OCC/NOPEC JOINT EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the East Ohio Gas Company d/b/a Dominion Energy Ohio for Approval of an Alternative Form of Regulation.	)))	Case No. 19-468-GA-ALT

TESTIMONY
OF
DANIEL J. DUANN, Ph.D.

On Behalf of
The Office of the Ohio Consumers' Counsel and
Northeast Ohio Public Energy Council

65 East State Street, 7th Floor
Columbus, Ohio 43215

September 11, 2020

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I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A1. My name is Daniel J. Duann. My business address is 65 East State Street, 7th Floor, Columbus, OH 43215. I am the Assistant Director of Analytical Services with the Office of the Ohio Consumers' Counsel ("OCC").

Q2. DR. DUANN, PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

A2. I joined OCC in January 2008 as a Senior Regulatory Analyst. I was promoted to the position of Principal Regulatory Analyst in November 2011 and to my current position in June 2018. My primary responsibility is to assist OCC by participating in proceedings before the Public Utilities Commission of Ohio ("PUCO") and the Federal Energy Regulatory Commission ("FERC"). These proceedings include, among others, rate cases, cost of capital, fuel adjustment clause, standard service offer, and infrastructure replacement riders.

Prior to joining OCC, I was an independent consultant. Before that, I was a Senior Institute Economist at the National Regulatory Research Institute ("NRRI") at The Ohio State University. NRRI has been a policy research center funded by the National Association of Regulatory Utility Commissioners and state public utilities commissions since 1976. NRRI is currently located in Washington, DC and no longer a part of The

Ohio State University. My work at NRRI involved research, publishing, and public services in the areas of utility regulation and energy policy. Before NRRI, I held various positions with the Forecasting Section of the Ohio Division of Energy (the Forecasting Section was later transferred to the PUCO), the Center of Health Policy Research at the American Medical Association, and the Policy Analysis and Research Division of the Illinois Commerce Commission.

I received my Ph.D. degree in Public Policy Analysis and M.S. degree in Energy Management and Policy from the University of Pennsylvania. I also have an M.A. degree in Economics from the University of Kansas. I completed my undergraduate study in Business Administration at the National Taiwan University, Taiwan, Republic of China. I have been a Certified Rate of Return Analyst by the Society of Utility and Regulatory Financial Analysts since 2011.

Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO AND OTHER AGENCIES AND LEGISLATURES?

A3. Yes. I have submitted expert testimony or testified on behalf of the OCC before the PUCO in many cases. A list of these cases is included in Attachment DJD-1. I have also testified before the Illinois Commerce Commission regarding a divestiture of three nuclear power plants by Commonwealth Edison Company. Additionally, I testified as an independent expert from NRRI before the California State Legislature (specifically, the

Senate Committee on Energy and Public Utilities) in 1989 regarding a legislation banning "sweetheart deals" between electric utilities and their non-regulated affiliates (SB 769).

Q4. HAVE YOU PREVIOUSLY PUBLISHED OR PRESENTED IN ACADEMIC JOURNALS, TRADE PUBLICATIONS, AND PROFESSIONAL CONFERENCES?

A4. Yes. I have published in several academic journals and trade publications. I have also presented in conferences on issues related to utility regulation, energy policy, and emerging energy technology. A selected list of these publications and presentations is included as Attachment DJD-2.

II. PURPOSE AND RECOMMENDATION

Q5. TO PROTECT CONSUMERS, WHAT ARE THE PURPOSES OF YOUR TESTIMONY?

A5. My testimony serves two purposes. First, it supports the recommendation of OCC and the Northeast Ohio Public Energy Council ("NOPEC") that the PUCO should protect consumers by rejecting the Stipulation and Recommendation ("Settlement") filed by Dominion Energy Ohio ("DEO" or "Dominion") on August 31, 2020.[1] Additionally, my testimony supports the Objections of OCC and NOPEC filed on June 10, 2020,[2]

[1] *In the Matter of The East Ohio Gas Company d/b/a Dominion Energy Ohio for Approval of an Alternative Form of Regulation*, Case No. 19-0468-GA-ALT, Stipulation and Recommendation (August 31, 2020).

[2] *See* Objections by The Office of the Ohio Consumers' Counsel at 11-12 (June 10, 2020) and Objections of Northeast Ohio Public Energy Council at 2-3 (June 10, 2020).

1 regarding the pre-tax rate of return[3] that Dominion proposes to charge customers for its
2 Capital Expenditure Program ("CEP") in its Application.[4] Because the Settlement does
3 not modify the pre-tax rate of return filed in the CEP Application, my discussion of these
4 Objections would further explain and support the recommendation of rejecting the
5 Settlement.
6
7 ***Q6. WHAT IS YOUR UNDERSTANDING OF THE THREE-PRONG TEST THAT THE***
8 ***PUCO COMMONLY USES IN EVALUATING A SETTLEMENT?***
9 ***A6.*** I understand that the PUCO typically analyzes a settlement under a three-prong test.
10 Specifically, the PUCO will consider:
11 (1) Is the settlement a product of serious bargaining among capable,
12 knowledgeable parties?
13 (2) Does the settlement, as a package, benefit customers and the public
14 interest?
15 (3) Does the settlement package violate any important regulatory
16 principle or practice?

[3] A pre-tax rate of return includes both the weighted cost of long-term debt and the grossed-up (for income tax) weighted cost of equity. A pre-tax rate of return is always higher than the after-tax rate of return.

[4] *See* Application (May 1, 2019).

I also understand that when considering the first prong, the PUCO has found that a diversity of interests among signatory parties, while not determinative,[5] is a relevant factor.[6]

If the PUCO determines that a proposed settlement does not meet each of the three criteria outlined above, the settlement would be rejected. It is also my understanding that the PUCO "may take the stipulation into consideration, but must determine what is just and reasonable from the evidence presented at the hearing" in deciding to adopt or reject a settlement.[7] In other words, even when a settlement is presented to the PUCO, the PUCO must carefully evaluate the evidence in the record, and it should not approve individual components of a settlement that are unjust and unreasonable.

Q7. WHAT ARE THE REGULATORY PRINCIPLES COMMONLY USED IN SETTING A REASONABLE RATE OF RETURN FOR A REGULATED UTILITY SUCH AS DOMINION TO EARN AND ITS CUSTOMERS TO PAY?

A7. The regulatory principles in setting a reasonable rate of return (and its underlying components such as return on equity, cost of debt, and capital structure) for a regulated utility to charge its monopoly customers in the United States are well-established and recognized. They are summarized here:

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[5] *See In re Suburban Natural Gas Co.*, Case No. 18-1205-GA-AIR, Opinion & Order ¶ 90 (Sept. 26, 2019).

[6] *See, e.g., In re Columbia Gas of Ohio, Inc.*, Case No. 17-2202-GA-ALT, Opinion & Order ¶ 45 (Nov. 28, 2018) (settlement met first prong, in part, because it was "the product of serious bargaining among capable, knowledgeable parties representing interests ranging from consumers and community groups to commercial and industrial sectors, not to mention Staff and Columbia").

[7] *OCC v. PUCO*, 64 Ohio St.3d 123, 125 (1992) (quotation omitted).

1 (1) The resulting rates (as set based on the authorized rate of return)
2 paid by the customers of the regulated utility should be just and
3 reasonable and not excessive,[8]
4 (2) The regulated utility should have access to capital (both equity and
5 debt) at a reasonable cost under current market conditions;[9]
6 (3) The regulated utility should have funds available to continue its
7 normal course of business for providing utility service to
8 customers; and
9 (4) The shareholders of the regulated utility should be provided the
10 opportunity (but not a guarantee) to earn a fair (but not excessive)
11 return on their invested capital in comparison to other investments
12 currently available.[10]

[8] This is also referred as cost-based regulation. In other words, the rates of utility services that customers pay should be based on the prudently-incurred costs of providing these utility services to customers, which includes a reasonable and fair rate of return on the capital invested. *See*, for example, James C. Bonbright, Principles of Public Utility Rates, Columbia University Press, New York (1961) at 240-241. *See also* R.C. 4905.22 (requiring all rates to be just and reasonable).

[9] Specifically, in the case of *Bluefield Water Works v. Public Service Comm'n,* 262 U.S. 679 (1923), the U.S Supreme Court ruled that "A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economic management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties."

[10] *Id.*

The revenue requirement of Rider CEP includes a return on the net rate base (net plant investment and deferrals) associated with CEP.[11] The return collected by Dominion on its CEP rate base should be commensurate with the business and financial risks in making such an investment under current financial market conditions. The PUCO should apply those regulatory principles identified above, which are all still relevant and should be used in setting the rate of return for Dominion's CEP charge in this proceeding.

Q8. WHAT ARE YOUR RECOMMENDATIONS REGARDING THE PROPOSED SETTLEMENT?

A8. I recommend that the PUCO reject the proposed Settlement because it fails the PUCO settlement standard. As I explain in more detail below, the settlement standard is not achieved because in part, it includes an unreasonably high pre-tax rate of return of 9.91% that harms customers and violates important regulatory principles[12] I recommend using a pre-tax rate of return of 7.20%. Contrary to the claim by Dominion and the PUCO Staff, the proposed Settlement does not represent a just and reasonable solution of all issues in this proceeding.[13] Dominion and the PUCO Staff have not demonstrated the Settlement meets the three-prong test under which settlements are evaluated by the PUCO.

[11] *See* Application, Exhibit I, Schedule 2.

[12] *See* Settlement, Joint Exhibit 2.0.

[13] *See* Settlement at 1.

First, the Settlement, if approved by the PUCO, would substantially harm many Ohioans (in particular residential and small business customers) during this difficult and challenging time. The proposed Settlement does not benefit customers or the public interests. Compared to my recommended pre-tax rate of return of 7.20%, the adoption of the 9.91% pre-tax rate of return proposed in the Settlement would increase the CEP charges to customers by approximately $12.4 million for the first year, and approximately $97 million over five years from October 2020 to September 2025, assuming the CEP rates are capped as proposed in the Settlement.

Second, the terms and conditions of the Settlement violate a number of established and well-recognized regulatory principles and practices and the natural gas services policy of the State of Ohio. Examples of these regulatory principles and policies include: (1) the authorized rate of return must be based on current market conditions and (2) all rates for gas services and goods must be reasonably priced.[14]

Third, the Settlement is not a product of serious bargaining and compromise among the parties with diverse interests in this proceeding. The Settlement is largely a repetition of the similar positions as presented in the Staff Report[15] and the Application. Serious bargaining would result only if the PUCO Staff would step back and allow the parties most adverse to each other (in this case the Utility and customer parties) to reach a

[14] *See* Revised Code 4929.02.

[15] *See* Staff Report (May 11, 2020).

settlement. Unfortunately, as this settlement was reached, the interests of Dominion's customers, as presented by OCC and NOPEC, are not adequately considered and reflected in the Settlement. Consequently, OCC and NOPEC oppose the Settlement.

In my testimony, I will first discuss why the 9.91% pre-tax rate of return included in the Settlement for calculating the CEP rates paid by customers is excessive and unreasonable. Then I will explain my recommendation of a reasonable pre-tax rate of return of 7.20%. After that, I will demonstrate that the Settlement has not met the three-prong test commonly used by the PUCO, and the Settlement should be rejected.

III. THE PRE-TAX RATE OF RETURN OF 9.91 PERCENT PROPOSED IN THE SETTLEMENT IS EXCESSIVE AND UNREASONABLE

Q9. WHAT IS THE PRE-TAX RATE OF RETURN THAT DOMINION PROPOSES TO CHARGE CUSTOMERS FOR ITS CAPITAL EXPENDITURE PROGRAM?

A9. In the Settlement, Dominion proposes to use a pre-tax rate of return of 9.91% in calculating the Rider CEP revenue requirement that customers would pay.[16] This pre-tax rate of return is the same as the one proposed in Dominion's CEP Application, meaning it was not reduced in the Settlement.[17] Dominion indicates that this pre-tax rate of return

[16] *See* Settlement, Joint Exhibit 2.0 (August 31, 2020).

[17] *See* Direct Testimony of Celia B. Hashlamoun at 6 (May 1, 2019).

1 reflects the gross-up of current federal income tax rate and the rate of return components
2 authorized in its last rate case, Case No. 07-829-GA-AIR et al.[18]
3
4 ***Q10. DR. DUANN, IS THIS PRE-TAX RATE OF RETURN OF 9.91%, FROM***
5 ***DOMINION'S RATE CASE FILED IN 2007, JUST AND REASONABLE FOR***
6 ***DOMINION'S CUSTOMERS TO PAY NOW?***
7 ***A10.*** No. Based on my review of the Settlement, the Application, testimony, and related
8 material and based on my decades of regulatory experience as a rate of return expert, a
9 pre-tax rate of return of 9.91% for Dominion's CEP capital investments and deferral
10 balance is not justified for customers to pay under current market conditions and
11 established regulatory principles. Dominion's approved return on equity and cost of debt
12 from 12 years ago are excessive and higher than reasonable for charging customers under
13 current market conditions. And current market conditions should determine the rate of
14 return that customers pay to DEO. Specifically, the Settlement would allow Dominion to
15 charge its customers a cost of debt of 6.50% that was set 12 years ago while its actual
16 cost of debt as of June 2020, as reported by Dominion itself, is only 2.29%.[19]

[18] *See* Case No. 07-829-GA-AIR et al., Opinion and Order at 6 and 28 (October 15, 2008) and Entry on Rehearing at 5 (December 19, 2008). In that case, the PUCO approved a stipulated rate of return of 8.49% which was imputed from a capital structure of 48.66% long-term debt and 51.34% equity, a cost of debt of 6.50%, and an return on equity of 10.38% contained in the Staff Report at 20-22 (May 23, 2008).

[19] *See In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion Energy Ohio for Consent and Authority to (1) Issue a Long-Term Note or Notes and (2) Enter into Interest Rate Management Agreements,* Case No. 20-0175-GA-AIS, Report (July 2, 2020). It is included here as Attachment DJD-7.

Q11. IS THE PUCO REQUIRED TO USE THE RATE OF RETURN SET IN THE LAST RATE CASE FOR SUBSEQUENT RIDERS THAT CONSUMERS PAY?

A11. No. Based on my regulatory expertise and first-hand experience regarding Ohio's utility regulation, I am not aware of any requirement for the PUCO to use the rate of return decided in the last rate case for any subsequent rider cases or other proceedings that involve a return on rate base (such as the net plant additions and deferral balance in this proceeding).

Q12. SHOULD THE PUCO ADOPT A DIFFERENT RATE OF RETURN THAN WHAT RESULTED FROM DOMINION'S RATE CASE FILED 13 YEARS AGO, FOR CUSTOMERS TO PAY UNDER DOMINION'S CAPITAL EXPENDITURE PROGRAM BASED ON CURRENT FINANCIAL MARKET CONDITIONS?

A12. Yes. The use of the rate of return decided in the last rate case over 12 years ago as a proxy for the current rate of return for DEO violates important regulatory principles and state policies -- and thus is unreasonable. As observed by the U.S. Supreme Court nearly 100 years ago in the landmark *Bluefield* decision, "A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally."[20] This is precisely the situation here. To protect Dominion's customers from paying unjust and unreasonable cost under current market conditions, the PUCO should reset, based on current market

[20] *See Bluefield Water Works v. Public Service Comm'n, 262 U.S. 679 (1923).*

conditions, the pre-tax rate of return applicable to Dominion's current capital expenditure program.

Q13. WHAT HAVE YOU OBSERVED REGARDING THE FINANCIAL MARKET CONDITIONS SINCE 2008 THAT SHOULD GUIDE THE PUCO IN SETTING RATES FOR DOMINION CUSTOMERS?

A13. The most pronounced changes in the financial market in the last 12 years since the last Dominion rate case are the drastic and unrelenting drop in the costs of debt and equity for all businesses, including regulated utilities. For ratemaking purposes, utility consumers should receive the benefits of the drop in the costs of debt and equity. For example, according to S&P Global Market Intelligence, a widely used and reliable trade publication, the average authorized rate of return for those gas rate cases decided nationwide has decreased from 8.49% in 2008 to 7.17% in 2019 and 7.23% in the first half of 2020.[21] This report and associated data tables are included here as Attachment DJD-3. The authorized return on equity (profit) during the same period, has declined from 10.39% in 2008 to 9.71% in 2019 and 9.40% in the first half of 2020.[22]

As for the costs of the various types of long-term debts, they all declined drastically from 2008 to 2020. Specifically, the daily Long-Term Composite Rate (defined as the

[21] *See* Attachment DJD-3, Table 2. This Attachment can be found in https://platform.mi.spglobal.com/web/client?auth=inherit#news/file?keyfileversion=52840B38-67A7-96F2-7C9B-283021E904EC&KeyFileFormat=3&isNewsletter=1. Access may require paid subscription.

[22] *Id.*

1 unweighted average of bid yields on all outstanding fixed-coupon bonds neither due nor
2 callable in less than 10 years) published by the U.S. Treasury has decreased from 4.31%
3 in January 2, 2008 to 1.04% in July, 31 2020.[23] The yields of BBB-rated corporate bonds
4 published by the St. Louis Federal Reserve Bank have shown a similar degree of decline
5 from 6.14% in January 2, 2008 to 2.35% in July 31, 2020.[24] As discussed earlier,
6 Dominion's own actual cost of debt currently is a mere 2.29% instead of the 6.50%
7 Dominion wants to charge customers based on its 2007 rate case.
8
9 ***Q14. IS DOMINION FACING UNUSUAL AND DISTINCT RISKS THAT JUSTIFY***
10 ***CHARGING CUSTOMERS A HIGHER RATE OF RETURN THAN A TYPICAL***
11 ***GAS UTILITY?***
12 ***A14.*** No. I have reviewed the credit ratings and financial statements of Dominion and its
13 parent company, Dominion Energy, Inc. over the last few years. Dominion currently has
14 an above-average investment-grade credit rating. It is rated "BBB+" with "positive"
15 outlook by S&P Global Ratings, an "A2" with "stable" outlook by Moody's, and an "A-"
16 rating by Fitch Ratings.[25] Dominion's parent company, Dominion Energy, Inc. also has

[23] *See* https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=longtermrate.

[24] *See* https://fred.stlouisfed.org/series/BAMLC0A4CBBBEY.

[25] *See* Attachment DJD-4, and https://platform.mi.spglobal.com/web/client?auth=inherit&overridecdc=1&#company/profile?id=4059746. Access may require paid subscription.

1 an investment-grade credit rating of "BBB+" with a "positive" outlook by S&P Global
2 Ratings and "Baa2" rating with "stable" outlook by Moody's.[26]
3
4 There is no indication that Dominion is facing or will face any unusual and distinct
5 business and financial risks that would distinguish it from a typical regulated gas
6 distribution company. In fact, as recognized by the financial analysts and investors, the
7 PUCO's requirement that Dominion bill its million customers a fixed charge for several
8 capital investments, instead of a charge based on usage, has reduced Dominion's risk
9 significantly because Dominion is guaranteed to collect those charges regardless of a
10 decrease in sales (consumer consumption). For example, in its Credit Action
11 announcement, included here as Attachment DJD-5, on June 1, 2020, Moody's noted
12 that[27]:
13 "The company's rate structure is one of the most credit supportive in the US, since
14 residential customers are under a straight-fixed-variable rate design, which means
15 that Dominion Ohio recovers all residential fixed costs regardless of the volume
16 consumed by these customers and without delay."
17
18 "The company's credit profile could be further enhanced with the PUCO's
19 approval of a Capital Expenditure Program rider (CEP), another capital tracker

[26] *See* https://platform.mi.spglobal.com/web/client?auth=inherit&overridecdc=1&#company/profile?id=4001616. Access may require paid subscription.

[27] *See* Attachment DJD-5.

1 that Dominion Ohio has requested for annual recovery of maintenance capital,
2 pipeline integrity and safety spending."
3
4 "We expect Dominion Ohio to be resilient to recessionary pressures related to the
5 coronavirus because of its rate-regulated, essential service business model and
6 cost recovery framework."
7
8 On the other hand, Dominion's publicly-traded parent company, Dominion Energy, Inc.
9 has a market value of approximately $80 billion as of July 2020 and is one of the largest
10 energy companies in the United States. Dominion Energy, Inc. is also currently executing
11 a $3 billion stock buy-back program.[28] This is another indication of the strong cash flow
12 position and liquidity of Dominion Energy, Inc. even during the current of COVID-19
13 pandemic crisis. Given the strong financial position of Dominion and its parent company.
14
15 ***Q15. WHAT IS YOUR RECOMMENDATION REGARDING WHAT CONSUMERS***
16 ***SHOULD PAY AS A RETURN ON EQUITY FOR DOMINION IN THIS***
17 ***PROCEEDING?***
18 ***A15.*** As discussed earlier, because Dominion is not facing any unusual and distinct business
19 and financial risks in comparison to other regulated gas utilities, I propose to use the

[28] *See* https://news.dominionenergy.com/2020-07-05-Dominion-Energy-Agrees-to-Sell-Gas-Transmission-Storage-Assets-to-Berkshire-Hathaway-Energy-Strategic-Repositioning-Toward-Pure-Play-State-Regulated-Sustainability-Focused-Utility-Operations.

average ROEs authorized for gas distribution utilities in 2019 and the first half of 2020 nationwide as the starting point for setting the baseline ROE for Dominion in this proceeding. Based on the rate case data compiled by S&P Global Market Intelligence shown in Attachment DJD-3, the average of the average ROEs granted in rate cases in 2019 (9.71%) and first half of 2020 (9.40%) is 9.56%. Given the favorable regulatory environment in which Dominion is operating and the low-risk profile of its gas distribution business (including its use of fixed charges to customers instead of charges based on usage), I recommend a downward adjustment of 20 basis points (0.20%) to the baseline ROE, resulting in a final recommended ROE of 9.36%.

As discussed earlier, one of the fundamental principles in setting a reasonable ROE for a regulated utility is to set it so that an ordinary investor can earn a return from investing in the regulated utility comparable to the returns he or she would expect to earn from other investments with similar risk. If a comparable ROE is authorized by the state regulatory agency, the regulated utility has an opportunity to attract capital on reasonable terms, to maintain its financial integrity, and to have funds available to conduct its normal business of providing utility services. The average ROEs authorized nationwide in the most recent year is a reasonable proxy for the opportunity cost to the shareholders of Dominion under current market conditions. My approach using the average of 2019 and 2020 average ROE authorized for gas utilities nationwide as the baseline ROE for DEO is reasonable and should be adopted by the PUCO.

