rating helps

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[6] Fitch Ratings Rating Report: Questar Gas Company (August 8, 2024).

ensure the Company is well positioned to raise debt in all economic and credit cycles while not being at a disadvantage relative to other local distribution companies raising capital. As a local distribution company, maintaining access to reasonably priced debt at all times is important. LDCs do not have the luxury of delaying investment plans to conserve capital when credit markets are less favorable the same way that a manufacturing or consumer goods company can. There is an ongoing need to fund capital investment, and to refinance long-term debt, on reasonable terms. Questar Gas maintains a stand-alone credit rating to ensure it has independent access to capital to fund the business at all times.

In our view, maintaining strong investment grade credit ratings, ratings that 80% of other North American local distribution companies maintain, provides Questar Gas with access to debt markets through all credit conditions. This balance helps manage the added costs associated with maintaining a higher equity component and stronger financial metrics entails. The Company's capital structure is one of the most powerful tools available to manage key credit metrics. Increasing the amount of equity in the capital structure 1) reduces the amount of debt and 2) increases cash flows due to lower interest expenses both of which directly improve credit metrics, all else equal. Ensuring an appropriate capital structure is maintained helps Questar Gas achieve the target credit ratings.

Q. What financial ratios do the rating agencies expect the Company to maintain?

A. Each rating agency has a unique methodology for assessing the financial risk of an issuer. The primary financial metrics include FFO or Cash Flow from Operations ("CFO") to debt. The specific calculation of cash flows and debt will vary between the agencies.

Moody's currently rates Questar Gas Baa1, which is the lowest rating within the strong investment grade range that Questar Gas targets. To maintain the existing credit rating, Moody's expects Questar Gas to maintain CFO-to-debt of approximately 16%, with an "expectation that the metric will be in the 14% to 17% range."[7] The Company factors this

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[7] Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of East Ohio Gas Company (The), Questar Gas Company and Public Service Co. of North Carolina, Inc. (January 31, 2025).

into capital structure planning to help Questar Gas maintain the existing Moody's rating. However, if the CFO-to-debt ratio were to drop below 14% on a sustained basis, it could result in a downgrade. Conversely, Moody's has indicated that "the ratings could be upgraded with a sustainable improvement to financial metrics, such as CFO pre-Working Capital to debt ratios over 17%."

Approving Questar Gas's equity capitalization at 53%, which is the forecast actual equity percentage during the rate-effective period, will help improve the key Moody's credit metric.

Q. How should the Commission balance Questar Gas's capital needs with the impact of changing economic conditions in setting the Company's cost of capital?

A. A fair and reasonable regulatory outcome with respect to capital structure and ROE is integral to providing cash flows that enable the Company to acquire capital at competitive rates from investors. This capital is needed to fund investment in infrastructure to serve customers. Utah's rapidly growing economy makes it crucial to ensure that Questar Gas maintains access to capital to support continued investment in response to this growth. Compared to the 2023 test period in its last general rate case, the Company will have added almost $1 billion of plant in service through the average test period ended December 2026 to support safety, growth, and the continued reliability of the system. We are now seeking recovery of those reasonably incurred costs. The Company also plans to invest $1.8 billion over the next five years to support the growth of the Utah economy. As Company witness Jordan K. Stephenson demonstrates, the Company is requesting a modest rate increase to customers in relation to the capital spent since the last general rate case. This increase is based on the aforementioned capital structure presented and reasonable ROE sought. ROE reasonableness will be further detailed by Company witness Jennifer E. Nelson.

The request to approve a 53% equity amount supports improved credit metrics and a stronger financial position for Questar Gas. This will protect and potentially enhance the credit rating of Questar Gas. It is impossible to predict when economic or credit cycles will change, therefore, ensuring continued access to both debt and equity to fund continued investments through all economic and credit cycles is important. This can be accomplished based on fair and reasonable regulatory outcomes and maintaining Questar Gas's strong investment grade credit ratings, which will enable ongoing investments to maintain and expand its distribution system to address the economic growth in Utah.

Q. What is your recommended capital structure for Questar Gas?

A. To support strong investment grade credit ratings for the reasons outlined in my testimony, the forecasted actual capital structure, including 53 percent common equity and 47 percent long-term debt capitalization should be used in establishing the revenue requirement for new base rates. The proposed capital structure is within the range of peers as outlined in the direct testimony of witness Ms. Nelson.