1 ***Q16. WHAT IS YOUR RECOMMENDATION REGARDING THE COST OF***
2 ***DOMINION'S LONG-TERM DEBT THAT ITS CUSTOMERS SHOULD PAY IN***
3 ***THIS PROCEEDING?***
4 ***A16.*** Dominion's long-term debt financing is unusual in comparison to other regulated utilities.
5 In the recent past, the long-term debts of Dominion consisted completely of "advances
6 from affiliated companies" instead of bonds issued to the general public. Specifically,
7 according to the Revised Filing Exhibit H, Schedule D-3 filed by Dominion on August
8 23, 2019, its embedded cost of long-term debt as of December 31, 2018 was 4.49%.
9 Similarly, according to its 2019 audited financial statement, Dominion's embedded cost
10 of long-term debt as of December 31, 2019 was approximately 4.32%. Dominion had
11 approximately $300 million borrowing due by 2024 with a weighted coupon rate of
12 3.80% and $1,365 million borrowing due in 2025 to 2049 with a weighted coupon rate of
13 4.44%.[29] The weighted coupon rate for the total $1,665 million long-term debt was
14 4.32% at the end of 2019.[30] So Dominion's actual costs of long-term debt in recent years
15 were considerably less than the 6.50% proposed in the Settlement and the Application.
16
17 However, Dominion's cost of long-term debt has declined further after 2019.
18 Specifically, Dominion closed an offering of $1.8 billion senior unsecured long-term debt
19 to the public on June 16, 2020, and the proceeds of this debt offering were used to retire

[29] *See* Attachment DJD-6 at 22, which is available at https://s2.q4cdn.com/510812146/files/doc_downloads/2020/06/The-East-Ohio-Gas-Company-2019-Audited-Financial-Statements.pdf.

[30] *Id.*

1 Dominion's long-term intercompany notes of $1.665 billion and to reduce short-term
2 borrowings.[31] The weighted average interest rate (coupon rate) of this debt offering was
3 2.25%.[32] After deducting various fees and discount, the net proceeds received by
4 Dominion were $1,771,692,000 and the embedded cost of debt would be 2.29%.[33] I
5 recommend using this 2.29% as the cost of long-term debt for Dominion.
6
7 As a result of this refinancing in June 2020, Dominion can save approximately $34.4
8 million in annual interest cost (the estimated difference of interest costs of 4.32% and
9 2.25% on $1.655 billion of long-term debt).[34] But under the Settlement, none of this
10 savings will be passed along to customers. In fact, the Settlement is even worse for
11 consumers. Under the Settlement, customers would be required to pay an even higher
12 cost of debt of 6.50%, almost triple the current actual cost of debt of Dominion. There is
13 simply no justification for charging customers a 6.50% cost of debt when Dominion's
14 actual cost of debt is just 2.29%. This is a windfall for Dominion, paid by consumers.
15 This should not continue.

[31] *See* Attachment DJD-7, which is available at http://dis.puc.state.oh.us/TiffToPDf/A1001001A20G02B11723D00705.pdf.

[32] *Id.*

[33] *Id.* The annual interest cost of the $1.8 billion bonds is $40,500,000 based on the Coupon rate of 2.25%. The embedded cost of debt will be 2.29%, which is the annual interest cost ($40,500,000) divided by the Net proceeds ($1,771,692,000).

[34] *See* Attachment DJD-7.

Q17. WHAT IS YOUR RECOMMENDATION REGARDING THE CAPITAL STRUCTURE FOR DEO THAT IS A COMPONENT OF THE RATES CUSTOMERS PAY?

A17. Because the capital structure proposed by Dominion for the CEP (48.66% debt and 51.34% equity) is similar to the average capital structure of the gas utilities with rate cases decided in 2019 and 2020 and the preferred regulatory capital structure of 50% debt and 50% equity, I have no objection of using it in this proceeding. It should be noted that Dominion has not provided its actual capital structure as of December 31, 2018 or a later date in this proceeding. The proposed capital structure of 48.66% debt and 51.34% equity in the Settlement and the Application is not the actual capital structure of DEO as of the date certain (March 31, 2007) in the last rate case, either. It was a hypothetical structure based on the average capital structure of a group of comparable company recommended in the Staff Report of the last rate case.[35]

Q18. WHAT IS YOUR RECOMMENDATION REGARDING THE PRE-TAX RATE OF RETURN FOR DEO'S CAPITAL EXPENDITURE PROGRAM THAT CUSTOMERS SHOULD PAY?

A18. I recommend the PUCO adopt a pre-tax rate of return of 7.20% for setting Dominion's CEP rates. This pre-tax rate of return is based on my recommended ROE of 9.36%, cost of long-term debt of 2.29%, and a capital structure of 48.66% debt and 51.34% equity,

[35] *See* Case No. 07-829-GA-AIR et al., Staff Report at 20 (May 23, 2008).

with the return on equity grossed-up for federal income tax. The Gross-up Factor of 1.2658 is the same as the one proposed by Dominion.[36]

7.20% = (0.4866 * 2.29%) + (0.5134 * 9.36%) * 1.2658.

Q19. WHAT WOULD THE PRE-TAX RATE OF RETURN BE IF THE PUCO WERE TO USE DOMINION'S PROPOSED 10.38% RETURN ON EQUITY AND DOMINION'S ACTUAL COST OF DEBT OF 2.29%?

A19. If the PUCO were to use Dominion's proposed return on equity and its actual cost of debt, the pre-tax rate of return would be 7.86%:

7.86% = (0.4866 * 2.29%) + (0.5134 * 10.38%) * 1.2658.

Note that I am not recommending that the PUCO approve such a pre-tax rate of return. But I am providing this calculation to show just how much of a windfall Dominion's shareholders would receive from using in the Settlement the unreasonably high cost of debt alone. Specifically, the use of the 6.50% cost of debt (instead the current actual cost of debt of 2.29%) will increase the pre-tax rate of return by 2.05% (from 7.86% to 9.91%). This higher pre-tax rate of return (from the use of a higher cost of debt alone), when applied to the first-year CEP rate base of $458,425,398 (per Settlement), would increase the CEP charges by approximately $9.4 million ($9,397,721).[37] This is a windfall to Dominion at its customers' expense.

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[36] *See* Application, Exhibit H, Schedule A-2.

[37] $9,397,721 = $458,425,398 * (9.91% - 7.86%). As shown in Table 1 later, the combined effect of a higher return on equity (10.38%) and a higher cost of debt (6.50%) would increase the CEP charges by approximately $12.4 million compared to my recommended pre-tax rate of return.

IV. THE PUCO SHOULD REJECT THE SETTLEMENT TO PROTECT DOMINION'S CUSTOMERS

Q20. IS THIS SETTLEMENT A PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?

A20. No. The mere acts of phone calls, meetings or negotiation among parties in crafting a settlement do not meet the requirement that the Settlement is a product of serious bargaining among capable, knowledgeable parties. Both the process of bargaining as well as the end product of the bargaining process, the Settlement must be considered in applying this prong. In my expert regulatory opinion, a settlement reached by parties must reflect a genuine compromise among parties with competing interests. If parties with similar interests sign a settlement reflecting very little compromise, then the parties did not really "bargain" for anything. A real settlement is not an agreement among parties with similar interests or a repetition of one or several parties' positions.

Regarding this Settlement, there is no serious bargaining among competing or opposing interests. Dominion's witness in her testimony supporting the Settlement did provide a detailed description about the settlement process and the participants of the process.[38] But her testimony provides no convincing evidence that the Settlement is indeed a product of serious bargaining and real compromises among parties with diverse interests.

[38] *See* Testimony of Vicki H. Friscic (August 31, 2020) at 8-9.

I do not question the motives or sincerity of the Signatory Parties to the Settlement. But customers, as represented by the OCC and NOPEC, who would end up paying all the CEP charges, clearly are not properly considered and reflected in the Settlement. First, the PUCO Staff and Dominion made no attempt to address the excessively high rate of return that was set 12 years ago, and customers are the ones who will pay higher than reasonable rates as a result of this rate of return. Second, the first-year Rider CEP rate for residential customers in the Settlement is just one penny ($3.86 vs. $3.87 per month per customer) less than those proposed in the Staff Report, thanks to using an updated number of customers billed. This rate is also just three cents lower than what Dominion proposed in its application. In other words, there was basically no compromise at all on the rate charged to customers in the first year. Third, the agreed upon reduction in revenue requirement in the Settlement is $239,347. This represents a mere 0.29% adjustment out of the annual revenue requirement of $82,918,394. All these point out the Settlement is not a product of serious bargaining among capable parties with diverse interests. The Settlement does not pass the first prong.

Q21. DOES THE PROPOSED SETTLEMENT BENEFIT CUSTOMERS AND THE PUBLIC INTEREST?

A21. No. The Settlement neither benefits customers nor the public interest. Just by using an excessively high and unreasonable pre-tax rate of return of 9.91%, Dominion's customers will be harmed substantially if the Settlement is adopted by the PUCO. Based on my calculations, the use of the 9.91% pre-tax rate of return (vs. the 7.20% pre-tax rate of

return I recommend) would increase the first-year CEP charges starting October 2020 by approximately $12.4 million ($12,423,328). Using the same methodology and making certain assumptions about future capital investments under the CEP, the additional cost of using this 9.91% pre-tax rate of return is projected to be approximately $97 million ($96,981,588) over the five-year period from October 2020 to September 2025. The additional unwarranted costs to consumers in years two to five are as follows: $17,722,176 (year 2), $20,295,269 (year 3), $22,385,907 (year 4), and $24,154,908 (year 5).[39]

The $12.4 million additional unwarranted costs to consumers in the first year is calculated using the same Net Rate Base, Total Operating Expenses, revenue requirement allocation among customer classes, and the number of residential customer monthly bills shown in Joint Exhibit 2 of the Settlement and the Application.[40] The calculation of these additional costs are shown in Table 1.

[39] *See* Table 2 below.

[40] It should be noted that I am not presenting OCC/NOPEC's recommended revenue requirement. My testimony here is to illustrate the additional costs to DEO's customers if DEO's proposed unjust and unreasonable rate of return is adopted in this proceeding and why the PUCO should adopt a lower rate of return.

Table 1
Additional Cost of Using the 9.91% Pre-Tax Rate of Return in First Year of Rider CEP

	Per Stipulation	OCC/NOPEC Recommendation	Difference for Consumer
Rate Base	$458,425,398	$458,425,398	$0
Pre-tax Rate of Return	9.91%	7.20%	2.71%
Annualized Return on Rate Base	$45,429,957	$33,006,629	$12,423,328
Total Operating Expenses	$37,249,090	$37,249,090	$0
Annual Revenue Requirement	$82,679,047	$70,255,719	$12,423,328
Rider CEP Rates			
GSS/ECTA Residential (per month)	$3.86	$3.29	$0.58

By using the same methodology as outlined above and also making certain assumptions about the CEP revenue requirements to be collected and net plants investments to be made in the future, I calculated the additional cost to Dominion's customers of using the excessive pre-tax rate of return of 9.91% over the five-year period from October 2020 to September 2025. My calculation is approximately $97 million in additional costs to Dominion's customers. This calculation is shown in Table 2.

This $97 million is the difference of using the 9.91% pre-tax rate of return in the Settlement and my recommendation of 7.20% pre-tax rate of return. Because the Net Plant additions and retirements after the first year are not known at this time, I use certain assumptions to project the Net Rate Base applicable in calculating the annual CEP revenue requirements for future years. Specifically, I assume: (1) the residential monthly

1 rate caps in the Settlement will become effective;[41] (2) the number of annual residential
2 bills is 13,558,168;[42] (3) the revenue requirement allocation for residential customers is
3 63.34%;[43] and (4) the percentage of Total Operating Expenses is 45.05% of annual
4 revenue requirement.[44]

5 **Table 2**
6 **Additional Cost of Using the 9.91% Pre-Tax Rate of Return over Five Year of Rider CEP**
7

(1)	CEP Rate Effective Period	Note	10/2020 - 9/2021	10/2021 – 9/2022	10/2022 – 9/2023	10/2023 – 9/2024	10/2024 – 9/2025
(2)							
(3)	Residential Rate or Cap Per Month		$3.86	$5.51	$6.31	$6.96	$7.51
(4)	Number of Residential Customer Bill		13,558,168	13,558,168	13,558,168	13,558,168	13,558,168
(5)	Revenue Collected from Residential Customers	(3) * (4)	$52,368,908	$74,705,506	$85,552,040	$94,364,849	$101,821,842
(6)	Total Revenue Requirement		$82,679,047	$117,943,646	$135,067,951	$148,981,448	$160,754,407

[41] *See* Stipulation and Recommendation at 4-5.

[42] This is the number of residential customer bill as of December 31, 2019 provided by Dominion.

[43] This is the same revenue requirement allocation to residential customers (63.34%) proposed in the Application and Settlement.

[44] This is the percentage calculated from the revenue requirement of the first year of Rider CEP as proposed in the Settlement.

(7)	**Total Operating Expenses**	45.0526% of (6)	$37,249,090	$53,136,722	$60,851,672	$67,120,069	$72,424,098
(8)	**Annualized Return on Rate Base at 9.91%**	(6) - (7)	$45,429,957	$64,806,925	$74,216,279	$81,861,379	$88,330,310
(9)	**Estimated Net Rate Base**	(8) / 0.0991	$458,425,398	$653,954,842	$748,902,913	$826,048,221	$891,325,021
(10)	**Annualized Return on Rate Base at 7.20%**	(9) * 0.072	$33,006,629	$47,084,749	$53,921,010	$59,475,472	$64,175,401
(11)	**Difference in Annualized Return on Rate Base**	(8) – (10)	**$12,423,328**	**$17,722,176**	**$20,295,269**	**$22,385,907**	**$24,154,908**

Q22. ARE THERE OTHER BENEFITS TO CUSTOMERS IN THE SETTLEMENT THAT MAKE IT JUST AND REASONABLE FOR THEM TO PAY AN EXTRA $97 MILLION TO DOMINION BASED ON THE UNREASONABLY HIGH RATE OF RETURN?

A22. No. There are no such benefits from the Settlement that offset the very high additional cost of adopting an excessive and unreasonable pre-tax rate of return. Dominion's own witness cannot identify or quantify any customer benefits derived from the use of the 9.91% pre-tax rate of return in her Supplemental Testimony.[45] At best, she provided some

[45] *See*, for example, Testimony of Vicki H. Friscic (August 31, 2020) at 10.

justifications that the same rate of return determined in the last rate case should be used.[46] None of her justifications make sense or relate directly to the reasonableness of the 9.91% pre-tax rate of return. For example, she argued that the annual residential rate caps have the effect of reducing the ROR on CEP investments.[47] This is simply not the case. The rate caps have no effect on the annualized return on CEP rate base. Dominion is well aware of the annual rate cap and can adjust its capital investment accordingly. It is very unlikely that Dominion will invest its shareholders money in the CEP program and expect no return or reduced return because of the residential rate caps.

Most importantly, there is absolutely no evidence in the record that Dominion will not be able to continue its CEP or receive inadequate financial returns on its CEP investments if the proposed pre-tax rate of return of 9.91% were not adopted. The use of an excessive high pre-tax rate of return will simply enrich the shareholders of Dominion and its parent company at consumer expense and provide no benefits to Dominion's customers.

[46] *See* Testimony of Vicki H. Friscic (August 31, 2020) at 24-26.

[47] *Id.* at 26.

Q23. DOES THE SETTLEMENT VIOLATE ANY IMPORTANT REGULATORY PRINCIPLE, PRACTICE, OR STATE POLICY?

A23. Yes. The Settlement violates important regulatory principles and state policies. First, the use of an outdated and exceedingly high rate of return will unreasonably increase the revenue requirement for Rider CEP and lead to rates that are unjust and unreasonable (and too high) for customers. This is a violation of the Regulatory Principle (1) regarding all utility rates be just and reasonable I have identified above. And the Settlement is also contrary to the policy of the state in Revised Code 4929.02(A)(1) for natural gas service to be "reasonably priced."

Second, given that the cost of long-term debt, the return on equity, and the rate of return have declined significantly during the period of 2008 to 2020, the continuous use of those rate of return components set in 2008 does not comport with the Regulatory Principles (2) and (4) I have identified above. In other words, the 9.91% pre-tax rate of return is not based on the regulatory principles that should be followed for setting the rate of return of a regulated utility based on current market conditions and for giving investors of the utility the opportunity to earn a fair return comparable to other investments available currently.

1 Dominion's argument is without merit that, for consistency and for avoiding a contested
2 issue, there is no need to adjust the rate of return set 12 years ago.[48] Regulatory
3 consistency is not an excuse to impose unjust and unreasonable rates on consumers for
4 regulated utility services. Indeed, the consistency should be in determining an appropriate
5 rate of return according to the applicable circumstances at the time. In this proceeding,
6 there is uncontested evidence that the 9.91% pre-tax rate of return proposed by Dominion
7 in the Application and the Settlement and its underlying components are unjust and
8 unreasonable under current market conditions and established regulatory principles as
9 discussed earlier in my testimony. Dominion has provided no evidence that the 6.50% is
10 its current actual cost of debt or that its current cost of equity (return on equity) should be
11 10.38%. The continuous use of the rate of return set 12 years ago is not for regulatory
12 consistency. Continuing to use an unjustified return on equity and cost of debt would
13 promote bad regulatory policy that will harm customers.
14
15 ***Q24. WILL THE CEP CHARGES PAID BY DOMINION'S CUSTOMERS BE REDUCED***
16 ***IF DOMINION'S ACTUAL COST OF LONG-TERM DEBT WERE USED IN***
17 ***SETTING THE PRE-TAX RATE OF RETURN WHILE USING DOMINION'S***
18 ***PROPOSED RETURN ON EQUITY?***
19 ***A24.*** Yes. As discussed earlier, I recommend a pre-tax rate of return of 7.20%. But I also have
20 calculated a pre-tax rate of return of 7.86% based on DEO's proposed return on equity of

[48] *See* Testimony of Vicki H. Friscic (August 31, 2020) at 24-26.

10.38% and its current actual cost of debt of 2.29%. This pre-tax rate of return of 7.86% is still too high and unreasonable. But it is definitely an improvement over the pre-tax rate of return of 9.91% in the Settlement. If this pre-tax rate of return of 7.86% is adopted by the PUCO, the costs to customers will not be as high as it would under the Settlement. If a pre-tax rate of return of 7.86% were used, I project that the additional cost for the first year of the CEP would be approximately $3 million, and for five years it would be $23.6 million. The calculation is shown in Table 3. Though still unreasonably high, this result is substantially better for consumers than the Settlement's unreasonable 9.91% pre-tax rate of return, which would cause them to pay an extra $97 million as I explained above.

Table 3
Additional Cost of Using the 7.86% Pre-Tax Rate of Return over Five Year of Rider CEP

(1)	**CEP Rate Effective Period**	**Note**	**10/2020 - 9/2021**	**10/2021 – 9/2022**	**10/2022 – 9/2023**	**10/2023 – 9/2024**	**10/2024 – 9/2025**
(2)							
(3)	**Residential Rate or Cap Per Month**		$3.86	$5.51	$6.31	$6.96	$7.51
(4)	**Number of Residential Customer Bill**		13,558,168	13,558,168	13,558,168	13,558,168	13,558,168
(5)	**Revenue Collected from Residential Customers**	(3) * (4)	$52,368,908	$74,705,506	$85,552,040	$94,364,849	$101,821,842
(6)	**Total Revenue**		$82,679,047	$117,943,646	$135,067,951	$148,981,448	$160,754,407

	Requirement						
(7)	**Total Operating Expenses**	45.0526% of (6)	$37,249,090	$53,136,722	$60,851,672	$67,120,069	$72,424,098
(8)	**Annualized Return on Rate Base at 9.91%**	(6) - (7)	$45,429,957	$64,806,925	$74,216,279	$81,861,379	$88,330,310
(9)	**Estimated Net Rate Base**	(8) / 0.0991	$458,425,398	$653,954,842	$748,902,913	$826,048,221	$891,325,021
(10)	**Annualized Return on Rate Base at 7.20%**	(9) * 0.072	$33,006,629	$47,084,479	$53,921,010	$59,475,472	$64,175,401
(11)	**Annualized Return on Rate Base at 7.86%**	(9) * 0.0786	$36,032,235	$51,400,851	$58,863,759	$64,927,390	$70,058,147
(12)	**Difference in Annualized Return on Rate Base**	(11) – (10)	**$3,025,608**	**$4,316,302**	**$4,942,759**	**$5,451,918**	**$5,882,745**

IV. SUMMARY AND CONCLUSION

Q25. PLEASE SUMMARIZE YOUR RECOMMENDATIONS FOR CONSUMER PROTECTION IN THIS PROCEEDING.

A25. I recommend the PUCO should reject the Settlement and adopt a fair and reasonable pre-tax rate of return of 7.20% for determining what consumers should pay if Rider CEP is approved. The PUCO adopt the Objections of OCC and NOPEC and reject the continued use of the rate of return decided in Dominion's last rate case. That 12-year-old rate of

return is outdated and unreasonable in calculating the revenue requirement and rates for Rider CEP that DEO's consumers would pay. The PUCO should adopt my recommendation to protect the consumers now rather than delay the setting of a reasonable rate of return and rates until the next rate case to be decided five years from now.

Q26. DOES THIS CONCLUDE YOUR TESTIMONY?

A26. Yes. However, I reserve the right to supplement my testimony in the event that additional testimony is filed, or if new information or data in connection with this proceeding becomes available.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Daniel J. Duann, Ph.D. On Behalf of The Office of The Ohio Consumers' Counsel and the Northeast Ohio Public Energy Council* has been served upon those persons listed below via electronic service this 11th day of September 2020.

/s/ Christopher Healey
Christopher Healey
Assistant Consumers' Counsel

The PUCO's e-filing system will electronically serve notice of the filing of this document on the following parties:

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List of Testimonies Filed Before PUCO

1. *Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan, Case No. 08-1094-EL-SSO (January 26, 2009).*

2. *Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area, Case No. 09-391-WS-AIR (January 4,2010).*

3. *Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in its Masury Division, Case No. 09-560-WW-AIR (February 22, 2010).*

4. *Application of Aqua Ohio, Inc. for Authority to increase its Rates and Charges in its Lake Erie Division, Case No. 09-1044-WW-AIR (June 21, 2010).*

5. *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and AEP Company, Case Nos. 09-872-EL-FAC and 09-873-EL-FAC (August 16, 2010).*

6. *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Asset (Remand), Case Nos. 08-917-EL-SSO et al (June 30, 2011).*

7. *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Modify and further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs et al., Case Nos. 11-2401-GA-ALT and 08-169-GA-ALT (July 15, 2011).*

8. *In the Matter of the Application of Columbus Southern Power Company and AEP Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (ESP), Case Nos. 11-346-EL-SSO, et al (July 25, 2011).*

9. *In the Matter of the Application of Columbus Southern Power Company and AEP Company for Authority to Merge and Related Approval (ESP Stipulation), Case Nos. 10-2376-EL-UNC, et al (September 27, 2011).*

10. *In the Matter of the 2010 Annual Filing of Columbus Southern Power Company and AEP Company Required by Rule 4901:1-35-10, Ohio Administrative Code, Case Nos. 11-4571-EL-UNC and 11-4572-EL-UNC (October 12, 2011).*

11. *In the Matter of the Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area, Case No. 11-4161-WS-AIR (March 1, 2012).*

12. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (Modified ESP), Case Nos. 11-346-EL-SSO, et al (May 4, 2012).*

13. *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company For Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form Of an Electric Security Plan, Case No. 12-1230-EL-SSO (May 21, 2012).*

14. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates, et al. Case Nos. 12-1682-EL-AIR (February 19, 2013).*

15. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates, Case Nos. 12-1685-GA-AIR, et al (February 25, 2013).*

16. *In the Matter of the Application of Dayton Power & Light Company for Authority to Establish a Standard Service Offer in the Form Of an Electric Security Plan Pursuant to R.C. 4928.143, Case No. 12-426-EL-SSO et al. (March 1, 2013).*

17. *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-related Service Restoration Costs, Case Nos. 12-3062-EL-RDR, et al. (January 31, 2014).*

18. *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-related Service Restoration Costs, Case Nos. 12-3062-EL-RDR, et al. (May 23, 2014).*

19. *In the Matter of the Application of Aqua Ohio, Inc. to Increase Its Rates and Charges for Its Waterworks Service, Case No. 13-2124-WW-AIR (August 4, 2014).*

20. *In the Matter of the Application Seeking Approval of AEP Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Ride, Case No. 14-1693-EL-RDR, et al. (September 11, 2015).*

21. *In the matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan Pursuant to R.C. 4929.05, Revised Code, for an Accelerated Service Line Replacement Program, Case No. 14-1622-GA-ALT (November 6, 2015).*

22. *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.141 in the Form of an Electric Security Plan, Case No. 14-1297-EL-SSO (June 22, 2016).*

23. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2014 under Section 4928.143 (F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case No. 16-1105-El-UNC (August 15, 2016).*

24. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2014 under Section 4928.143 (F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case No. 16-1105-El-UNC (September 19, 2016).*

25. *In the Matter of the Application of Aqua Ohio, Inc. for Authority to Increase Its Rates and Charges for Its Waterworks Service. Case No. 16-0997-WW-AIR (December 19, 2016).*

26. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2016 Under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code, Case No. 17-1230-EL-UNC (January 12, 2018).*

27. *In the Matter of the Annual Application of Duke Energy Ohio, Inc., for an Adjustment to Rider AMRP Rates. Case No. 17-2318-GA-AIR (April 5, 2018).*

28. *In the Matter of the Application of the Dayton Power and Light Company for an Increase in Electric Distribution Rates. Case No. 15-1380-EL-AIR (April 11, 2018).*

29. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Distribution Rates. Case No. 17-0032-EL-AIR et al., (June 25, 2018).*

30. *In the Matter of the Determination of the Existence of Significantly Excessive Earnings Test for 2017 Under the Electric Security Plan of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company. Case No. 18-0967-EL-UNC, (October 16, 2018).*

31. *In the Matter of the Application of Suburban Natural Gas Company for an Increase in Gas Distribution Rates. Case No. 18-1205-GA-AIR et al., (March 8, 2019).*

32. *In the Matter of the Application of Suburban Natural Gas Company for an Increase in Gas Distribution Rates. Case No. 18-1205-GA-AIR et al., (June 21, 2019).*

33. *In the Matter of the Application of Northeast Ohio Gas Corp. for an Increase in Gas Distribution Rates. Case No. 18-1720-GA-AIR et al., (July 25, 2019).*

34. *In the Matter of the Application of Northeast Ohio Gas Corp. for an Increase in Gas Distribution Rates. Case No. 18-1720-GA-AIR et al., (September 5, 2019).*

35. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2018 Under Section 4029.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code. Case No. 19-1098-EL-UNC, (August 30, 2019).*

36. *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2018 Under Section 4029.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code. Case No. 19-1098-EL-UNC, (November 5, 2019).*

Selected Publications of Daniel J. Duann, Ph.D.

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Regulation: The Cato Review of Business &. Government, "Turning up the Heat in the Natural Gas Industry," Vol. 19, 1996, (with Kenneth W. Costello).

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The National Regulatory Research Institute, **A Synopsis of the Energy Policy Act of 1992: New Tasks for State Public Utility Commissions**, 1993.

International Symposium on Energy, Environment & Information Management, Argonne National Laboratory, **Natural Gas Vehicles: Barriers, Potentials, and Government Policies**, 1992.

The National Regulatory Research Institute, **Natural Gas Vehicles and the Role of State**

Public Service Commissions, 1992 (with Youssef Hegazy).

The National Regulatory Research Institute, **Incentive Regulation for Local Gas Distribution Companies under Changing Industry Structure**, 1991 (with Mohammad Harunuzzaman, Kenneth W. Costello, and Sung-Bong Cho).

The National Regulatory Research Institute, **Discussion Papers on Competitive Bidding And Transmission Access and Pricing issues in the Context of Integrated Resource Planning**, 1990 (with Robert E. Bums, Kenneth Rose, Kevin Kelly, and Narayan Rau).

The National Regulatory Research Institute, **Gas Storage: Strategy, Regulation, and Some Competitive Implications**, 1990 (with Peter A. Nagler, Mohammad Harunuzzaman, and Govindarajan lyyuni).

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July 22, 2020
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RRA Regulatory Focus
Major Rate Case Decisions - January - June 2020

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The equity returns authorized electric and gas utilities nationwide edged downward in the first half of 2020. Several rate case decisions have been delayed until later this year due to the health and economic crisis triggered by the coronavirus outbreak that brought the U.S. economy to a near halt. Based on data gathered by Regulatory Research Associates, a group within S&P Global Market Intelligence, the average return on equity authorized electric utilities was 9.55% in all rate cases decided in the first half of 2020, below the 9.65% average for cases in full year 2019. There were 27 electric ROE determinations in the first half of 2020, versus 47 in full year 2019.

Included in those authorizations is a decision by the Maine Public Utilities Commission ordering a management inefficiency adjustment that reduced Central Maine Power Co.'s ROE by 100 basis points to 8.25% due to imprudence associated with a new billing system. The PUC ordered that this downward ROE adjustment be lifted when the utility meets all performance benchmarks for all service quality metrics for at least 18 consecutive months beginning March 1, 2020, and formally demonstrates to the commission that the problems have been resolved. Calculation of the average electric ROE without the penalty results in a 9.58% ROE for the first half of 2020.

This data includes several limited-issue rider cases. Excluding these cases, the average authorized ROE was was 9.47% in electric rate cases decided in the first half of 2020, versus 9.64% observed in full year 2019. The difference between the ROE averages including rider cases and those excluding the rider cases is driven by ROE premiums allowed in certain states for riders that address recovery of specific generation projects.

The average ROE authorized gas utilities was 9.40% in cases decided during the first half of 2020 versus 9.71% in full year 2019. There were 12 gas cases that included an ROE determination in the first six months of 2020 versus 32 in full year 2019.

The 2020 averages are hovering at the lowest levels ever witnessed in the industry, and with the recent rate cuts by the U.S. Federal Reserve and current pandemic induced recession, even lower authorized returns may be on the horizon.

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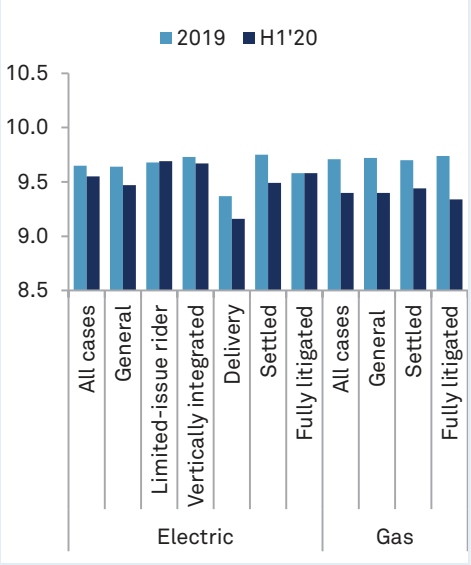
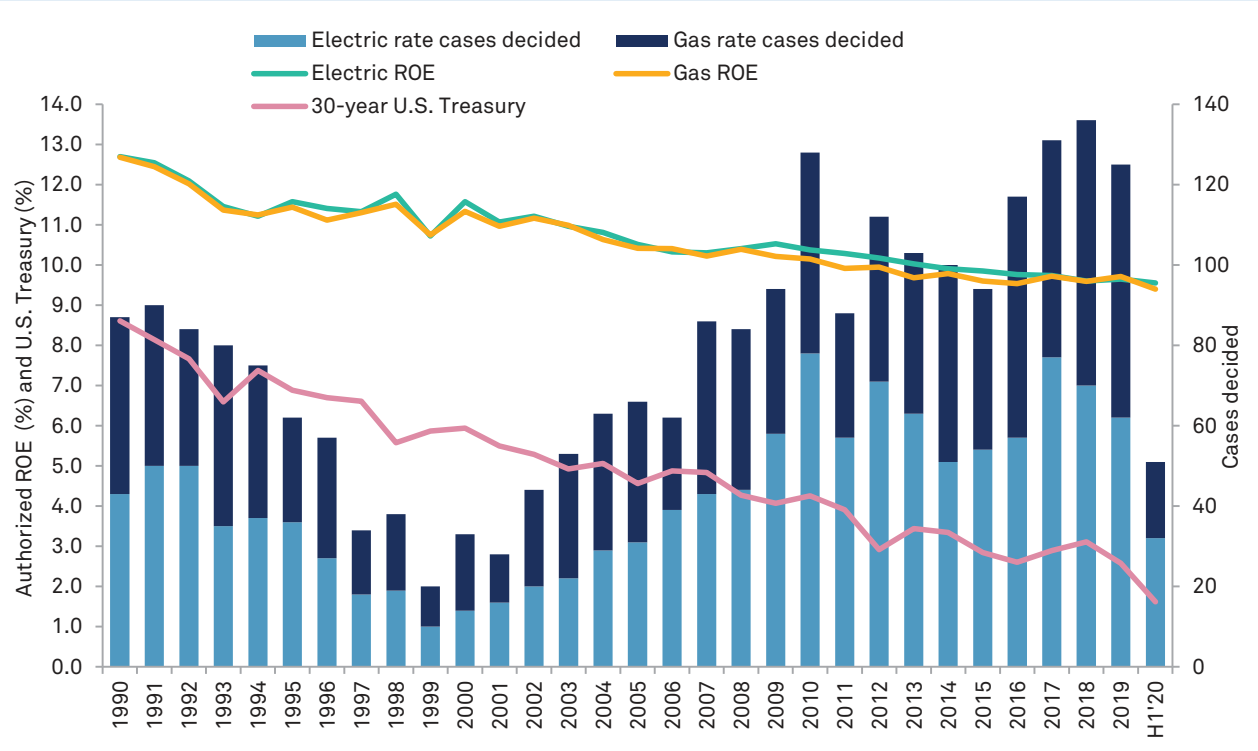
Average authorized return on equity (%)
Dashboard



Electric average	2019	H1'20	
All cases	9.65	9.55	▼
General rate cases	9.64	9.47	▼
Limited-issue rider cases	9.68	9.69	▲
Vertically integrated cases	9.73	9.67	▼
Delivery cases	9.37	9.16	▼
Settled cases	9.75	9.49	▼
Fully litigated cases	9.58	9.58	
Gas average	**2019**	**H1'20**	
All cases	9.71	9.40	▼
General rate cases	9.72	9.40	▼
Settled cases	9.70	9.44	▼
Fully litigated cases	9.74	9.34	▼
U.S. Treasury	**2019**	**H1'20**	
30-year bond yield	2.58	1.62	▼

Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

Average electric and gas authorized ROEs and number of rate cases decided



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

In the first six months of 2020, the median ROE authorized in all electric utility rate cases was 9.45%, versus 9.60% in full year 2019; for gas utilities, the metric was 9.42% in the first half of 2020, versus 9.70% in full year 2019.

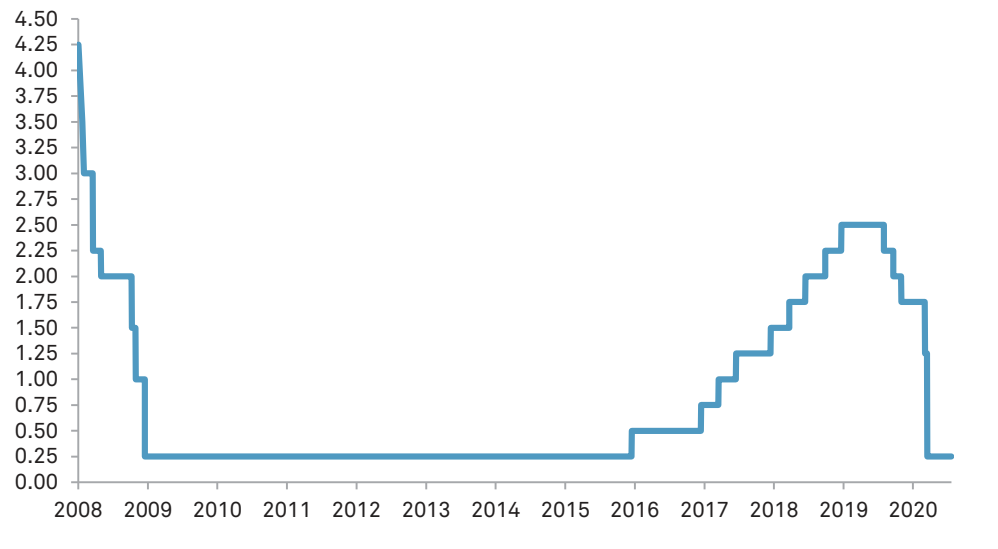
From a longer-term perspective, interest rates, as measured by the 30-year U.S. Treasury bond yield, fell almost steadily from the early 1980s until 2015 or so, placing downward pressure on authorized ROEs. Even though the decline has been less dramatic in the period since 1990, average authorized ROEs fell below 10% for gas utilities in 2011 and for electric utilities in 2014.

Since 2010, rate case activity has been robust, with 100 or more cases adjudicated in eight of the last ten calendar years. This count includes electric and gas cases where no ROEs have been specified; however, withdrawn cases are not included. After reaching an almost 30-year high in 2018, when almost 140 cases were decided, rate case activity moderated somewhat in 2019, with about 125 electric and gas cases resolved. Currently, there are about 90 rate cases pending; however, the current state of affairs due to COVID-19 has caused some companies to postpone rate case filings that were planned for this year. This backlog, coupled with the need to address COVID-19 pandemic-related costs and lost revenue may usher in an even more robust level of rate case activity in 2021 and beyond,

Absent the pandemic, increased costs associated with environmental compliance, generation and delivery infrastructure upgrades and expansion, renewable generation mandates, storm and disaster recovery, cybersecurity and employee benefits have contributed to an active rate case agenda over the last decade.

Rising interest rates over the past several years also likely contributed to the increased rate case activity. Beginning in 2015, the Federal Reserve began to gradually raise the federal funds rate, increasing them several times, up to 2.50% in December 2018. 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, lowered rates three times in 2019, the last reduction of which brought the federal funds rate to a range of 1.50% to 1.75%. Citing the economic fallout from the coronavirus outbreak, the Fed delivered two emergency rate cuts thus far this year, the first in early March, which cut rates by 50 basis points to 1.00% to 1.25%, and a second in mid-March, which slashed rates another 100 basis points to the current range of 0-0.25%.

Federal funds target rate, upper limit %



Data as of July 20, 2020.
Source: Federal Reserve

While changes 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 change in similar fashion. However, several factors impact the timing and magnitude of such a 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.

It is also worth noting that while both interest rates and authorized ROEs have generally been declining since 1990, the gap between authorized ROEs and interest rates widened somewhat over this period, largely as a result of an often-unstated understanding by regulators that the drop in interest rates caused by Federal Reserve intervention was unusual.

Capital structure trends

To offset the negative cash flow impact of 2017 federal tax reform, many utilities sought higher common equity ratios, and the average authorized equity ratios adopted by utility commissions in 2019 were modestly higher than the levels observed in 2018 and 2017. However, in cases decided during the first half of 2020, the average authorized equity ratio for electric utilities fell to 48.61%. For full years 2019, 2018 and 2017, the average equity ratios authorized in electric utility cases were 49.94%, 49.02% and 48.90%, respectively. The average allowed equity ratio for gas utilities

nationwide in cases decided in the first six months of 2020 was slightly higher than the levels observed in earlier full year periods. For the first six months of 2020, the average was 53.12%, versus 51.75% in 2019, 50.12% in 2018 and 49.88% in 2017.

Taking a longer-term view, equity ratios have generally increased over the last 15 years — the average equity ratio approved in electric rate cases decided during 2004 was 46.96%, while the average for gas utilities was 45.81%. Many commissions began approving more equity-rich capital structures in the wake of the 2008 financial crisis.

A more granular look at ROE trends

The discussion thus far has looked broadly at trends in authorized ROEs; the sections that follow provide a more granular view based upon the types of proceedings/decisions in which these ROEs were established.

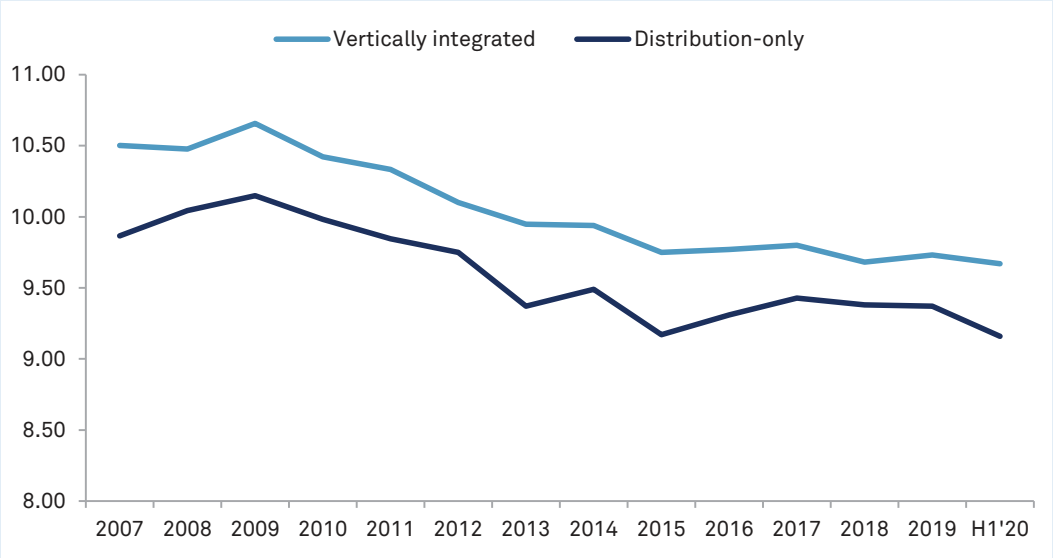
RRA has observed that there can be significant differences between the average ROEs from one subcategory of cases to another.

As a result of electric industry restructuring, certain states unbundled electric rates and implemented retail competition for generation. Commissions in those states now have jurisdiction only over the revenue requirement and return parameters for delivery operations.

Comparing electric vertically integrated cases versus delivery-only proceedings over the past several years, RRA finds that the annual average authorized ROEs in vertically integrated cases typically are about 30 to 65 basis points higher than in delivery-only cases, arguably reflecting the increased risk associated with ownership and operation of generation assets.

The industry average ROE for vertically integrated electric utilities was 9.67% in cases decided during the first six months of 2020, just below the 9.73% average level posted in full year 2019. For electric distribution-only utilities, the industry average ROE authorized in the first six months of 2020 was 9.16%, versus 9.37% in full year 2019. Included within the distribution returns for the first half of 2020 is the previously mentioned penalty ordered by the Maine PUC for Central Maine Power. Absent that 100 basis point penalty, a 9.31% average ROE is calculated for distribution only utilities in the first half of 2020.