V. QUESTAR GAS COST OF DEBT

Q. How has the company's cost of debt changed since the last rate case?

A. The current interest rate environment remains volatile as inflation remains above the US Federal Reserve's target.

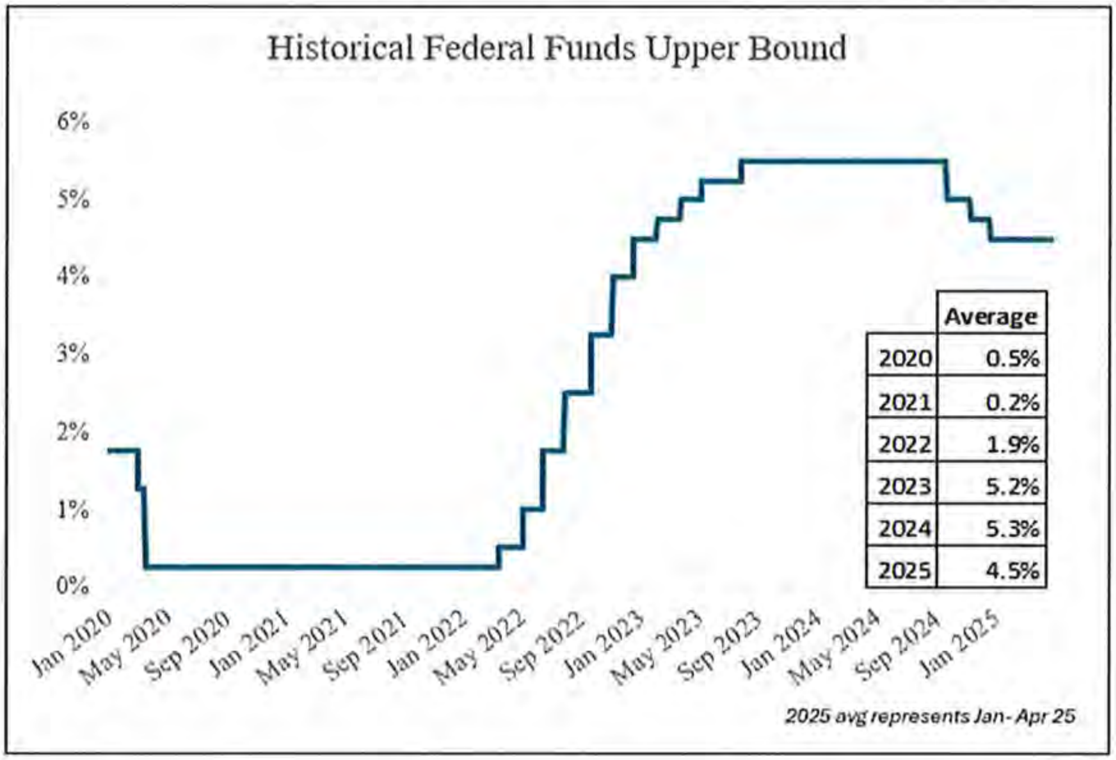
Cost of Long-term Debt: In the Company's last rate case, its cost of long-term debt was 4.00%. Since 2021, Questar Gas issued $250 million of senior notes in August 2022 at a weighted average coupon rate of 4.55% and $200 million of senior notes in December 2024 at a weighted average coupon rate of 5.33%. Overall, Questar Gas's forecasted cost of long-term debt is 4.25%. This is the cost of long-term debt requested in this rate case.

Q. What has caused the company's cost of long-term debt to increase since the last rate case?

A. The cost of debt is determined by the underlying risk-free government debt rate as well as a credit spread specific to the issuer. The credit spread is determined based on the financial strength of the issuer, along with other market factors. Debt investors would typically rely on the credit rating of the issuer in their assessment of an issuer's financial strength.