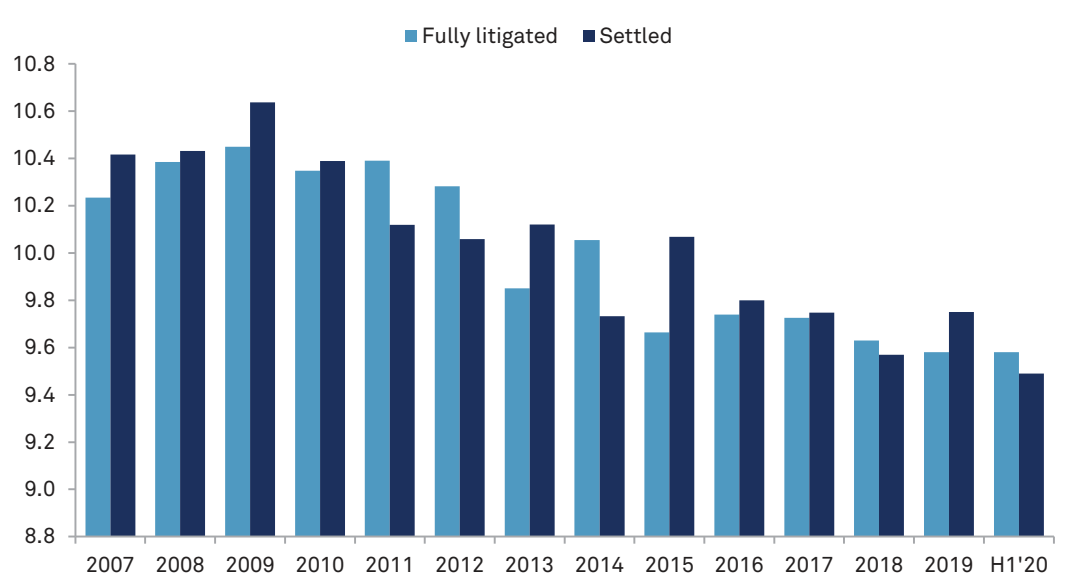
Average authorized electric ROEs (%)



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

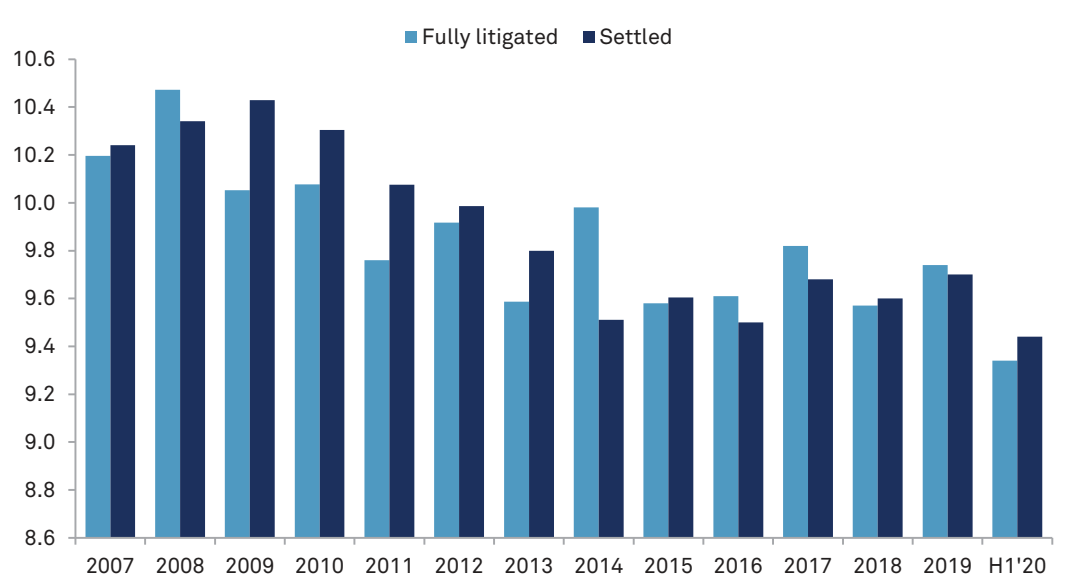
Settlements have frequently been used to resolve rate cases over the last several years, and in many cases, these settlements are "black box" in nature and do not specify the ROE and other typical rate case parameters underlying the stipulated rate change. However, some states preclude this type of treatment, and settlements must specify these values, if not the specific adjustments from which these values were derived.

Average authorized electric ROEs, settled versus fully litigated cases (%)



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

Average authorized gas ROEs, settled versus fully litigated cases (%)



Data compiled July 20, 2020.
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

For both electric and gas cases, RRA has found no discernible pattern in the average authorized ROEs in cases that were settled versus those that were fully litigated. In some years, the average authorized ROE was higher for fully litigated cases, in others, it was higher for settled cases, and in a handful of years, the authorized ROE was similar for both fully litigated and settled cases.

Over the last several years, the annual average authorized ROEs in electric cases that involve limited-issue riders were typically meaningfully higher than those approved in general rate cases, driven primarily by the ROE premiums authorized in generation-related limited issue rider proceedings in Virginia. Limited-issue rider cases in which a separate ROE is determined have had limited use in the gas industry, as most of the gas riders rely on ROEs approved in a previous base rate case.

The following discussion focuses on the corresponding tables available here.

Table 1 shows the average ROE authorized in major electric and gas rate decisions annually since 1990 and by quarter since 2016, followed by the number of observations in each period. **Table 2** indicates the composite electric and gas industry data for all major cases, summarized annually since 2004 and by quarter for the past six quarters.

Tables 3 and 4 provide comparisons since 2007 of average authorized ROEs for settled versus fully litigated cases, general rate cases versus limited-issue rider proceedings and vertically integrated cases versus delivery-only cases for electric and gas utilities, respectively.

The individual electric and gas cases decided in 2020 are listed in Table 5, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return, the ROE and the percentage of common equity in the adopted capital structure. Next, RRA indicates the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Fuel adjustment clause rate changes are not reflected in this study.

The simple mean is utilized for the return averages. In addition, the average equity returns indicated in this report reflect the ROEs approved in cases that were decided during the specified time periods and are not necessarily representative of either the average currently authorized ROEs for utilities industrywide or the returns actually earned by the utilities.

Please note: In an effort to align data presented in this report with data available in S&P Global Market Intelligence's online database, earlier historical data provided in previous reports may not match historical data in this report due to certain differences in presentation, including the treatment of cases that were withdrawn or dismissed.

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Table 1: ROEs authorized January 1990-June 2020

		Electric utilities			Gas utilities		
Year	Period	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations
1990	Full year	12.70	12.77	38	12.68	12.75	33
1991	Full year	12.54	12.50	42	12.45	12.50	31
1992	Full year	12.09	12.00	45	12.02	12.00	28
1993	Full year	11.46	11.50	28	11.37	11.50	40
1994	Full year	11.21	11.13	28	11.24	11.27	24
1995	Full year	11.58	11.45	28	11.44	11.30	13
1996	Full year	11.40	11.25	18	11.12	11.25	17
1997	Full year	11.33	11.58	10	11.30	11.25	12
1998	Full year	11.77	12.00	10	11.51	11.40	10
1999	Full year	10.72	10.75	6	10.74	10.65	6
2000	Full year	11.58	11.50	9	11.34	11.16	13
2001	Full year	11.07	11.00	15	10.96	11.00	5
2002	Full year	11.21	11.28	14	11.17	11.00	19
2003	Full year	10.96	10.75	20	10.99	11.00	25
2004	Full year	10.81	10.70	21	10.63	10.50	22
2005	Full year	10.51	10.35	24	10.41	10.40	26
2006	Full year	10.32	10.23	26	10.40	10.50	15
2007	Full year	10.30	10.20	38	10.22	10.20	35
2008	Full year	10.41	10.30	37	10.39	10.45	32
2009	Full year	10.52	10.50	40	10.22	10.26	30
2010	Full year	10.37	10.30	61	10.15	10.10	39
2011	Full year	10.29	10.17	42	9.92	10.03	16
2012	Full year	10.17	10.08	58	9.94	10.00	35
2013	Full year	10.03	9.95	49	9.68	9.72	21
2014	Full year	9.91	9.78	38	9.78	9.78	26
2015	Full year	9.85	9.65	30	9.60	9.68	16
	1st quarter	10.29	10.50	9	9.48	9.50	6
	2nd quarter	9.60	9.60	7	9.42	9.52	6
	3rd quarter	9.76	9.80	8	9.47	9.50	4
	4th quarter	9.57	9.58	18	9.68	9.73	10
2016	**Full year**	**9.77**	**9.75**	**42**	**9.54**	**9.50**	**26**
	1st quarter	9.87	9.60	15	9.60	9.25	3
	2nd quarter	9.63	9.50	14	9.47	9.60	7
	3rd quarter	9.66	9.60	5	10.14	9.90	6
	4th quarter	9.74	9.60	19	9.68	9.55	8
2017	**Full year**	**9.74**	**9.60**	**53**	**9.72**	**9.60**	**24**
	1st quarter	9.75	9.90	13	9.68	9.80	6
	2nd quarter	9.54	9.50	13	9.43	9.50	7
	3rd quarter	9.67	9.70	11	9.69	9.60	13
	4th quarter	9.42	9.50	11	9.53	9.60	14
2018	**Full year**	**9.60**	**9.58**	**48**	**9.59**	**9.60**	**40**
	1st quarter	9.73	9.70	12	9.55	9.70	4
	2nd quarter	9.58	9.50	12	9.73	9.73	3
	3rd quarter	9.55	9.60	7	9.80	9.90	3
	4th quarter	9.70	9.68	16	9.73	9.70	22
2019	**Full year**	**9.65**	**9.60**	**47**	**9.71**	**9.70**	**32**
	1st quarter	9.58	9.50	19	9.35	9.40	9
	2nd quarter	9.47	9.44	8	9.55	9.65	3
2020	**1st half**	**9.55**	**9.45**	**27**	**9.40**	**9.42**	**12**

Data compiled July 20, 2020

Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

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Table 2: Electric and gas utilities summary

Year	Period	ROR (%)	Number of observations	ROE (%)	Number of observations	Common equity to total capital (%)	Number of observations	Rate change amount ($M)	Number of observations
Electric utilities									
2004	Full year	8.71	20	10.81	21	46.96	19	1,806.3	29
2005	Full year	8.44	23	10.51	24	47.34	23	936.1	31
2006	Full year	8.32	26	10.32	26	48.54	25	1,318.1	39
2007	Full year	8.18	37	10.30	38	47.88	36	1,405.7	43
2008	Full year	8.21	39	10.41	37	47.94	36	2,823.2	44
2009	Full year	8.24	40	10.52	40	48.57	39	4,191.7	58
2010	Full year	8.01	62	10.37	61	48.63	57	4,921.9	78
2011	Full year	8.00	43	10.29	42	48.26	42	2,595.1	56
2012	Full year	7.95	51	10.17	58	50.69	52	3,080.7	69
2013	Full year	7.66	45	10.03	49	49.25	43	3,328.6	61
2014	Full year	7.60	32	9.91	38	50.28	35	2,053.7	51
2015	Full year	7.38	35	9.85	30	49.54	30	1,891.5	52
2016	Full year	7.28	41	9.77	42	48.91	41	2,332.1	57
2017	Full year	7.18	48	9.74	53	48.90	48	2,695.6	77
2018	Full year	6.90	49	9.60	48	49.02	49	1,880.4	67
	1st quarter	7.03	12	9.73	12	49.51	10	83.5	15
	2nd quarter	6.91	9	9.58	12	50.95	7	62.9	16
	3rd quarter	7.24	7	9.55	7	51.41	7	262.7	10
	4th quarter	6.85	16	9.70	16	49.12	16	1,268.1	20
2019	Full year	6.97	44	9.65	47	49.94	40	1,677.2	61
	1st quarter	6.82	20	9.58	19	48.72	21	683.8	21
	2nd quarter	6.74	7	9.47	8	48.27	7	422.3	10
2020	1st half	6.80	27	9.55	27	48.61	28	1,156.1	32
Gas utilities									
2004	Full year	8.51	23	10.63	22	45.81	22	306.0	33
2005	Full year	8.24	29	10.41	26	48.40	24	465.4	35
2006	Full year	8.44	17	10.40	15	47.24	16	392.5	23
2007	Full year	8.11	31	10.22	35	48.47	28	645.3	43
2008	Full year	8.49	33	10.39	32	50.35	32	700.0	40
2009	Full year	8.15	29	10.22	30	48.49	29	438.6	36
2010	Full year	7.99	40	10.15	39	48.70	40	776.5	50
2011	Full year	8.09	18	9.92	16	52.49	14	367.0	31
2012	Full year	7.98	30	9.94	35	51.13	32	264.0	41
2013	Full year	7.43	21	9.68	21	50.60	20	498.7	40
2014	Full year	7.65	27	9.78	26	51.11	28	544.2	48
2015	Full year	7.34	16	9.60	16	49.93	16	494.1	40
2016	Full year	7.08	28	9.54	26	50.06	26	1,263.8	59
2017	Full year	7.26	24	9.72	24	49.88	24	410.7	54
2018	Full year	7.00	45	9.59	40	50.12	44	939.1	66
	1st quarter	7.37	4	9.55	4	51.40	4	90.4	9
	2nd quarter	7.75	3	9.73	3	58.87	3	48.3	10
	3rd quarter	6.52	5	9.80	3	43.86	4	619.5	16
	4th quarter	7.20	21	9.73	22	52.33	20	697.2	28
2019	Full year	7.17	33	9.71	32	51.75	31	1,455.3	63
	1st quarter	7.22	9	9.35	9	52.25	9	124.4	11
	2nd quarter	7.28	3	9.55	3	55.74	3	21.0	8
2020	1st half	7.23	12	9.40	12	53.12	12	146.4	19

Data compiled July 20, 2020
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

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Table 3: Electric authorized ROEs: 2007-2020 Q2

Settled versus fully litigated cases

	All cases			Settled cases			Fully litigated cases		
Year	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations
2007	10.30	10.20	38	10.42	10.33	14	10.23	10.15	24
2008	10.41	10.30	37	10.43	10.25	17	10.39	10.54	20
2009	10.52	10.50	40	10.64	10.62	16	10.45	10.50	24
2010	10.37	10.30	61	10.39	10.30	34	10.35	10.10	27
2011	10.29	10.17	42	10.12	10.07	16	10.39	10.25	26
2012	10.17	10.08	58	10.06	10.00	29	10.28	10.25	29
2013	10.03	9.95	49	10.12	9.98	32	9.85	9.75	17
2014	9.91	9.78	38	9.73	9.75	17	10.05	9.83	21
2015	9.85	9.65	30	10.07	9.72	14	9.66	9.62	16
2016	9.77	9.75	42	9.80	9.85	17	9.74	9.60	25
2017	9.74	9.60	53	9.75	9.60	29	9.73	9.56	24
2018	9.60	9.58	48	9.57	9.63	26	9.63	9.53	22
2019	9.65	9.60	47	9.75	9.73	20	9.58	9.50	27
H1'2020	9.55	9.45	27	9.49	9.45	11	9.58	9.56	16

General rate cases versus limited-issue riders

	All cases			General rate cases			Limited-issue riders		
Year	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations
2007	10.30	10.20	38	10.32	10.23	36	9.90	9.90	1
2008	10.41	10.30	37	10.37	10.30	35	11.11	11.11	2
2009	10.52	10.50	40	10.52	10.50	38	10.55	10.55	2
2010	10.37	10.30	61	10.29	10.26	58	11.87	12.30	3
2011	10.29	10.17	42	10.19	10.14	40	12.30	12.30	2
2012	10.17	10.08	58	10.02	10.00	51	11.57	11.40	6
2013	10.03	9.95	49	9.82	9.82	40	11.34	11.40	7
2014	9.91	9.78	38	9.76	9.75	32	10.96	11.00	5
2015	9.85	9.65	30	9.60	9.53	23	10.87	11.00	6
2016	9.77	9.75	42	9.60	9.60	32	10.31	10.55	10
2017	9.74	9.60	53	9.68	9.60	42	10.01	9.95	10
2018	9.60	9.58	48	9.56	9.58	38	9.74	9.70	10
2019	9.65	9.60	47	9.64	9.65	33	9.68	9.31	14
H1'2020	9.55	9.45	27	9.47	9.48	18	9.69	9.42	9

Vertically integrated cases versus delivery-only cases

	All cases			Vertically integrated cases			Delivery-only cases		
Year	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations
2007	10.30	10.20	38	10.50	10.45	26	9.86	9.98	10
2008	10.41	10.30	37	10.48	10.47	26	10.04	10.25	9
2009	10.52	10.50	40	10.66	10.66	28	10.15	10.30	10
2010	10.37	10.30	61	10.42	10.40	41	9.98	10.00	17
2011	10.29	10.17	42	10.33	10.20	28	9.85	10.00	12
2012	10.17	10.08	58	10.10	10.20	39	9.75	9.73	12
2013	10.03	9.95	49	9.95	10.00	31	9.37	9.36	9
2014	9.91	9.78	38	9.94	9.90	19	9.49	9.55	13
2015	9.85	9.65	30	9.75	9.70	17	9.17	9.07	6
2016	9.77	9.75	42	9.77	9.78	20	9.31	9.33	12
2017	9.74	9.60	53	9.80	9.65	28	9.43	9.55	14
2018	9.60	9.58	48	9.68	9.73	23	9.38	9.50	15
2019	9.65	9.60	47	9.73	9.73	25	9.37	9.60	8
H1'2020	9.55	9.45	27	9.67	9.70	11	9.16	9.40	7

Data compiled July 20, 2020
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

S&P Global
Market Intelligence

Table 4: Gas authorized ROEs: 2007-2020 Q2

Settled versus fully litigated cases

	All cases			Settled cases			Fully litigated cases		
Year	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations
2007	10.22	10.20	35	10.24	10.18	22	10.20	10.40	13
2008	10.39	10.45	32	10.34	10.28	20	10.47	10.68	12
2009	10.22	10.26	30	10.43	10.40	13	10.05	10.15	17
2010	10.15	10.10	39	10.30	10.15	12	10.08	10.10	27
2011	9.92	10.03	16	10.08	10.08	8	9.76	9.80	8
2012	9.94	10.00	35	9.99	10.00	14	9.92	9.90	21
2013	9.68	9.72	21	9.80	9.80	9	9.59	9.60	12
2014	9.78	9.78	26	9.51	9.50	11	9.98	10.10	15
2015	9.60	9.68	16	9.60	9.60	11	9.58	9.80	5
2016	9.54	9.50	26	9.50	9.50	16	9.61	9.58	10
2017	9.72	9.60	24	9.68	9.60	17	9.82	9.50	7
2018	9.59	9.60	40	9.60	9.60	24	9.57	9.50	16
2019	9.71	9.70	32	9.70	9.70	20	9.74	9.72	12
H1'2020	9.40	9.42	12	9.44	9.40	7	9.34	9.44	5

General rate cases versus limited-issue riders

	All cases			General rate cases			Limited-issue riders		
Year	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations	Average ROE (%)	Median ROE (%)	Number of observations
2007	10.22	10.20	35	10.22	10.20	35	—	—	0
2008	10.39	10.45	32	10.39	10.45	32	—	—	0
2009	10.22	10.26	30	10.22	10.26	30	—	—	0
2010	10.15	10.10	39	10.15	10.10	39	—	—	0
2011	9.92	10.03	16	9.91	10.05	15	10.00	10.00	1
2012	9.94	10.00	35	9.93	10.00	34	10.40	10.40	1
2013	9.68	9.72	21	9.68	9.72	21	—	—	0
2014	9.78	9.78	26	9.78	9.78	26	—	—	0
2015	9.60	9.68	16	9.60	9.68	16	—	—	0
2016	9.54	9.50	26	9.53	9.50	25	9.70	9.70	1
2017	9.72	9.60	24	9.73	9.60	23	9.50	9.50	1
2018	9.59	9.60	40	9.59	9.60	39	9.50	9.50	1
2019	9.71	9.70	32	9.72	9.72	30	9.60	9.60	2
H1'2020	9.40	9.42	12	9.40	9.42	12	—	—	0

Data compiled July 20, 2020
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

S&P Global
Market Intelligence

Table 5: Electric and gas utility decisions

Electric utility decisions

Date	Company	State	ROR (%)	ROE (%)	Common equity as % of capital	Test year	Rate base	Rate change amount ($)	Footnotes
01/08/20	Interstate Power and Light Co.	IA	7.23	10.02	51.00	12/20	Average	127.0	B, I
01/16/20	Consolidated Edison Co. of New York, Inc.	NY	6.61	8.80	48.00	12/20	Average	113.3	B, D, Z
01/22/20	Rockland Electric Co.	NJ	7.11	9.50	48.32	9/19	Year-end	12.0	B, D
01/23/20	Indiana Michigan Power Co.	MI	6.08	9.86	46.56	12/20	Average	36.4	B,*
02/03/20	Virginia Electric and Power Co.	VA	6.84	9.20	51.17	3/21	Average	-6.3	LIR,1
02/03/20	Virginia Electric and Power Co.	VA	6.84	9.20	51.17	3/21	Average	11.4	LIR,2
02/03/20	Virginia Electric and Power Co.	VA	7.35	10.20	51.17	3/21	Average	-20.3	LIR,3
02/03/20	Virginia Electric and Power Co.	VA	7.35	10.20	51.17	3/21	Average	0.7	LIR,4
02/06/20	PacifiCorp	CA	—	10.00	51.96	12/19	Average	-5.8	
02/11/20	Public Service Co. of Colorado	CO	6.97	9.30	55.61	8/19	Average	280.5	5,6
02/14/20	CenterPoint Energy Houston Electric, LLC	TX	6.51	9.40	42.50	12/18	Year-end	55.9	B, D,Hy
02/18/20	Virginia Electric and Power Co.	VA	7.35	10.20	51.17	3/21	Average	-13.0	LIR,7
02/19/20	Central Maine Power Co.	ME	6.30	8.25	50.00	6/18	Average	17.4	D,Hy,8
02/24/20	Virginia Electric and Power Co.	NC	7.20	9.75	52.00	12/18	Year-end	NA	B, I,Hy,9
02/25/20	Appalachian Power Co.	VA	7.74	10.42	50.78	4/21	Average	-6.3	LIR,10
02/27/20	AEP Texas Inc.	TX	6.45	9.40	42.50	12/18	Year-end	0.7	B, D,Hy
02/28/20	Oklahoma Gas and Electric Co.	AR	5.33	—	37.92	3/20	Year-end	5.2	B,11,*
03/11/20	Indiana Michigan Power Co.	IN	5.61	9.70	37.55	12/20	Year-end	77.1	Z,*
03/17/20	Mississippi Power Co.	MS	7.57	—	53.00	12/20	Year-end	-16.7	B
03/18/20	Union Electric Co.	MO	—	—	—	12/18	—	-32.0	B,12
03/20/20	Virginia Electric and Power Co.	VA	6.84	9.20	51.17	5/21	Average	18.0	LIR,13
03/25/20	Avista Corp.	WA	7.21	9.40	48.50	12/18	—	28.5	B
2020	**1st quarter: averages/total**		**6.82**	**9.58**	**48.72**			**683.8**	
	Observations		**20**	**19**	**21**			**21**	
04/06/20	Kentucky Utilities Co.	VA	—	—	—	12/18	—	9.0	B
04/07/20	Northern States Power Co. - MN	MN	—	—	— —		—	—	14
04/13/20	Virginia Electric and Power Co.	VA	6.84	9.20	51.17	5/20	Average	7.4	LIR,15
04/17/20	Fitchburg Gas and Electric Light Co.	MA	7.99	9.70	52.45	12/18	Year-end	1.1	B, D
04/27/20	Duke Energy Kentucky, Inc.	KY	6.41	9.25	48.23	3/21	Average	24.1	
05/08/20	DTE Electric Co.	MI	5.46	9.90	38.32	4/21	Average	188.3	*
05/20/20	Southern Indiana Gas and Electric Co.	IN	—	—	—	10/19	Year-end	7.4	LIR,16
05/20/20	Southwestern Public Service Co.	NM	7.19	9.45	54.77	3/19	Year-end	31.0	B
05/21/20	Appalachian Power Co.	VA	—	9.42	—	6/21	Year-end	4.0	LIR,17
06/26/20	Appalachian Power Company	WV	—	—	—	12/19	—	50.1	B, LIR
06/29/20	Duke Energy Indiana, LLC	IN	5.71	9.70	40.98	12/20	Year-end	145.9	Z,*
06/30/20	Liberty Utilities (Granite State Electric) Corp.	NH	7.60	9.10	52.00	12/18	Year-end	4.2	B, D, Z, I
	2nd quarter: averages/total		**6.74**	**9.47**	**48.27**			**472.4**	
	Observations		**7**	**8**	**7**			**11**	
2020	**1st half: averages/total**		**6.80**	**9.55**	**48.61**			**1,156.1**	
	Observations		**27**	**27**	**28**			**32**	

Gas utility decisions

01/15/20	MDU Resources Group Inc.	WY	7.08	9.35	51.25	12/18	Year-end	0.8	B
01/16/20	Consolidated Edison Co. of New York, Inc.	NY	6.61	8.80	48.00	12/20	Average	83.9	B,Z
01/24/20	Roanoke Gas Co.	VA	7.28	9.44	59.64	12/17	Average	7.3	I
01/29/20	Indiana Gas Co., Inc.	IN	—	—	—	6/19	Year-end	1.8	LIR,16
01/29/20	Southern Indiana Gas and Electric Co.	IN	—	—	—	6/19	Year-end	2.2	LIR,16
02/03/20	Cascade Natural Gas Corp.	WA	7.24	9.40	49.10	12/18	—	6.5	B
02/24/20	Atmos Energy Corp.	KS	7.03	9.10	56.32	3/19	Year-end	3.1	
02/25/20	Questar Gas Co.	UT	7.18	9.50	55.00	12/20	Average	2.7	Z
02/28/20	Fitchburg Gas and Electric Light Co.	MA	7.99	9.70	52.45	12/18	Year-end	4.6	B,Z
02/28/20	Liberty Utilities (EnergyNorth Natural Gas) Corp.	NH	—	—	—	—	—	—	14
03/25/20	Avista Corp.	WA	7.21	9.40	48.50	12/18	—	8.0	B
03/26/20	Northern Utilities, Inc.	ME	7.34	9.48	50.00	12/18	Year-end	3.6	Hy
2020	**1st quarter: averages/total**		**7.22**	**9.35**	**52.25**			**124.4**	
	Observations		**9**	**9**	**9**			**11**	
04/21/20	Atmos Energy Corporation	TX	7.71	9.80	60.12	—	—	-0.3	B
04/28/20	Delta Natural Gas Co., Inc.	KY	—	—	—	12/19	Year-end	3.4	LIR,18
05/13/20	Missouri Gas Energy	MO	—	—	—	2/20	—	5.6	B, LIR,19
05/13/20	Spire Missouri Inc.	MO	—	—	—	2/20	—	5.5	B, LIR,19
05/19/20	Black Hills Colorado Gas, Inc.	CO	6.76	9.20	50.15	6/18	Average	-2.3	
06/16/20	CenterPoint Energy Resources Corp.	TX	7.38	9.65	56.95	6/19	Year-end	4.0	B
06/23/20	Black Hills Kansas Gas Utility Co., LLC	KS	—	—	—	1/20	Year-end	1.6	LIR,20
06/24/20	Northern Indiana Public Service Co.	IN	—	—	—	12/19	Year-end	4.5	LIR,16
	2nd quarter: averages/total		**7.28**	**9.55**	**55.74**			**22.0**	
	Observations		**3**	**3**	**3**			**8**	
2020	**1st half: averages/total**		**7.23**	**9.40**	**53.12**			**146.4**	
	Observations		**12**	**12**	**12**			**19**	

Data compiled July 20, 2020
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

Footnotes

A- Average.
B- Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.
D- Applies to electric delivery only.
Hy Hypothetical capital structure adopted.

I- *Interim rates implemented prior to the issuance of final order, normally under bond and subject to refund.*
LIR *Limited-issue rider proceeding.*
NA *Not available at the time of publication.*
Z- *Rate change implemented in multiple steps.*
*** *Capital structure includes cost-free items or tax credit balances at the overall rate of return.*

1 *Rate change was approved under Rider B, which is the mechanism through which the company recovers the costs associated with the conversion of the Altavista, Hopewell and Southampton power stations to burn biomass fuels.*
2 *Rate change was approved under Rider GV, which is the mechanism through which the company recovers its investment in the Greensville County generation facility.*
3 *Rate change was approved under Rider S, which is the mechanism through which the company recovers its investment in the Virginia City Hybrid Energy Center.*
4 *Rate change was approved under Rider W, which is the mechanism through which the company recovers its investment in the Warren County generation facility.*
5 *While the specified 2/11/20 date coincides with the date of the PUC's written order, the authorized base rate change coincides with a compliance filing submitted by the company on 2/18/20 and implemented on 2/25/20.*
6 *The company petitioned the PUC for a rehearing on 3/2/20. On 7/14/20, the PUC issued an order granting in part and denying in part reconsdieration motions filed by the company, as well as other intervenors in the proceeding. The order directs the company to submit compliance tariffs reflecting the decision within 30 days.*
7 *Rate change was approved under Rider R, which is the mechanism through which the company recovers its investment in the Bear Garden power plant.*
8 *Decision reflects date of written order issued on Feb. 19, 2020. The ROE authorized reflects a 100 basis point downward adjustment for poor service. The PUC ordered that this ROE disallowance be lifted when the utility meets all performance benchmarks for all service equality metrics for at least 18 consecutive months beginning March 1, 2020, and formally demonstrates to the commission that problems have been solved.*
9 *Company seeks reconsideration regarding coal ash cost recovery.*
10 *This case addresses the company's investment in the Dresden Generating Plant.*
11 *Rate change pursuant to company's formula rate plan.*
12 *The approved partial settlements were largely silent regarding traditional rate case parameters, including capital structure and rate base, but notes that the stipulated return on equity is in a range of 9.4% to 9.8%.*
13 *Reflects recovery of two utility-scale solar generation facilities, the 142-MW Colonial Trail West Solar Facility and the 98-MW AC Spring Grove 1 Solar Facility.*
14 *Case withdrawn.*
15 *Rate change approved under US-4, which is the mechanism through which the company will recover its investment in the roughly 100 megawatt utility-scale solar generation facility, Sadler Solar Facility, located in Greensville County, VA.*
16 *Case established the rates to be charged to customers under the company's compliance and system improvement adjustment mechanism, which includes both federally mandated pipeline-safety initiatives and projects that are permitted under the state's "transmission, distribution, and storage system improvement charge," or TDSIC, statute.*
17 *Rate change authorized authorized under company's energy efficiency rider.*
18 *Rate change authorized under the company's pipe replacement program rider.*
19 *Rate change authorized under the company's infrastructure system replacement surcharge rider.*
20 *Case involves company's gas system reliability surcharge.*

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June 8, 2020

Ms. Barcy F. McNeal
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Re: *In re The East Ohio Gas Co. d/b/a Dominion Energy Ohio*, Case No. 20-0175-GA-AIS

Dear Ms. McNeal:

On January 28, 2020, The East Ohio Gas Company d/b/a Dominion Energy Ohio (DEO) filed its application in the above-captioned docket, requesting authority to issue a long-term note or notes and to enter into interest rate management agreements.

On May 6, 2020, the Commission approved DEO's application, subject to certain conditions recommended by the Commission's Staff. One of those conditions was that DEO notify the Commission in this case docket within 10 days of receiving the credit ratings. In accordance with this condition, DEO hereby notifies the Commission that on June 1, 2020, the following rating agencies assigned the following credit ratings to DEO:

- Moody's:
  - Issuer rating: A2
  - Senior unsecured rating: A2
- Fitch Ratings
  - Long-term issuer default rating (IDR): A-
  - Senior unsecured rating: A
- S&P
  - Long-term issuer rating: BBB+
  - Senior unsecured rating: BBB+

These ratings are consistent with the Company's expectation and discussions with Staff that its credit ratings and subsequent offering would be investment grade.

Please file a copy of this letter in the above-captioned docket. Please do not hesitate to contact me with any questions.

Respectfully submitted,

/s/ Andrew J. Campbell
Counsel for The East Ohio Gas Company
d/b/a Dominion Energy Ohio

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

6/8/2020 1:39:58 PM

in

Case No(s). 20-0175-GA-AIS

Summary: Correspondence regarding Issuance of Credit Ratings electronically filed by Mr. Andrew J Campbell on behalf of The East Ohio Gas Company d/b/a Dominion Energy Ohio

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time A2 senior unsecured rating to The East Ohio Gas Company's proposed notes; outlook stable

01 Jun 2020

New York, June 01, 2020 -- Moody's Investors Service, ("Moody's") has today assigned a first-time A2 senior unsecured rating to The East Ohio Gas Company's (d/b/a Dominion Energy Ohio or Dominion Ohio) proposed notes as well as a first-time A2 Issuer rating. Dominion Ohio's outlook is stable.

RATINGS RATIONALE

"Dominion Ohio's credit is underpinned by the state's unique LDC regulatory framework, which protects the company from commodity exposure and allows speedy recovery of most operating and capital costs" said Ryan Wobbrock, Vice President -- Senior Credit Officer. "The company's straight-fixed-variable rate design and capital spending trackers should translate into a cash flow to debt ratio averaging 20% for the next three years" added Wobbrock.

Dominion Ohio has a low business risk profile as a rate regulated local gas distribution company serving roughly 1.2 million - mostly residential - customers throughout northeastern Ohio, including cities such as Cleveland, Akron and Canton. The company's rate structure is one of the most credit supportive in the US, since residential customers are under a straight-fixed-variable rate design, which means that Dominion Ohio recovers all residential fixed costs regardless of the volume consumed by these customers and without delay. Due to customer choice for retail gas service, it also means that the company has little-to-no exposure to commodity costs, since most supply arrangements are conducted by state retail providers and fuel is a pass-through cost on Dominion Ohio's customer bills.

Since the company's last general rate case in 2008, we estimate that the company's rate base has grown from $1.4 billion to over $3.0 billion via the Pipeline Infrastructure Replacement program tracker (PIR), which allows annual rate increases for the costs associated with replacing bare steel, cast iron and ineffectively coated pipe. These regulatory provisions, along with 51% equity capitalization and earned returns, which we calculate to exceed 11.0%, should help Dominion Ohio to produce cash flow to debt around 19% on a run-rate basis.

The company's credit profile could be further enhanced with the PUCO's approval of a Capital Expenditure Program rider (CEP), another capital tracker that Dominion Ohio has requested for annual recovery of maintenance capital, pipeline integrity and safety spending. If granted by the PUCO, the CEP would increase Dominion Ohio's rate base by around $460 million and allow for future recovery of capex (subject to investment eligibility and any established rate caps). The company expects that an approved mechanism would track roughly $100-$200 million of expected annual spending thereafter. This would bolster the company's suite of cost recovery mechanisms as well as improve its financial performance, such that cash flow to debt could be around 20% through 2024. Since this mechanism is already being used by other utilities within the state, we incorporate a view that the CEP will be approved for Dominion Ohio in the coming months.

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect Dominion Ohio to be resilient to recessionary pressures related to the coronavirus because of its rate-regulated, essential service business model and cost recovery framework. Nevertheless, we are watching for gas usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. As the events related to the coronavirus unfold, we are taking into consideration a wider range of potential outcomes, including more severe downside scenarios.

The effects of the pandemic could result in financial metrics that are weaker than expected; however, we see these issues as temporary and not reflective of the core operations or long-term financial or credit profile of Dominion Ohio.

Environmental considerations incorporated into our credit analysis for the company are primarily related to air pollution and regulations around carbon, methane and other greenhouse gas emissions. These gases are emitted during the natural gas lifecycle, including through the production of the energy that the company delivers through its own gas infrastructure.

Social risks are primarily related to health and safety, demographic and societal trends, as well as customer relations as the company works to provide reliable and affordable service to customers and safe working conditions to employees. Regarding affordability, we see the potential for rising social risks associated with the COVID-19 pandemic and its effect on Dominion Ohio's service territory, should unemployment remain high, making customers less able to absorb rate increases.

The company's governance is reflective of that of its parent, Dominion Energy, Inc. (Baa2 stable), which has very strong governance practices, including alignment with credit supportive benchmarks regarding ownership, control, compliance and reporting practices.

Outlook

The stable outlook for Dominion Ohio reflects its ability to generate cash flow to debt metrics approaching 20% over the next few years, that any COVID-19 related issues will be temporary and that supportive regulatory treatment for timely cost recovery continues.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

Dominion Ohio could be upgraded with a cash flow to debt ratio at 23%, or higher, on a sustainable basis.

Factors that could lead to a downgrade

Dominion Ohio could be downgraded if there is a degradation in the support it receives from the PUCO or if its cash flow to debt ratio declines below 19%, consistently. The rating could also be downgraded if operational challenges resulted in weaker service performance.

The East Ohio Gas Company is a regulated local gas distribution company headquartered in Cleveland, Ohio and a subsidiary of Dominion Energy, Inc., headquartered in Richmond, Virginia.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated

entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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The East Ohio Gas Company
Financial Statements

Fiscal Years Ended December 31, 2019, 2018 and 2017
with Independent Auditors' Report

The East Ohio Gas Company

GLOSSARY OF TERMS

The following abbreviations or acronyms used in this document are defined below:

Abbreviation or Acronym	Definition
2017 Tax Reform Act	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (previously known as the Tax Cuts and Jobs Act) enacted on December 22, 2017
ABO	Accumulated benefit obligation
AFUDC	Allowance for funds used during construction
AMR	Automated meter reading program deployed by East Ohio
ARO	Asset retirement obligation
CEP	Capital Expenditure Program, as established by House Bill 95, Ohio legislation enacted in 2011, deployed by East Ohio to recover certain costs associated with capital investment
DES	Dominion Energy Services, Inc.
Dominion Energy	The legal entity, Dominion Energy, Inc., one or more of its consolidated subsidiaries (other than East Ohio) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries
Dominion Energy Gas	The legal entity, Dominion Energy Gas Holdings, LLC, one or more of its consolidated subsidiaries or operating segment, or the entirety of Dominion Energy Gas Holdings, LLC and its consolidated subsidiaries
DSM	Demand-side management
East Ohio	The East Ohio Gas Company, doing business as Dominion Energy Ohio
GAAP	U.S. generally accepted accounting principles
IRCA	Intercompany revolving credit agreement
IRS	Internal Revenue Service
LIFO	Last-in-first-out inventory method
NAV	Net asset value
NGA	Natural Gas Act of 1938, as amended
Ohio Commission	Public Utilities Commission of Ohio
PIPP	Percentage of Income Payment Plan deployed by East Ohio
PIR	Pipeline Infrastructure Replacement program deployed by East Ohio
UEX Rider	Uncollectible Expense Rider deployed by East Ohio
VEBA	Voluntary Employees' Beneficiary Association
VIE	Variable interest entity

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INDEPENDENT AUDITORS' REPORT

To the President of Gas Distribution, Dominion Energy, Inc.

We have audited the accompanying financial statements of The East Ohio Gas Company (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the financial statements (collectively referred to as the "financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The East Ohio Gas Company as of December 31, 2019, and 2018 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 4, 2020

The East Ohio Gas Company
Statements of Income

Year Ended December 31, (millions)	2019	2018	2017
Operating Revenue[1]	**$ 733.6**	$ 729.3	$ 728.1
Operating Expenses			
Purchased gas[1]	**65.2**	65.9	68.6
Other operations and maintenance[1]	**296.1**	244.2	236.5
Depreciation and amortization	**85.0**	83.4	77.4
Other taxes	**129.5**	127.3	116.2
Total operating expenses	**575.8**	520.8	498.7
Income from operations	**157.8**	208.5	229.4
Other income	**79.5**	78.5	56.9
Interest and related charges[1]	**39.6**	36.8	32.9
Income from operations before income tax expense	**197.7**	250.2	253.4
Income tax expense	**51.4**	61.9	23.1
Net income	**$ 146.3**	$ 188.3	$ 230.3

(1) See Note 17 for amounts attributable to related parties.

The accompanying notes are an integral part of East Ohio's Financial Statements.

The East Ohio Gas Company

Balance Sheets

At December 31, (millions)	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 7.2**	$ 9.0
Customer receivables (less allowance for doubtful accounts of $1.1 million and $0.3 million)	**193.3**	206.5
Other receivables (less allowance for doubtful accounts of $0.9 million and $1.5 million)	**17.9**	20.1
Affiliated receivables	**7.8**	60.3
Prepayments	**73.8**	69.0
Inventories		
Materials and supplies	**12.4**	12.6
Gas stored	**19.0**	12.4
Regulatory assets	**57.7**	29.5
Other	**0.9**	1.3
Total current assets	**390.0**	420.7
Property, Plant and Equipment		
Property, plant and equipment	**5,018.7**	4,664.8
Accumulated depreciation and amortization	**(1,054.9)**	(1,006.1)
Total property, plant and equipment, net	**3,963.8**	3,658.7
Deferred Charges and Other Assets		
Pension and other postretirement benefit assets[1]	**1,250.1**	1,062.1
Intangible assets, net	**51.9**	52.3
Regulatory assets	**619.1**	634.0
Other	**22.7**	3.7
Total deferred charges and other assets	**1,943.8**	1,752.1
Total assets	**$ 6,297.6**	$ 5,831.5

(1) See Note 17 for amounts attributable to related parties.

The accompanying notes are an integral part of East Ohio's Financial Statements.

The East Ohio Gas Company
Balance Sheets (continued)

At December 31, (millions)	2019	2018
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	**$ 122.8**	$ 143.9
Payables to affiliates	**59.2**	56.4
Affiliated current borrowings	**7.6**	816.9
Accrued interest, payroll and taxes	**178.0**	170.8
Customer deposits	**15.3**	14.8
Regulatory liabilities	**12.7**	10.1
Contract liabilities	**37.8**	32.5
Other	**59.0**	13.6
Total current liabilities	**492.4**	1,259.0
Long-Term Debt		
Affiliated long-term debt	**1,665.0**	1,300.0
Finance leases	**5.5**	0.3
Total Long-Term Debt	**1,670.5**	**1,300.3**
Deferred Credits and Other Liabilities		
Deferred income taxes and investment tax credits	**730.2**	700.0
Asset retirement obligations	**83.0**	81.1
Regulatory liabilities	**801.1**	736.9
Pension and other postretirement benefit liabilities[1]	**—**	8.1
Other	**22.3**	18.0
Total deferred credits and other liabilities	**1,636.6**	1,544.1
Total liabilities	**3,799.5**	**4,103.4**
Commitments and Contingencies (See Note 15)		
Equity		
Common stock[2]	**1,312.9**	655.9
Retained earnings	**1,185.2**	1,072.2
Total equity	**2,498.1**	1,728.1
Total liabilities and equity	**$ 6,297.6**	$ 5,831.5

(1) See Note 17 for amounts attributable to related parties.
(2) No par, 50,000 shares authorized; 7,966 shares outstanding at December 31, 2019 and 2018.

The accompanying notes are an integral part of East Ohio's Financial Statements.

The East Ohio Gas Company
Statements of Equity

(millions)	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
December 31, 2016	7,966	$ 655.9	$ 816.6	$ 1,472.5
Net income			230.3	230.3
Dividends			(163.5)	(163.5)
Other			0.5	0.5
December 31, 2017	7,966	655.9	883.9	1,539.8
Net income			188.3	188.3
December 31, 2018	7,966	655.9	1,072.2	1,728.1
Net income			**146.3**	**146.3**
Dividends			**(33.3)**	**(33.3)**
Contributions from Dominion Energy		**657.0**	**—**	**657.0**
December 31, 2019	**7,966**	**$ 1,312.9**	**$ 1,185.2**	**$ 2,498.1**

The accompanying notes are an integral part of East Ohio's Financial Statements.

The East Ohio Gas Company

Statements of Cash Flows

Year Ended December 31, (millions)	2019	2018	2017
Operating Activities			
Net income	**$ 146.3**	$ 188.3	$ 230.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**85.0**	83.4	77.4
Deferred income taxes	**42.7**	107.6	37.7
Other adjustments	**(0.6)**	(1.5)	0.4
Changes in operating assets and liabilities	**(72.2)**	(187.6)	(125.2)
Net cash provided by operating activities	**201.2**	190.2	220.6
Investing Activities			
Plant construction and other property additions	**(372.8)**	(354.8)	(357.1)
Other	**(8.8)**	(11.9)	(13.1)
Net cash used in investing activities	**(381.6)**	(366.7)	(370.2)
Financing Activities			
Issuance (repayment) of affiliated current borrowings, net	**(809.3)**	182.4	312.2
Issuance of long-term debt	**365.0**	—	—
Repayment of long-term debt	**(0.8)**	(0.1)	(0.1)
Equity contribution from parent	**657.0**	—	—
Dividends paid to parent	**(33.3)**	—	(163.5)
Net cash provided by financing activities	**178.6**	182.3	148.6
Increase (decrease) in cash, restricted cash and equivalents	**(1.8)**	5.8	(1.0)
Cash, restricted cash and cash equivalents at beginning of year[1]	**9.0**	3.2	4.2
Cash, restricted cash and cash equivalents at end of year[1]	**$ 7.2**	$ 9.0	$ 3.2
Supplemental Cash Flow Information			
Cash paid (received) during the year for:			
Interest and related charges, excluding capitalized amounts	**$ 38.1**	$ 35.9	$ 32.3
Income taxes	**5.4**	(26.7)	(48.4)
Significant noncash investing and financing activities:			
Accrued capital expenditures	**15.1**	5.1	7.5
Finance leases	**10.3**	—	—

(1) No amounts were held in restricted cash and equivalents in any of the periods presented.

The accompanying notes are an integral part of East Ohio's Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF BUSINESS

East Ohio, a public utility, was organized as an Ohio corporation in 1898 and is a wholly-owned subsidiary of Dominion Energy. East Ohio serves residential, commercial and industrial gas sales, transportation and gathering service customers in Ohio. Revenue generated by East Ohio is based primarily on rates established by the Ohio Commission.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

General

East Ohio makes certain estimates and assumptions in preparing its Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and cash flows for the periods presented. Actual results may differ from those estimates.

East Ohio participates in certain Dominion Energy-sponsored pension and other postretirement benefit plans. See Note 14 for further information on these plans.