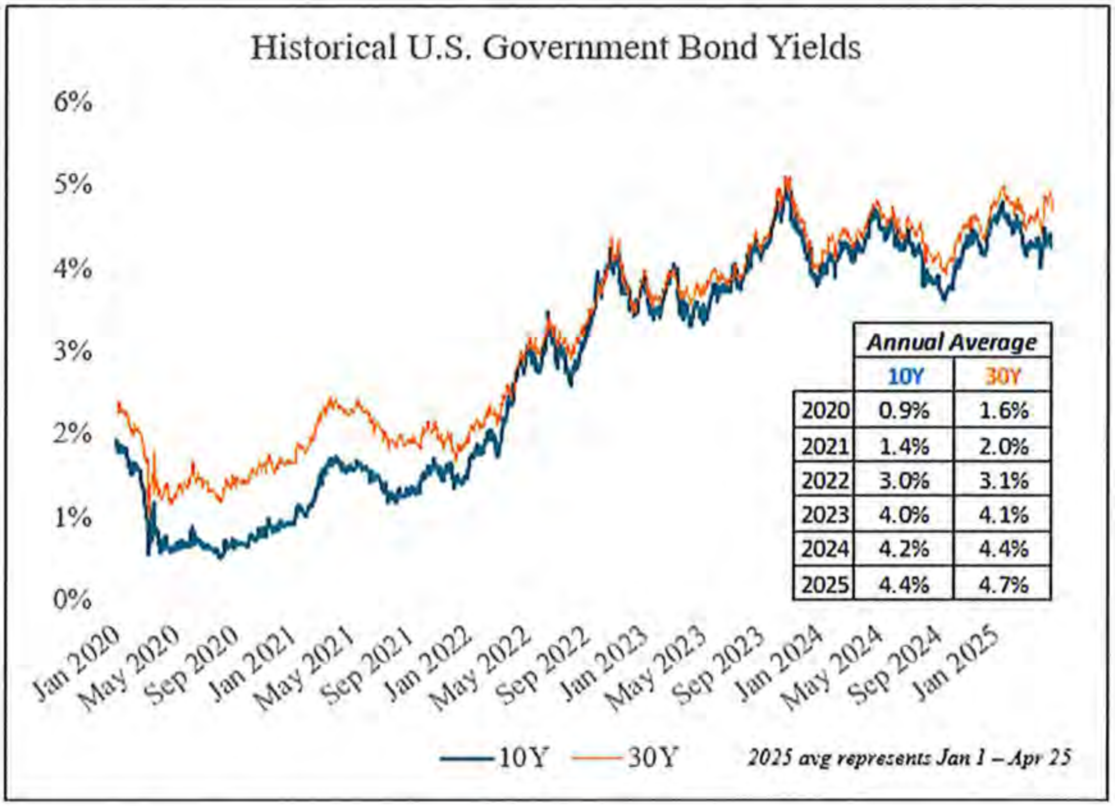
Underlying risk-free government rates have increased since the last rate case. Beginning in late 2021, inflation started to increase significantly and, proving to be persistent, starting in early 2022, the US Federal Reserve raised the Federal Funds (short-term risk free) interest rate cumulatively by more than five percent over an 18-month period. Figure 1 shows this increase.

Figure 1: Historical Average U.S. Federal Funds (Short-term) Rate



This increase in short term rates has also put significant upward pressure on long-term U.S. Government Bond yields as shown in Figure 2. While inflation has declined since 2022, it remains above the US Federal Reserve's target. Additionally, the US federal government deficits continue to persist and expand, providing further impetus for a "higher for longer" interest rate environment. Issuing debt in this higher interest rate environment has resulted in higher coupons and increased the weighted average cost of debt.

Figure 2: Historical Average U.S. Government Bond Yields



Since late 2023, credit spreads of strong investment grade issuers overall have tightened significantly relative to historic levels. As I have discussed previously, between the last rate case and the most recent debt issuance in December 2024, Fitch and S&P have not changed their ratings on Questar Gas, however Moody's downgraded Questar Gas by one notch from A3 to Baa1. This rating action impacted the cost of debt. The Moody's downgrade put upward pressure on the credit spread for Questar Gas. The overall credit markets were very favorable in 2024. In less favorable credit markets, the impact of a credit downgrade would be larger. These very favorable credit market conditions enabled Questar Gas, despite the Moody's downgrade, to achieve very favorable credit spreads, helping partially offset the increase in risk-free rates.

Q. Does this conclude your prefiled direct testimony?

A. Yes, it does, although I reserve the right to supplement or amend my testimony before or during the Commission's hearing in this proceeding.

Calgary, Canada)

) ss.

Providence of Alberta)

I, Warren S. Reinisch, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

Warren S. Reinisch

SUBSCRIBED AND SWORN TO this 30th day of April, 2025.

Notary Public

DAVID TANIGUCHI
Barrister and Solicitor