Operating Revenue

Operating revenue is recorded on the basis of services rendered, commodities delivered or contracts settled and includes amounts yet to be billed to customers. East Ohio utilizes a straight-fixed-variable rate design for a majority of its customers. Under this rate design, East Ohio recovers a large portion of its fixed operating costs through a flat monthly charge accompanied by a reduced volumetric base delivery rate. Accordingly, East Ohio's revenue is less impacted by weather-related fluctuations in natural gas consumption than under the traditional rate design. East Ohio's customer receivables at December 31, 2019 and 2018 included $58.1 million and $57.8 million, respectively, of accrued unbilled revenue based on estimated amounts of natural gas delivered but not yet billed to its customers. In addition, East Ohio collects sales taxes, however, these amounts are excluded from revenue.

The primary types of sales and service activities reported as operating revenue from contracts with customers for East Ohio are as follows:

- **Regulated gas transportation and storage sales** consist primarily of state-regulated gas distribution charges to retail distribution service customers opting for alternate suppliers;
- **Regulated gas sales** consist primarily of state-regulated natural gas sales and related distribution services;
- **Nonregulated gas sales** consist primarily of sales of excess gas;
- **Other regulated revenue** consists primarily of miscellaneous regulated revenue; and
- **Other nonregulated revenue** consists primarily of miscellaneous service revenue.

The primary types of sales and service activities reported as operating revenue for East Ohio, prior to the adoption of revised guidance for revenue recognition from contracts with customers, were as follows:

- **Gas transportation and storage** consisted primarily of state-regulated gas distribution charges to retail distribution customers opting for alternate suppliers;
- **Regulated gas sales** consisted primarily of delivery of state-regulated natural gas to residential, commercial and industrial customers;
- **Nonregulated gas sales** consist primarily of sales of excess gas; and
- **Other** consists primarily of miscellaneous service revenue.

Revenues from gas sales are recognized over time, as the customers of East Ohio consume the gas as it is delivered. Transportation contracts are primarily stand-ready service contracts that include fixed reservation and variable usage fees. Fixed fees are recognized ratably over the life of the contract, which is less than 12 months, as the stand-ready performance obligation is satisfied, while variable usage fees are recognized when East Ohio has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the performance obligation completed to date. As a local distribution company, substantially all of East Ohio's revenues are derived from performance obligations satisfied over time, rather than recognized at a single point in time, and are month-to-month contracts billed according to the terms of its tariff. Payment for most sales varies by contract type, but is typically due within a month of billing.

Purchased Gas

Where permitted by regulatory authorities, the differences between East Ohio's purchased gas expenses and the related levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of gas

costs in excess of current period recovery is recognized as a regulatory asset, while rate recovery in excess of current period gas costs is recognized as a regulatory liability.

Virtually all of East Ohio's natural gas purchases are either subject to deferral accounting or are recovered from the customer in the same accounting period as the sale.

Income Taxes
A consolidated federal income tax return is filed for Dominion Energy and its subsidiaries, including East Ohio. The state of Ohio, where East Ohio does business, does not have a corporate income tax.

East Ohio participates in intercompany tax sharing agreements with Dominion Energy and its subsidiaries. Current income taxes are based on taxable income or loss and credits determined on a separate company basis.

Under the agreements, if a subsidiary incurs a tax loss or earns a credit, recognition of current income tax benefits is limited to refunds of prior year taxes obtained by the carryback of the net operating loss or credit or to the extent the tax loss or credit is absorbed by the taxable income of other Dominion Energy consolidated group members. Otherwise, the net operating loss or credit is carried forward and is recognized as a deferred tax asset until realized.

The 2017 Tax Reform Act included a broad range of tax reform provisions affecting Dominion Energy and its subsidiary East Ohio, including changes in corporate tax rates and business deductions. The 2017 Tax Reform Act reduces the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. Deferred tax assets and liabilities are measured at the enacted tax rate expected to apply when temporary differences are realized or settled. Thus, at the date of enactment, federal deferred taxes were remeasured based upon the new 21% tax rate. The total effect of tax rate changes on deferred tax balances are required to be recorded as a component of the income tax provision related to continuing operations for the period in which the law is enacted, even if the assets and liabilities relate to other components of the financial statements. As a regulated utility, East Ohio was required to adjust deferred income tax assets and liabilities for the change in income tax rates. However, where it was probable that the effect of the change in income tax rates will be recovered or returned in future rates, East Ohio recorded a regulatory asset or liability instead of an increase or decrease to deferred income tax expense.

Accounting for income taxes involves an asset and liability approach. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Accordingly, deferred taxes are recognized for the future consequences of different treatments used for the reporting of transactions in financial accounting and income tax returns. East Ohio establishes a valuation allowance when it is more-likely-than-not that all, or a portion, of a deferred tax asset will not be realized. East Ohio had no valuation allowances recorded for the years ended December 31, 2019, 2018 or 2017.

East Ohio recognizes positions taken, or expected to be taken, in income tax returns that are more-likely-than-not to be realized, assuming that the position will be examined by tax authorities with full knowledge of all relevant information.

If it is not more-likely-than-not that a tax position, or some portion thereof, will be sustained, the related tax benefits are not recognized in the financial statements. Unrecognized tax benefits may result in an increase in income taxes payable, a reduction of income tax refunds receivable or changes in deferred taxes. Also, when uncertainty about the deductibility of an amount is limited to the timing of such deductibility, the increase in income taxes payable (or reduction in tax refunds receivable) is accompanied by a decrease in deferred tax liabilities. Except when such amounts are presented net with amounts receivable from or amounts prepaid to tax authorities, noncurrent income taxes payable related to unrecognized tax benefits are classified in other deferred credits and other liabilities on the Consolidated Balance Sheets and current payables are included in accrued interest, payroll and taxes on the Consolidated Balance Sheets.

East Ohio recognizes interest on underpayments and overpayments of income taxes in interest expense and other income, respectively. Penalties are also recognized in other income.

East Ohio's interest and penalties were immaterial in 2019, 2018 and 2017.

At December 31, 2019, East Ohio's Balance Sheet had a federal income tax-related affiliated payable of $2.4 million. The net affiliated payables are expected to be paid to Dominion Energy.

At December 31, 2018, East Ohio's Balance Sheet included $5.7 million of federal tax-related payables to affiliates. The net affiliated payables were paid to Dominion Energy.

Investment tax credits are deferred and amortized over the service lives of properties giving rise to the credits.

Cash and Cash Equivalents
Current banking arrangements generally do not require checks to be funded until they are presented for payment. At December 31, 2019 and 2018, accounts payable included $3.2 million and $1.7 million, respectively, of checks outstanding but not yet presented for payment. For purposes of the Statements of Cash Flows, cash and cash equivalents include cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

Property, Plant and Equipment
Property, plant and equipment is recorded at lower of original cost or fair value, if impaired. Capitalized costs include labor, materials and other direct and indirect costs such as asset retirement costs, AFUDC and overhead costs. The cost of repairs and maintenance, including minor additions and replacements, is generally charged to expense as it is incurred. East Ohio capitalized AFUDC to property, plant and equipment of $1.1 million in 2019 and less than $1 million in both 2018 and 2017.

The undepreciated cost of property, less salvage value, is generally charged to accumulated depreciation at retirement. Cost of removal collections from utility customers not representing AROs are recorded as regulatory liabilities. For property that will be abandoned significantly before the end of its useful life, the net carrying value is reclassified from plant-in-service when it becomes probable it will be abandoned.

Depreciation of property, plant and equipment is computed on the straight-line method based on projected service lives. East Ohio's average composite depreciation rates on property, plant and equipment are as follows:

Year Ended December 31,	**2019**	2018	2017
(percent)			
Transmission	**1.84**	2.03	1.98
Distribution	**2.55**	2.41	2.42
Storage	**1.10**	2.22	2.20
General and other	**2.11**	4.00	3.73

Long-Lived and Intangible Assets
East Ohio performs an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. A long-lived or intangible asset is written down to fair value if the sum of its expected future undiscounted cash flows is less than its carrying amount. Intangible assets with finite lives are amortized over their estimated useful lives.

Regulatory Assets and Liabilities
The accounting for East Ohio's regulated gas operations differs from the accounting for nonregulated operations in that East Ohio is required to reflect the effect of rate regulation in its Financial Statements. For regulated businesses subject to state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, these costs that otherwise would be expensed by nonregulated companies are deferred as regulatory assets. Likewise, regulatory liabilities are recognized when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have yet to be incurred.

East Ohio evaluates whether or not recovery of its regulatory assets through future rates is probable as well as whether a regulatory liability due to customers is probable and makes various assumptions in its analyses. These analyses are generally based on:

- Orders issued by regulatory commissions, legislation and judicial actions;
- Past experience;
- Discussions with applicable regulatory authorities and legal counsel;
- Forecasted earnings; and
- Considerations around the likelihood of impacts from events such as unusual weather conditions, extreme weather events and other natural disasters.

Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made. A regulatory liability, if considered probable, will be recorded in the period such assessment is made or reversed into earnings if no longer probable. See Note 7 for additional information.

Leases
East Ohio leases certain assets including vehicles, building and other operational assets under both operating and finance leases. For East Ohio's operating leases, rent expense is recognized on a straight-line basis over the term of the lease agreement, subject to regulatory framework. Rent expense associated with operating leases, short-term leases and variable leases is primarily recorded in other operations and maintenance expense in East Ohio's Statements of Income. Rent expense associated with finance leases results in the separate presentation of interest expense on the lease liability and amortization expense of the related right-of-use asset in East Ohio's Consolidated Statements of Income.

Certain of East Ohio's leases include one or more options to renew, with renewal terms that can extend the lease from one to ten years. The exercise of renewal options is solely at East Ohio's discretion and is included in the lease term if the option is reasonably certain to be exercised. A right-of-use asset and corresponding lease liability for leases with original lease terms of one year or less are not included in the Balance Sheets, unless such leases contain renewal options that the Company is reasonably certain will be exercised. Additionally, certain of East Ohio's leases contain escalation clauses whereby payments are adjusted for consumer price or other indices or contain fixed dollar or percentage increases. East Ohio also has leases with variable payments based upon usage of, or revenues associated with, the leased assets.

The determination of the discount rate utilized has a significant impact on the calculation of the present value of the lease liability included in East Ohio's Balance Sheets. For the Company's fleet of leased vehicles, the discount rate is equal to the prevailing borrowing rate earned by the lessor. For the Company's remaining leased assets, the discount rate implicit in the lease is generally unable to be determined from a lessee perspective. As such, East Ohio uses internally-developed incremental borrowing rates as a discount rate in the calculation of the present value of the lease liability. The incremental borrowing rates are determined based on an analysis of the Company's available unsecured borrowing rates, adjusted for a collateral discount, over various lengths of time that most closely correspond to the Company's lease maturities.

Asset Retirement Obligations
East Ohio recognizes AROs at fair value as incurred or when sufficient information becomes available to determine a reasonable estimate of the fair value of future retirement activities to be performed, for which a legal obligation exists. These amounts are generally capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, fair value is estimated using discounted cash flow analyses. Quarterly, East Ohio assesses its AROs to determine if circumstances indicate that estimates of the amounts or timing of future cash flows associated with retirement activities have changed. AROs are adjusted when significant changes in the amounts or timing of future cash flows are identified. East Ohio reports accretion of AROs and depreciation on asset retirement costs associated with its natural gas pipeline assets as an adjustment to the related regulatory liabilities as revenue is recoverable from customers for AROs.

Inventories
Materials and supplies inventories are valued primarily using the weighted-average cost method. Stored gas inventory for East Ohio used in gas distribution operations is valued using the LIFO method. Under the LIFO method, current stored gas inventory was valued at $19.0 million and $12.4 million at December 31, 2019 and December 31, 2018, respectively. Based on the average price of gas purchased during 2019 and 2018, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by $60.2 million and $86.6 million, respectively.

Gas Imbalances
Natural gas imbalances occur when the physical amount of natural gas delivered from, or received by, a pipeline system or storage facility differs from the contractual amount of natural gas delivered or received. East Ohio values these imbalances due to, or from, shippers and operators at an appropriate index price at period end, subject to the terms of its tariff. Imbalances are settled in-kind. Imbalances due to East Ohio from other parties are reported in other current assets and imbalances that East Ohio owes to other parties are reported in other current liabilities in the Balance Sheet.

New Accounting Standards

Leases
In February 2016, the Financial Accounting Standards Board issued revised accounting guidance for the recognition, measurement, presentation and disclosure of leasing arrangements. The update requires that a liability and corresponding right-of-use asset are recorded on the balance sheet for all leases, including those leases classified as operating leases, while also refining the definition of a lease. In addition, lessees are required to disclose key information about the amount, timing and uncertainty of cash flows arising from leasing arrangements. Lessor accounting remains largely unchanged.

East Ohio adopted this revised accounting guidance effective for annual reporting periods beginning January 1, 2019 using a modified retrospective approach, which requires lessees to recognize and measure leases at the date of adoption. Under this approach, East Ohio utilized the transition practical expedient to maintain historical presentation for periods before January 1, 2019. East Ohio also applied the other practical expedients, which required no reassessment of whether existing contracts are or

contain leases, no reassessment of lease classification for existing leases and no reassessment of existing or expired land easements that were not previously accounted for as leases. In connection with the adoption of this revised accounting guidance, East Ohio recorded approximately $19 million of offsetting right-of-use assets and liabilities for operating leases in effect at the adoption date. See Note 10 for additional information.

Net Periodic Pension and Other Postretirement Benefit Costs
In March 2017, the Financial Accounting Standards Board issued revised accounting guidance for the presentation of net periodic pension and other postretirement benefit costs. This guidance became effective for East Ohio beginning January 1, 2018 and requires that the service cost component of net periodic pension and other postretirement benefit costs be classified in the same line item as other compensation costs arising from services rendered by employees, while all other components of net periodic pension and other postretirement costs are classified outside of income from operations. In addition, only the service cost component remains eligible for capitalization during construction. These changes do not impact the accounting by participants in a multi-employer plan. The standard also recognizes that in the event that a regulator continues to require capitalization of all net periodic benefit costs prospectively, the difference would result in recognition of a regulatory asset or liability. For costs not capitalized for which regulators are expected to provide recovery, a regulatory asset will be established. As such, the amounts eligible for capitalization in the Consolidated Financial Statements of East Ohio, as subsidiary participants in Dominion Energy's multi-employer plans, will differ from the amounts eligible for capitalization in the Consolidated Financial Statements of Dominion Energy, the plan administrator.

Tax Reform
In December 2017, the staff of the SEC issued guidance which clarifies accounting for income taxes if information is not yet available or complete and provided for up to a one-year measurement period in which to complete the required analyses and accounting. The guidance described three scenarios associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to apply accounting for income taxes based on the provisions of the tax laws that were in effect immediately prior to the 2017 Tax Reform Act being enacted. East Ohio has accounted for the effects of the 2017 Tax Reform Act, although additional changes could occur as guidance is issued and finalized as described below.

In August 2018, the U.S. Department of Treasury issued proposed regulations addressing the availability of federal bonus depreciation for the period beginning after September 27, 2017 through December 31, 2017. The application of these changes had no impact on income tax expense as the changes in, and remeasurement of, deferred tax liabilities increased regulatory liabilities on the balance sheet. The impacts of the proposed and final regulations issued in 2019 on the applicability of accelerated depreciation were immaterial. See Note 4 for further discussion of these impacts.

In November 2018, the U.S. Department of Treasury issued proposed regulations defining interest as any amounts associated with the time value of money or use of funds. These proposed regulations provide guidance for purposes of the exception to the interest limitation for regulated public utilities, the application of the interest limitation to consolidated groups, such as Dominion Energy, which includes East Ohio. It is unclear when the guidance may be finalized, or whether that guidance could result in a disallowance of a portion of Dominion Energy's interest deductions in the future, which could be allocated to East Ohio under these proposed regulations.

Revenue Recognition
In May 2014, the Financial Accounting Standards Board issued revised accounting guidance for revenue recognition from contracts with customers. East Ohio adopted this revised accounting guidance for annual reporting periods beginning January 1, 2018 using the modified retrospective method. The adoption of the revised standard had no impact on the amount of revenue recognized.

NOTE 3. OPERATING REVENUE

East Ohio operating revenue, subsequent to the adoption of revised guidance for revenue recognition from contracts with customers, consists of the following:

Year Ended December 31, (millions)	2019	2018
Regulated gas transportation and storage[1]	**$ 626.7**	$ 611.1
Regulated gas sales:		
Residential	**70.6**	80.7
Commercial	**3.7**	5.4
Other	**0.6**	0.3
Nonregulated gas sales	**5.0**	6.1
Other regulated revenues	**23.0**	21.8
Other nonregulated revenues	**4.0**	3.9
Total operating revenue	**$ 733.6**	$ 729.3

(1) See Note 17 for amounts attributable to related parties.

Contract liabilities represent an entity's obligation to transfer goods or services to a customer for which the entity has received consideration, or the amount that is due, from the customer. At December 31, 2019 and 2018, East Ohio's contract liability balances were $37.8 million and $32.5 million, respectively, all of which is included in current liabilities in East Ohio's Consolidated Balance Sheets. During years ended December 31, 2019 and 2018, East Ohio recognized revenue of $32.1 million and $39.8 million, respectively, from the beginning contract liability balance as East Ohio fulfilled its obligations to provide service to its customers.

East Ohio's operating revenue, prior to the adoption of revised guidance for revenue recognition from contracts with customers, consisted of the following:

Year Ended December 31, (millions)	2017
Gas transportation and storage	$ 604.2
Gas sales:	
Regulated	86.2
Nonregulated	13.4
Other	24.3
Total operating revenue	$ 728.1

NOTE 4. INCOME TAXES

The 2017 Tax Reform Act includes a broad range of tax reform provisions affecting East Ohio, as discussed in Note 2. The 2017 Tax Reform Act reduced the corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. At the date of enactment, federal deferred tax assets and liabilities were remeasured based upon the enacted 21% tax rate expected to apply when temporary differences are to be realized and settled. The specific provisions related to regulated public utilities in the 2017 Tax Reform Act generally allows for the continued deductibility of interest expense, changes the tax depreciation of certain property acquired after September 27, 2017, and contains certain rate normalization requirements for accelerated depreciation benefits.

As indicated in Note 2, East Ohio's operations, including accounting for income taxes are subject to regulatory treatment. For regulated operations, many of the changes in deferred taxes represent amounts probable of collection from or return to customers, and were recorded as either an increase to a regulatory asset or liability. The 2017 Tax Reform Act includes provisions that stipulate how these excess deferred taxes may be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other excess deferred taxes will be determined by East Ohio's state regulators. See Note 8 for more information.

East Ohio has accounted for the effects of the 2017 Tax Reform Act, although changes could occur as additional guidance is issued and finalized.

Details of East Ohio's income tax expense for continuing operations were as follows:

Year Ended December 31, (millions)	2019	2018	2017
Current:			
Federal	**$ 8.7**	$ (45.7)	$ (14.6)
State	**—**	—	—
Total current expense	**8.7**	(45.7)	(14.6)
Deferred:			
Federal			
Taxes before operating loss carryforwards, investment tax credits and tax reform	**42.7**	99.7	104.5
Tax reform	**—**	7.9	(66.8)
State	**—**	—	—
Total deferred expense	**42.7**	107.6	37.7
Total income tax expense	**$ 51.4**	$ 61.9	$ 23.1

The accounting for the reduction in the corporate income tax rate decreased deferred income tax expense by $66.8 million for the year ended December 31, 2017.

The statutory U.S. federal income tax rate reconciles to East Ohio's effective income tax rate as follows:

Year Ended December 31, (millions)	2019	2018	2017
Federal income taxes statutory rate	**21.0%**	21.0%	35.0%
Increases (reductions) resulting from:			
Reversal of excess deferred income taxes	**(2.2)**	(1.0)	—
Write-off of regulatory assets	**7.7**	—	—
Legislative change - federal	**—**	3.2	(26.4)
Other	**(0.5)**	1.6	0.5
Effective tax rate	**26.0%**	24.8%	9.1%

The 2017 Tax Reform Act reduced the statutory federal income tax rate to 21% beginning in January 2018. Accordingly, current and deferred income taxes are recorded at the new 21% rate. Deferred taxes will reverse at the weighted average rate used to originate the deferred tax liability, which in some cases will be 35%. East Ohio has recorded an estimate of excess deferred income tax amortization in 2019. The reversal of these excess deferred income taxes will impact the effective tax rate, and may ultimately impact rates charged to customers. See Note 8 for current year developments.

In 2019, East Ohio wrote off a $19 million regulatory asset and recognized $15 million deferred income tax expense for amounts no longer probable of recovery from customers.

In 2018, East Ohio applied the provisions of proposed regulations addressing the availability of federal bonus depreciation for the period beginning after September 27, 2017 through December 31, 2017. The application of these proposed regulations at East Ohio had no impact on income tax expense as the changes in, and remeasurement of, deferred tax liabilities increased regulatory liabilities by $23 million. In addition, changes in estimates of amounts probable of return to customers increased income tax expense by $8 million and increased regulatory liabilities by $10 million.

In 2017, East Ohio's effective tax rates reflect the net benefit of remeasuring deferred taxes resulting from the lower corporate income tax rate promulgated by the 2017 Tax Reform Act.

Significant components of East Ohio's deferred income taxes were as follows:

Year Ended December 31, (millions)	2019	2018
Deferred income taxes:		
Total deferred income tax asset	**$ 121.4**	$ 324.8
Total deferred income tax liability	**851.6**	1,024.8
Total net deferred income tax liabilities	**$ 730.2**	**$ 700.0**
Total deferred income taxes:		
Depreciation method and plant basis differences	**$ 549.8**	$ 539.4
Excess deferred income taxes	**(123.1)**	(120.0)
Deferred fuel, purchased energy and gas costs	**3.7**	1.9
Pension and other postretirement benefits	**299.5**	282.2
Loss and credit carryforwards	**(0.8)**	(1.0)
Other	**1.1**	(2.5)
Total net deferred income tax liabilities	**$ 730.2**	$ 700.0
Deferred investment tax credits	**-**	-
Total deferred taxes and deferred investment tax credits	**$ 730.2**	$ 700.0

The most significant impact reflected for the 2017 Tax Reform Act is the adjustment of the net accumulated deferred income tax liability for the reduction in the corporate income tax rate of 21%. In addition to amounts recognized in deferred income tax expense, the impacts of the 2017 Tax Reform Act decreased the accumulated deferred income tax liability by $428.4 million at December 31, 2017. The December 31, 2017 balance sheet reflects the impacts of the 2017 Tax Reform Act on East Ohio's regulatory liabilities which increased regulatory liabilities by $541.8 million, and a related deferred tax asset of $113.4 million. This adjustment had no impact on 2017 cash flows.

Dominion Energy participates in the IRS Compliance Assurance Process which provides the opportunity to resolve complex tax matters with the IRS before filing its federal income tax returns, thus achieving certainty for such tax return filing positions agreed to by the IRS. With few exceptions, the IRS has completed its audit of tax years through 2018. The statute of limitations has not yet expired for tax year 2014 and years after 2015.

Unrecognized tax benefits for 2017 and 2018 were immaterial. East Ohio did not have any unrecognized tax benefits for 2019. The 2019 federal income tax return has not been filed.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment and their respective balances for East Ohio are as follows:

At December 31, (millions)	2019	2018
Utility:		
Transmission	**$ 510.6**	$ 485.1
Distribution	**3,764.4**	3,498.1
Storage	**294.1**	259.2
Gas gathering and processing	**201.3**	192.6
General and other	**189.0**	178.2
Plant under construction	**55.9**	48.2
Total utility	**5,015.3**	4,661.4
Other	**3.4**	3.4
Total property, plant and equipment	**$ 5,018.7**	$ 4,664.8

NOTE 6. INTANGIBLE ASSETS

East Ohio's intangible assets are subject to amortization over their estimated useful lives. East Ohio's amortization expense for intangible assets for the period ending December 31, 2019, 2018 and 2017 was $6.4 million, $6.4 million and $7.0 million, respectively. In 2019, East Ohio acquired $6.0 million of intangible assets, primarily representing software, with an estimated weighted-average amortization period of approximately 10 years.

The components of intangible assets are as follows:

(millions)	At December 31, 2019 Gross Carrying Amount	At December 31, 2019 Accumulated Amortization	At December 31, 2018 Gross Carrying Amount	At December 31, 2018 Accumulated Amortization
Software and other	**$ 95.8**	**$ 43.9**	$ 90.0	$ 37.7

Annual amortization expense for these intangible assets is estimated to be as follows:

(millions)	2020	2021	2022	2023	2024
	$ 6.9	**$ 6.8**	**$ 5.6**	**$ 4.2**	**$ 3.8**

NOTE 7. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities include the following:

(millions)	December 31, 2019	December 31, 2018
Regulatory assets:		
Deferred project costs and DSM programs[1]	**$ 15.5**	$ 13.0
Unrecovered gas costs[2]	**17.7**	9.1
PIPP[3]	**13.3**	2.7
Uncollectible expense	**11.2**	2.3
Other	**-**	2.4
Regulatory assets-current	**57.7**	29.5
Unrecognized pension and other postretirement benefit costs[4]	**190.1**	300.2
Deferred project costs[1]	**429.0**	333.8
Regulatory assets-noncurrent	**619.1**	634.0
Total regulatory assets	**$ 676.8**	$ 663.5
Regulatory liabilities:		
Provision for future cost of removal and AROs[5]	**11.6**	8.6
Other	**1.1**	1.5
Regulatory liabilities-current	**12.7**	10.1
Income taxes refundable through future rates[6]	**618.9**	577.0
Provision for future cost of removal and AROs[5]	**138.1**	137.0
Other	**44.1**	22.9
Regulatory liabilities-noncurrent	**801.1**	736.9
Total regulatory liabilities	**$ 813.8**	$ 747.0

(1) Primarily reflects amounts expected to be collected from gas customers in East Ohio's service territories associated with current and prospective rider projects, including CEP, PIR and DSM as well as costs associated with the Pipeline Safety and Management Program. The recovery period for these expenditures vary based on stipulations set forth in the respective riders. See Note 8 for more information.

(2) Reflects unrecovered gas costs at regulated gas operations, which are recovered through filings with the Ohio Commission.

(3) Under PIPP, eligible customers can make reduced payments based on their ability to pay. The difference between the customer's total bill and the PIPP plan amount is deferred and collected or returned annually under the PIPP rider according to East Ohio tariff provisions. See Note 8 for more information.

(4) Represents unrecognized pension and other postretirement employee benefit costs expected to be recovered or refunded through future rates generally over the expected remaining service period of plan participants.

(5) Rates charged to customers by East Ohio's regulated businesses include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement.

(6) Amounts recorded to pass the effect of reduced income taxes from the 2017 Tax Reform Act to customers in future periods, which will reverse at the weighted average tax rate that was used to build the reserves over the remaining book life of the property, net of amounts to be recovered through future rates to pay income taxes that become payable when rate revenue is provided to recover AFUDC equity.

At December 31, 2019, approximately $137.5 million of regulatory assets represented past expenditures on which East Ohio does not expect to earn a return during the applicable recovery period. With the exception of PIR and the Pipeline Safety and Management Program expenses, these expenditures are expected to be recovered within the next two years.

NOTE 8. REGULATORY MATTERS

East Ohio is subject to the jurisdiction of the Ohio Commission with its natural gas sales and transportation and storage services being provided under rate schedules approved by the regulatory commission. East Ohio is required to fill an application for a rate case by 2024.

2017 Tax Reform Act
Subsequent to the enactment of the 2017 Tax Reform Act, the Ohio Commission issued orders requesting that public utilities evaluate the total tax impact on the entity's cost of service and accrue a regulatory liability attributable to the benefits of the reduction in the corporate income tax rate. Certain of the orders requested that the public utilities submit a response to the Ohio Commission detailing the total tax impact on the utility's cost of service.

East Ohio began to reserve the impacts of the cost-of-service reduction as regulatory liabilities in January 2018 and will continue until rates are reset pursuant to state regulators' approvals. The Company has recorded a reasonable estimate of net income taxes refundable through future rates in Ohio and are currently assessing these actions and decisions, which could have a material impact on East Ohio's results of operations, financial condition and/or cash flows.

In October 2018, the Ohio Commission issued an order requiring rate-regulated utilities to file an application reflecting the impact of the 2017 Tax Reform Act on current rates by January 1, 2019. In December 2018, East Ohio filed its application proposing an approach to establishing rates and charges by and through which to return tax reform benefits to its customers. In December 2019, the Ohio Commission issued an order approving customer credits of approximately $600 million that will be shared with customers primarily over the remaining book life of the property to which the excess deferred income taxes relate. In addition, East Ohio will reduce rates approximately $19 million per year to account for the 2017 Tax Reform Act's impact on its equity return component of rates charged to customers. A tax savings credit, which passes through the reduction in the federal income tax rate under the 2017 Tax Reform Act to customers in accordance with the settlement agreement approved by the Ohio Commission, became effective on or after the first billing cycle in April 2020.

Other Regulatory Matters

Pipeline Infrastructure Replacement Program
In 2008, East Ohio began PIR, aimed at replacing approximately 25% of its pipeline system. In September 2016, the Ohio Commission approved a stipulation filed jointly by East Ohio and the Staff of the Ohio Commission to continue PIR and associated cost recovery for another five-year term, calendar years 2017 through 2021, and to permit East Ohio to increase its annual capital expenditures to $200 million by 2018 and 3% per year thereafter subject to the cost recovery rate increase caps proposed by East Ohio.

In April 2020, the Ohio Commission approved East Ohio's application to adjust PIR cost recovery rates for 2019 costs. The filing reflects gross plant investment for 2019 of $209.4 million, cumulative gross plant investment of $1.8 billion and a revenue requirement of $218.1 million.

AMR Program
In 2007, East Ohio began installing automated meter reading technology for its 1.2 million customers in Ohio. The AMR program approved by the Ohio Commission was completed in 2012. Although no further capital investment will be added, East Ohio is approved to recover depreciation, property taxes, carrying charges and a return until East Ohio has another rate case.

In April 2020, the Ohio Commission approved East Ohio's application to adjust the AMR cost recovery for 2019 costs. The filing reflects a rate reduction of $3.3 million.

Capital Expenditure Program
In 2011, East Ohio began CEP which enables East Ohio to defer depreciation expense, property tax expense and carrying costs at the debt rate of 6.5% on capital investments not covered by its PIR program to expand, upgrade or replace its pipeline system and information technology systems as well as investments necessary to comply with the Ohio Commission or other government regulation. In May 2019, East Ohio filed an application for an alternative rate plan to establish a CEP rider to recover existing CEP related deferrals and to establish an ongoing recovery mechanism for future deferrals. The filing reflects cumulative gross plant investment of $722.9 million through 2018 and a revenue requirement of $82.9 million. This matter is pending.

PIPP Plus Program
Under the Ohio PIPP Plus Program, eligible customers can make reduced payments based on their ability to pay their bill. The difference between the customer's total bill and the PIPP amount is deferred and collected under the PIPP Rider in accordance with the rules of the Ohio Commission. In July 2019, East Ohio's annual update of the PIPP rider, filed in May 2019 with the Ohio Commission, was automatically approved after a 45-day waiting period from the date of filing. The revised rider rate reflects recovery over the twelve-month period from July 2019 through June 2020 of projected deferred program costs of approximately $12 million from April 2019 through June 2020, net of recovery for under-recovery of accumulated arrearages of approximately $8 million as of March 31, 2019.

UEX Rider

East Ohio has approval for a UEX Rider through which it recovers the bad debt expense of most customers not participating in the PIPP Plus Program. The UEX Rider is adjusted annually to achieve dollar for dollar recovery of East Ohio's actual write-offs of uncollectible amounts. In July 2019, the Ohio Commission approved East Ohio's application requesting approval of its UEX Rider to reflect recovery of under-recovered accumulated bad debt expense of approximately $3 million as of March 31, 2019, and recovery of prospective net bad debt expense projected to total approximately $15 million for the twelve-month period from April 2019 to March 2020.

DSM Rider
East Ohio has approval for a DSM Rider through which it recovers expenditures related to its DSM programs. In November 2019, East Ohio filed an application with the Ohio Commission seeking approval of an adjustment to the DSM rider to recover a total of $4 million, which includes an over-recovery of costs during the preceding 12-month period. This application was approved by the Ohio Commission in January 2020.

Infrastructure Development Rider
East Ohio has approval for an Infrastructure Development Rider through which it recovers expenditures related to economic development projects. As economic development projects are proposed and approved, East Ohio updates the rider rate in accordance with the timeliness and conditions established by the Ohio Commission. Cost recovery under this rider is capped at $1.50 per month per customer. During 2019, three economic development projects totaling $10.5 million were submitted and approved by the Ohio Commission and did not exceed the $1.50 per month per customer cap.

Pipeline Safety and Management Program
In 2016, the Ohio Commission approved East Ohio's request to defer the operation and maintenance costs associated with implementing the Pipeline Safety and Management Program of up to $15.0 million per year. Without further approval by the Ohio Commission, this program will end in January 2024.

NOTE 9. ASSET RETIREMENT OBLIGATION

AROs represent obligations that result from laws, statutes, contracts and regulations related to the eventual retirement of certain of East Ohio's long-lived assets. East Ohio's AROs primarily include interim retirement of natural gas distribution pipelines. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. The changes to AROs during 2018 and 2019 were as follows:

(millions)	Amount	
AROs at December 31, 2017	$	81.3
Accretion		4.8
Obligations incurred during the period		0.2
Obligations settled during the period		(2.6)
AROs at December 31, 2018[1]	$	83.7
Accretion		**5.0**
Obligations incurred during the period		**0.2**
Obligations settled during the period		**(3.5)**
AROs at December 31, 2019[1]	**$**	**85.4**

(1) Includes $2.6 million and $2.4 million reported in other current liabilities in the Balance Sheets at December 31, 2018 and 2019, respectively.

NOTE 10. LEASES

At December 31, 2019, East Ohio had the following lease assets and liabilities recorded in the Consolidated Balance Sheets:

(millions)	December 31, 2019
Lease assets:	
Operating lease assets[1]	$ 19.1
Finance lease assets[2]	6.7
Total lease assets	$ 25.8
Lease liabilities:	
Operating lease liabilities[3]	$ 5.6
Finance lease liabilities[3]	1.3
Total lease liabilities - current	6.9
Operating lease liabilities[4]	13.0
Finance lease liabilities	5.5
Total lease liabilities - noncurrent	18.5
Total lease liabilities	$ 25.4

(1) Included in other deferred charges and other assets in the Balance Sheet.
(2) Included in property, plant and equipment in the Balance Sheet, net of $1.0 million of accumulated amortization at December 31, 2019.
(3) Included in other current liabilities in the Balance Sheet.
(4) Included in other current deferred charges and other liabilities in the Balance Sheet.

For the year ended December 31, 2019, total lease cost associated with the East Ohio's leasing arrangements consisted of the following:

(millions)	Year Ended December 31, 2019
Finance lease cost:	
Amortization	$ 0.8
Interest	0.2
Operating lease cost	6.8
Short-term lease cost	0.1
Variable lease cost	0.2
Total lease cost	$ 8.1

Rent expense for all operating leases for the years ended December 31, 2018 and 2017 were $7.4 million and $7.0 million, respectively.

For the year ended December 31, 2019, cash paid for amounts included in the measurement of the lease liabilities consisted of the following amounts, included in the Statements of Cash Flows:

(millions)	Year Ended December 31, 2019
Operating cash flows for finance leases	$ 0.2
Operating cash flows for operating leases	7.7
Financing cash flows for finance leases	0.8

At December 31, 2019, the weighted average remaining lease term and weighted discount rate for East Ohio's finance and operating leases were as follows:

	December 31, 2019
Weighted average remaining lease term - finance leases	6 years
Weighted average remaining lease term - operating leases	4 years
Weighted average discount rate - finance leases	3.99%
Weighted average discount rate - operating leases	4.55%

East Ohio lease liabilities have the following maturities:

Maturity of Lease Liabilities (millions)	Operating	Finance
2020	$ 6.3	$ 1.5
2021	5.3	1.4
2022	4.1	1.3
2023	2.7	1.1
2024	1.3	0.9
After 2024	0.6	1.4
Total undiscounted lease payments	20.3	7.6
Present value adjustment	(1.7)	(0.8)
Present value of lease liabilities	$ 18.6	$ 6.8

NOTE 11. VARIABLE INTEREST ENTITIES

The primary beneficiary of a VIE is required to consolidate the VIE and to disclose certain information about its significant variable interests in the VIE. The primary beneficiary of a VIE is the entity that has both: (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

DES, an affiliated VIE, provides accounting, legal, finance and certain administrative and technical services to Dominion Energy and its subsidiaries, including East Ohio. East Ohio purchased shared services from DES of $66.9 million, $55.2 million and $51.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Balance Sheet at December 31, 2019 and 2018 included amounts due to DES for such services of $14.0 million and $17.1 million, respectively. East Ohio determined that it is not the primary beneficiary of DES as it does not have both the power to direct the activities that most significantly impact their economic performance nor the obligation to absorb losses and benefits which could be significant to it. East Ohio does not have any obligation to absorb more than its allocated share of DES costs.

NOTE 12. AFFILIATED CURRENT BORROWINGS AND LONG-TERM DEBT

During 2019, East Ohio entered into an IRCA with Dominion Energy. Affiliated current borrowings under this IRCA were $7.6 million at December 31, 2019. Interest expense on the IRCAs was less than a million dollars for the year ended December 31, 2019. At December 31, 2019 there was no accrued interest associated with these borrowings.

Affiliated current borrowings under an IRCA with Dominion Energy Gas was $701.9 million at December 31, 2018. Interest expense on the IRCAs was $14.0 million, $15.6 million and $5.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Accrued interest associated with these borrowings at December 31, 2018 was $1.6 million. During 2019 the remaining balance owed to Dominion Energy Gas was paid and the agreement was terminated.

At December 31, 2019 and 2018, East Ohio's affiliated long-term debt to Dominion Energy Gas totaled $1.7 billion and $1.4 billion, respectively. At December 31, 2018, $115 million is included in affiliated current borrowings related to the current portion of long-term debt. These promissory notes are due between 2024 and 2049 and have fixed annual interest rates between 3.67% to 4.90% which are payable semi-annually. Interest expense on these promissory notes was $71.9 million for the year ended December 31, 2019 and $63.5 million for both the years ended December 31, 2018 and 2017. Accrued interest associated with this debt was $22.0 million and $18.8 million at December 31, 2019 and 2018, respectively.

Based on stated maturity dates, the scheduled principal payments of long-term debt at December 31, 2019, were as follows:

(millions, except percentages)	2020	2021	2022	2023	2024	Thereafter	Total
East Ohio	**$ —**	**$ —**	**$ —**	**$ —**	**$ 300.0**	**$ 1,365.0**	**$ 1,665.0**
Weighted-average Coupon					**3.80%**	**4.44%**	

NOTE 13. DIVIDEND RESTRICTIONS

The Ohio Commission may prohibit any public service company, including East Ohio, from declaring or paying a dividend to an affiliate if found to be detrimental to the public interest. At December 31, 2019, the Ohio Commission had not restricted the payment of dividends by East Ohio.

NOTE 14. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans
East Ohio provides certain retirement benefits to eligible active employees, retirees and qualifying dependents. In addition, East Ohio participates in retirement benefit plans sponsored by Dominion Energy, which provides certain retirement benefits to eligible active employees, retirees and qualifying dependents of East Ohio. Under the terms of its benefit plans, East Ohio reserves the right to change, modify or terminate the plans. From time to time in the past, benefits have changed, and some of these changes have reduced benefits.

Pension and other postretirement benefit costs are affected by employee demographics (including age, compensation levels and years of service), the level of contributions made to the plans and earnings on plan assets. These costs may also be affected by changes in key assumptions, including expected long-term rates of return on plan assets, discount rates, healthcare cost trend rates, mortality rates and the rate of compensation increases.

East Ohio uses December 31 as the measurement date for all of its employee benefit plans, including those in which it participates with Dominion Energy. East Ohio uses the market-related value of pension plan assets to determine the expected return on plan assets, a component of net periodic pension cost, for all pension plans, including those in which it participates with Dominion Energy. The market-related value recognizes changes in fair value on a straight-line basis over a four-year period, which reduces year-to-year volatility. Changes in fair value are measured as the difference between the expected and actual plan asset returns, including dividends, interest and realized and unrealized investment gains and losses. Since the market-related value recognizes changes in fair value over a four-year period, the future market-related value of pension plan assets will be impacted as previously unrecognized changes in fair value are recognized.

East Ohio's pension and other postretirement benefit plans hold investments in trusts to fund employee benefit payments. East Ohio's pension and other postretirement plan assets for employees represented by collective bargaining units experienced aggregate actual returns (losses) of $269.2 million and $(80.3) million in 2019 and 2018, respectively, versus expected returns of $112.4 million and $109.9 million, respectively. Differences between actual and expected returns on plan assets are accumulated and amortized during future periods. As such, any investment-related declines in these trusts will result in future increases in the net periodic cost recognized for such employee benefit plans and will be included in the determination of the amount of cash to be contributed to the employee benefit plans.

Voluntary Retirement Program
In March 2019, Dominion Energy announced a voluntary retirement program to employees that meet certain age and service requirements. In 2019, upon determinations made concerning the number of employees that elected to participate in the program, East Ohio recorded a charge of $32.8 million ($25.9 million after-tax) included within other operations and maintenance expense ($31.4 million) and other taxes ($1.4 million) in the Statement of Income.

In April 2019, East Ohio remeasured the pension and other postretirement benefit plans as a result of the voluntary retirement program. The impact of the remeasurement on net periodic benefit cost (credit) was recognized prospectively from the remeasurement date. The discount rate used for the remeasurement was 4.10% for the pension plan and 4.05% for the other postretirement benefit plans. All other assumptions used for the remeasurement were consistent with the measurement as of December 31, 2018.

Funded Status
The following table summarizes the changes in pension plan and other postretirement benefit plan obligations and plan assets and includes a statement of the plans' funded status for East Ohio employees represented by collective bargaining units:

Year Ended December 31, (millions, except percentages)	Pension Benefits 2019	Pension Benefits 2018	Other Postretirement Benefits 2019	Other Postretirement Benefits 2018
Changes in benefit obligation:				
Benefit obligation at beginning of year	**$ 467.4**	$ 494.7	**$ 134.4**	$ 156.8
Service cost	**10.1**	11.6	**1.9**	2.3
Interest cost	**19.8**	18.4	**5.4**	5.7
Benefits paid	**(24.1)**	(20.5)	**(9.3)**	(9.4)
Actuarial (gains) losses during the year	**52.2**	(36.8)	**3.3**	(17.1)
Plan amendments	**—**	—	**—**	(3.9)
Curtailments[1]	**(0.2)**	—	**(0.9)**	—
Benefit obligation at end of year	**$ 525.2**	$ 467.4	**$ 134.8**	$ 134.4
Changes in fair value of plan assets:				
Fair value of plan assets at beginning of year	**$ 1,083.3**	$ 1,177.2	**$ 126.3**	$ 142.6
Actual return (loss) on plan assets	**242.2**	(73.4)	**27.0**	(6.9)
Benefits paid	**(24.1)**	(20.5)	**(9.4)**	(9.4)
Fair value of plan assets at end of year	**$ 1,301.4**	$ 1,083.3	**$ 143.9**	$ 126.3
Funded status at end of year	**$ 776.2**	$ 615.9	**$ 9.1**	$ (8.1)
Amounts recognized in the Consolidated Balance Sheets at December 31:				
Pension and other postretirement benefit assets	**$ 776.2**	$ 615.9	**$ 9.1**	$ —
Noncurrent pension and other postretirement benefit liabilities	**—**	—	**—**	8.1
Net amount recognized	**$ 776.2**	$ 615.9	**$ 9.1**	$ 8.1
Significant assumptions used to determine benefit obligations as of December 31:				
Discount rate	**3.63%**	4.42%	**3.44%**	4.37%
Weighted average rate of increase for compensation	**4.64%**	4.55%	**n/a**	n/a

The ABO for the defined benefit pension plans covering East Ohio employees represented by collective bargaining units was $492.5 million and $440.5 million at December 31, 2019 and 2018, respectively.

Under its funding policies, East Ohio evaluates plan funding requirements annually, usually in the fourth quarter after receiving updated plan information from its actuary. Based on the funded status of each plan and other factors, East Ohio determines the amount of contributions for the current year, if any, at that time. East Ohio did not make any contributions to its qualified defined benefit pension plans in 2019 and no contributions are currently expected in 2020.

Certain regulatory authorities have held that amounts recovered in utility customers' rates for other postretirement benefits, in excess of benefits actually paid during the year, must be deposited in trust funds dedicated for the sole purpose of paying such benefits. Accordingly, East Ohio fund a portion of other postretirement benefit costs through VEBAs. East Ohio's contributions to VEBAs were less than a million dollars for both 2019 and 2018, and East Ohio does not expect to contribute to any VEBA in 2020.

East Ohio does not expect any pension or other postretirement plan assets to be returned during 2020.

The following table provides information on the benefit obligations and fair value of plan assets for plans with a benefit obligation in excess of plan assets for East Ohio employees represented by collective bargaining units:

As of December 31, (millions)	Pension Benefits 2019	Pension Benefits 2018	Other Postretirement Benefits 2019	Other Postretirement Benefits 2018
Benefit obligation	**$ —**	$ —	**$ —**	$ 134.4
Fair value of plan assets	**—**	—	**—**	126.3

As of December 31, 2019 and 2018 the fair value of plan assets exceeded the ABO for East Ohio's pension plan.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for East Ohio employees represented by collective bargaining units plans:

(millions)	Estimated Future Benefit Payments	
	Pension Benefits	Other Postretirement Benefits
2020	$ 24.1	$ 9.4
2021	24.3	9.3
2022	26.2	9.3
2023	27.1	9.4
2024	28.0	9.5
2025-2029	145.9	44.2

Plan Assets

East Ohio's overall objective for investing its pension and other postretirement plan assets is to achieve appropriate long-term rates of return commensurate with prudent levels of risk. As a participating employer in various pension plans sponsored by Dominion Energy, East Ohio is subject to Dominion Energy's investment policies for such plans. To minimize risk, funds are broadly diversified among asset classes, investment strategies and investment advisors. The strategic target asset allocations for East Ohio's pension funds are 28% U.S. equity, 18% non-U.S. equity, 35% fixed income, 3% real estate and 16% other alternative investments. U.S. equity includes investments in large-cap, mid-cap and small-cap companies located in the U.S. Non-U.S. equity includes investments in large-cap and small-cap companies located outside of the U.S. including both developed and emerging markets. Fixed income includes corporate debt instruments of companies from diversified industries and U.S. Treasuries. The U.S. equity, non-U.S. equity and fixed income investments are in individual securities as well as mutual funds. Real estate includes equity real estate investment trusts and investments in partnerships. Other alternative investments include partnership investments in private equity, debt and hedge funds that follow several different strategies.

East Ohio also utilizes common/collective trust funds as an investment vehicle for its defined benefit plans. A common/collective trust fund is a pooled fund operated by a bank or trust company for investment of the assets of various organizations and individuals in a well-diversified portfolio. Common/collective trust funds are funds of grouped assets that follow various investment strategies.

Strategic investment policies are established for East Ohio's prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include employee demographics, liability growth rates, future discount rates, the funded status of the plans and the expected long-term rate of return on plan assets. Deviations from the plans' strategic allocation are a function of East Ohio's assessments regarding short-term risk and reward opportunities in the capital markets and/or short-term market movements which result in the plans' actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing, actual allocations are brought back in line with the target. Future asset/liability studies will focus on strategies to further reduce pension and other postretirement plan risk, while still achieving attractive levels of returns. Financial derivatives may be used to obtain or manage market exposures and to hedge assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. However, the use of a mid-market pricing convention (the mid-point between bid and ask prices) is permitted. Fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid).

Fair value is based on actively-quoted market prices, if available. In the absence of actively-quoted market prices, price information is sought from external sources, including industry publications, and to a lesser extent, broker quotes. When evaluating pricing information provided by Designated Contract Market settlement pricing, other pricing services, or brokers, East Ohio considers the ability to transact at the quoted price, i.e. if the quotes are based on an active market or an inactive market and to the extent which pricing models are used, if pricing is not readily available. If pricing information from external sources is not available, or if East Ohio believes that observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases the unobservable inputs are developed and substantiated using historical information, available market data, third-party data, and statistical analysis. Periodically, inputs to valuation models are reviewed and revised as needed, based on historical information, updated market data, market liquidity and relationships, and changes in third-party pricing sources.

East Ohio also utilizes the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1-Quoted prices (unadjusted) in active markets for identical assets that East Ohio has the ability to access at the measurement date. This primarily includes exchange-listed securities.
- Level 2-Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset, including quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, inputs other than quoted prices that are observable for the asset, and inputs that are derived from observable market data by correlation or other means. This primarily includes certain Treasury securities, insurance contracts, and corporate, state and municipal debt instruments.
- Level 3-Unobservable inputs for the asset, including situations where there is little, if any, market activity for the asset.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The fair values of East Ohio employees represented by collective bargaining units pension plan and other postretirement assets by asset category are as follows:

At December 31,	2019				2018			
(millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Pension plan								
Cash and cash equivalents	**$ 2.6**	**$ 0.1**	**$ —**	**$ 2.7**	$ 2.6	$ 0.1	$ —	$ 2.7
Common and preferred stocks:								
U.S.	**335.4**	**—**	**—**	**335.4**	247.6	—	—	247.6
International	**216.2**	**—**	**—**	**216.2**	159.7	—	—	159.7
Insurance contracts	**—**	**52.9**	**—**	**52.9**	—	47.9	—	47.9
Corporate debt instruments	**3.9**	**126.1**	**—**	**130.0**	3.4	109.7	—	113.1
Government securities	**4.4**	**111.1**	**—**	**115.5**	3.8	91.1	—	94.9
Total recorded at fair value	**$ 562.5**	**$290.2**	**$ —**	**$ 852.7**	$417.1	$248.8	$ —	$ 665.9
Assets recorded at NAV[1]:								
Common/collective trust funds				**297.4**				278.3
Alternative investments:								
Real estate funds				**13.4**				16.3
Private equity funds				**115.5**				95.3
Debt funds				**23.3**				23.4
Hedge funds				**2.1**				2.6
Total recorded at NAV				**$ 451.7**				$ 415.9
Total investments[2]				**$ 1,304.4**				$1,081.8
Other postretirement plans								
Cash and cash equivalents	**$ 0.1**	**$ —**	**$ —**	**$ 0.1**	$ —	$ —	$ —	$ —
Common and preferred stocks:								
U.S.	**58.2**	**—**	**—**	**58.2**	46.7	—	—	46.8
International	**12.6**	**—**	**—**	**12.6**	12.5	—	—	12.5
Total recorded at fair value	**$ 70.9**	**$ —**	**$ —**	**$ 70.9**	$ 59.2	$ —	$ —	$ 59.3
Assets recorded at NAV[1]:								
Common/collective trust funds				**62.1**				58.2
Alternative investments:								
Real estate funds				**0.6**				0.8
Private equity funds				**10.1**				7.7
Debt funds				**0.2**				0.3
Total recorded at NAV				**$ 73.0**				$ 67.0
Total investments				**$ 143.9**				$ 126.3

(1) *These investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient which are not required to be categorized in the fair value hierarchy.*

(2) *Excludes net assets related to pending sales of securities of $10.9 million, net accrued income of $3.5 million, and includes net assets related to pending purchases of securities of $4.4 million at December 31, 2019. Excludes net assets related to pending sales of securities of $3.3 million, net accrued income of $3.1 million, and includes net assets related to pending purchases of securities of $1.7 million at December 31, 2018.*

The Plan's investments are determined based on the fair values of the investments and the underlying investments, which have been determined as follows:

- *Cash and Cash Equivalents*—Investments are held primarily in short-term notes and treasury bills, which are valued at cost plus accrued interest.
- *Common and Preferred Stocks*—Investments are valued at the closing price reported on the active market on which the individual securities are traded.

- *Insurance Contracts*—Investments in Group Annuity Contracts with John Hancock were entered into after 1992 and are stated at fair value based on the fair value of the underlying securities as provided by the managers and include investments in U.S. government securities, corporate debt instruments, state and municipal debt securities.
- *Corporate Debt Instruments*—Investments are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar instruments, the instrument is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.
- *Government Securities*—Investments are valued using pricing models maximizing the use of observable inputs for similar securities.
- *Common/Collective Trust Funds*—Common/collective trust funds invest in debt and equity securities and other instruments with characteristics similar to those of the funds' benchmarks. The primary objectives of the funds are to seek investment returns that approximate the overall performance of their benchmark indexes. These benchmarks are major equity indices, fixed income indices, and money market indices that focus on growth, income, and liquidity strategies, as applicable. Investments in common/collective trust funds are stated at the NAV as determined by the issuer of the common/collective trust funds and are based on the fair value of the underlying investments held by the fund less its liabilities. The NAV is used as a practical expedient to estimate fair value. The common/collective trust funds do not have any unfunded commitments, and do not have any applicable liquidation periods or defined terms/periods to be held. The majority of the common/collective trust funds have limited withdrawal or redemption rights during the term of the investment.
- *Alternative Investments*—Investments in real estate funds, private equity funds, debt funds and hedge funds are stated at fair value based on the NAV of the Plan's proportionate share of the partnership, joint venture or other alternative investment's fair value as determined by reference to audited financial statements or NAV statements provided by the investment manager. The NAV is used as a practical expedient to estimate fair value.

Net Periodic Benefit (Credit) Cost

The service cost component and non-service cost components of net periodic benefit (credit) cost are reflected in other operations and maintenance expense and other income, respectively, in the Statements of Income. The components of the provision for net periodic benefit (credit) cost and amounts recognized in regulatory assets and liabilities for East Ohio employees represented by collective bargaining units plans are as follows:

Year Ended December 31, (millions, except percentages)	Pension Benefits 2019	Pension Benefits 2018	Pension Benefits 2017	Other Postretirement Benefits 2019	Other Postretirement Benefits 2018	Other Postretirement Benefits 2017
Service cost	**$ 10.1**	$ 11.6	$ 9.7	**$ 1.9**	$ 2.3	$ 2.4
Interest cost	**19.8**	18.4	19.0	**5.4**	5.7	6.1
Expected return on plan assets	**(101.4)**	(98.2)	(91.8)	**(11.0)**	(11.7)	(11.0)
Amortization of prior service cost	**—**	—	—	**0.3**	0.9	0.9
Amortization of net actuarial loss	**7.4**	6.4	3.4	**0.1**	—	—
Net periodic benefit (credit) cost	**$ (64.1)**	$ (61.8)	$ (59.7)	**$ (3.3)**	$ (2.8)	$ (1.6)
Changes in plan assets and benefit obligations recognized in regulatory assets and liabilities:						
Current year net actuarial (gain) loss	**$ (88.6)**	$ 134.8	$ (47.7)	**$ (12.7)**	$ 1.5	$ 9.0
Prior service cost	**—**	—	—	**—**	(3.9)	—
Curtailments	**(0.2)**	—	—	**(0.8)**	—	—
Less amounts included in net periodic benefit cost:						
Amortization of net actuarial loss	**(7.4)**	(6.4)	(3.4)	**(0.1)**	—	—
Amortization of prior service credit (cost)	**—**	—	—	**(0.3)**	(0.9)	(0.9)
Total recognized in regulatory assets and liabilities	**$ (96.2)**	$ 128.4	$ (51.1)	**$ (13.9)**	$ (3.3)	$ 8.1
Significant assumptions used to determine periodic cost:						
Discount rate	**4.10% - 4.42%**	3.81%	4.50%	**4.05% - 4.37%**	3.76%	4.47%
Expected long-term rate of return on plan assets	**8.65%**	8.75%	8.75%	**8.50%**	8.50%	8.50%
Weighted average rate of increase for compensation	**4.64%**	4.55%	4.11%	**n/a**	n/a	n/a
Healthcare cost trend rate[1]				**6.50%**	7.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)[1]				**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate[1]				**2025**	2021	2021

(1) Assumptions used to determine net periodic cost for the following year.

The components of regulatory assets for East Ohio plans associated with employees represented by collective bargaining units that have not been recognized as components of net periodic benefit cost are as follows:

At December 31, (millions)	Pension Benefits 2019	Pension Benefits 2018	Other Postretirement Benefits 2019	Other Postretirement Benefits 2018
Net actuarial loss	**$ 184.9**	$ 281.0	**$ 3.8**	$ 17.5
Prior service cost	**—**	—	**1.4**	1.7
Total	**$ 184.9**	$ 281.0	**$ 5.2**	$ 19.2

The following table provides the components of regulatory assets for East Ohio plans associated with employees represented by collective bargaining units as of December 31, 2019 that are expected to be amortized as components of net periodic benefit cost in 2020:

(millions)	Pension Benefits	Other Postretirement Benefits
Net actuarial loss	$ 8.3	$ 0.1
Prior service cost	—	0.3

The expected long-term rates of return on plan assets, discount rates, healthcare cost trend rates and mortality are critical assumptions in determining net periodic benefit (credit) cost. East Ohio develops non-investment related assumptions, which are then compared to the forecasts of an independent investment advisor to ensure reasonableness. An internal committee selects the final assumptions used for East Ohio's pension and other postretirement plans, healthcare cost trend rates and mortality rates.

East Ohio determines the expected long-term rates of return on plan assets for its pension plans and other postretirement benefit plans, by using a combination of:

- Expected inflation and risk-free interest rate assumptions;
- Historical return analysis to determine long term historic returns as well as historic risk premiums for various asset classes;
- Expected future risk premiums, asset classes' volatilities and correlations;
- Forward-looking return expectations derived from the yield on long-term bonds and the expected long-term returns of major capital market assumptions; and
- Investment allocation of plan assets.

East Ohio determines discount rates from analyses of AA/Aa rated bonds with cash flows matching the expected payments to be made under its plans.

Mortality rates are developed from actual and projected plan experience for postretirement benefit plans. East Ohio's actuary conducts an experience study periodically as part of the process to select its best estimate of mortality. East Ohio considers both standard mortality tables and improvement factors as well as the plans' actual experience when selecting a best estimate.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for East Ohio's retiree healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have had the following effects for East Ohio's (for employees represented by collective bargaining units) other postretirement benefit plans:

	Other Postretirement Benefits	
(millions)	One percentage point increase	One percentage point decrease
Effect on net periodic cost for 2020	$ 0.9	$ (0.7)
Effect on other postretirement benefit obligation at December 31, 2019	13.2	(11.2)

East Ohio (Employees Not Represented by Collective Bargaining Units) – Participation in Defined Benefit Plans
East Ohio employees not represented by collective bargaining units are covered by the Dominion Energy Pension Plan, a defined benefit pension plan sponsored by Dominion Energy, which provides benefits to multiple Dominion Energy subsidiaries. Retirement benefits payable are based primarily on years of service, age and the employee's compensation. As a participating employer, East Ohio is subject to Dominion Energy's funding policy, which is to contribute annually an amount that is in accordance with the provisions of the Employee Retirement Income Security Act of 1974. During 2019, no contributions to the plan were made by East Ohio and no contributions are currently expected in 2020. Net periodic pension credit related to the plan was $(17.6) million, $(21.0) million and $(36.4) million in 2019, 2018 and 2017, respectively, recorded in other operations and maintenance expense in the Statements of Income. The funded status of various Dominion Energy subsidiary groups and employee compensation are the basis for determining the share of total pension costs for participating Dominion Energy subsidiaries. At December 31, 2019 and 2018, the amount due from Dominion Energy associated with this plan, was $459.8 million and $442.1 million, respectively, recorded in pension and other postretirement benefit assets in East Ohio's Balance Sheets.

Retiree healthcare and life insurance benefits for East Ohio employees not represented by collective bargaining units are covered by the Dominion Energy Retiree Health and Welfare Plan which is sponsored by Dominion Energy. These plans provide certain retiree healthcare and life insurance benefits to multiple Dominion Energy subsidiaries. Annual employee premiums are based on several factors such as retirement date and years of service. Net periodic benefit credit related to this plan was less than a million, $(1.9) million and $(2.8) million in 2019, 2018 and 2017, respectively, recorded in other operations and maintenance expense in the Statements of Income. Employee headcount is the basis for determining the share of total other postretirement benefit costs for participating Dominion Energy subsidiaries. At December 31, 2019 and 2018 the amount due from Dominion Energy associated with this plan was $5.1 million and $4.1 million, respectively, recorded in pension and other postretirement benefit assets in East Ohio's Balance Sheets.

Defined Contribution Plan
East Ohio also participates in a Dominion Energy-sponsored defined contribution plan which covers multiple Dominion Energy subsidiaries. East Ohio recognized $4.0 million, $4.1 million and $3.9 million of expense in other operations and maintenance expense in the Statements of Income in 2019, 2018 and 2017, respectively, as employer matching contributions to this plan.

NOTE 15. COMMITMENTS AND CONTINGENCIES

As a result of issues generated in the ordinary course of business, East Ohio is involved in legal proceedings before various courts and is periodically subject to governmental examinations (including by regulatory authorities), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, or involve significant factual issues that need to be resolved, such that it is not possible for East Ohio to estimate a range of possible loss. For such matters that East Ohio cannot estimate, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that East Ohio is able to estimate a range of possible loss. For legal proceedings and governmental examinations that East Ohio is able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Any accrued liability is recorded on a gross basis with a receivable also recorded for any probable insurance recoveries. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent East Ohio's maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. For current proceedings not specifically reported below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on East Ohio's financial position, liquidity or results of operations.

The operations of East Ohio are subject to a variety of state and federal laws and regulations governing the management and disposal of solid and hazardous waste, and release of hazardous substances associated with current and/or historical operations. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and similar state laws, may impose joint, several and strict liability for cleanup on potentially responsible parties who owned, operated or arranged for disposal at facilities affected by a release of hazardous substances. In addition, many states have created programs to incentivize voluntary remediation of sites where historical releases of hazardous substances are identified and property owners or responsible parties decide to initiate cleanups.

From time to time, East Ohio may be identified as a potentially responsible party in connection with the alleged release of hazardous substances or wastes at a site. Under applicable federal and state laws, East Ohio could be responsible for costs associated with the investigation or remediation of impacted sites, or subject to contribution claims by other responsible parties for their costs incurred at such sites. East Ohio also may identify, evaluate and remediate other potentially impacted sites under voluntary state programs. Remediation costs may be subject to reimbursement under East Ohio's insurance policies, rate recovery mechanisms, or both. Except as described below, East Ohio does not believe these matters will have a material effect on results of operations, financial condition and/or cash flows.

East Ohio has determined that it is associated with former manufactured gas plant sites. Remediation work was previously substantially completed at one site under federal or state oversight. East Ohio has finalized remediation plans at one site, and expects to conduct remediation activities at that site primarily in 2020. At December 31, 2019, East Ohio has $8 million of reserves recorded, including $8 million recorded to other operations and maintenance expense for the year ended December 31, 2019. East Ohio is associated with ten additional sites which are not under investigation by any state or federal environmental agency nor the subject of any current or proposed plans to perform remediation activities. Due to the uncertainty surrounding such sites, East Ohio is unable to make an estimate of the potential financial statement impacts.

Surety Bonds
At December 31, 2019, East Ohio had purchased $5.6 million of surety bonds. Under the terms of surety bonds, East Ohio is obligated to indemnify the respective surety bond company for any amounts paid.

NOTE 16. CREDIT RISK

Credit risk is the risk of financial loss if counterparties fail to perform their contractual obligations. In order to minimize overall credit risk, credit policies are maintained, including requiring customer deposits and the evaluation of counterparty financial condition.

East Ohio transacts mainly with residential, commercial and industrial energy consumers. These transactions principally occur in the eastern region of Ohio. East Ohio does not believe that this geographic concentration contributes to its overall exposure to credit risk. In addition, as a result of its large and diverse customer base, East Ohio is not exposed to a significant concentration of credit risk for receivables arising from gas utility operations. East Ohio's gross credit exposure for each counterparty is calculated as outstanding receivables plus any unrealized on- or off-balance sheet exposure, taking into account contractual netting rights. Gross credit exposure is calculated prior to the application of collateral. At December 31, 2019, East Ohio's credit exposure totaled $3.3 million. Of this amount, one investment grade counterparty, represented 95% of the total exposure.

East Ohio distributes natural gas to residential, commercial and industrial customers in Ohio using rates established by the Ohio Commission. Approximately 99% of East Ohio revenues are derived from its regulated gas distribution services. East Ohio's bad debt risk is mitigated by the regulatory framework established by the Ohio Commission. See Note 8 for further information about Ohio's PIPP and UEX Riders that mitigate East Ohio's overall credit risk.

NOTE 17. RELATED-PARTY TRANSACTIONS

East Ohio engages in related-party transactions primarily with other Dominion Energy subsidiaries (affiliates). East Ohio's receivable and payable balances with affiliates are settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions.

East Ohio participates in certain Dominion Energy benefit plans as described in Note 14. In addition, East Ohio has entered into various borrowing agreements with Dominion Energy and its subsidiaries (affiliates) as described in Note 12. A discussion of the remaining significant related-party transactions follows.

Transactions with Affiliates
DES provides accounting, legal, finance and certain administrative and technical services to East Ohio. See Note 11 for more information.

East Ohio has contracted to purchase transportation and storage services from DETI. Expenses recognized in association with these services were $22.2 million, $22.2 million and $22.5 million for the years ended December 31, 2019, 2018 and 2017, respectively, presented in purchased gas in the Statements of Income. Under these contracts, East Ohio is obligated to make future purchases of $34.5 million each year from 2020 through 2023 and $11.6 million in 2024. In addition, East Ohio provides transportation and storage services to DETI. Revenue recognized from these services for each of the years ended December 31, 2019, 2018 and 2017 were $5.9 million, presented in operating revenue in the Statements of Income. East Ohio's balance sheets included amounts due to DETI of $2.1 million and $1.6 million at December 31, 2019 and 2018, respectively.

East Ohio provides balancing and storage services to Dominion Energy Solutions, Inc. Revenue recognized in association with these services were $1.6 million, $2.8 million and $3.6 million for the years ended December 31, 2019, 2018 and 2017, respectively, presented in operating revenue in the Statements of Income. In addition, East Ohio provides billing and collection services to Dominion Energy Solutions, Inc. and other gas marketing companies in Ohio. At December 31, 2019 and 2018, East Ohio has recorded a payable to Dominion Energy Solutions, Inc. of $14.5 million and $16.3 million, respectively.

Contributions from Dominion Energy
In November 2019, Dominion Energy contributed $657.0 million to East Ohio. This contribution is intended to be used by East Ohio for the repayment of short term affiliated current borrowings with Dominion Energy Gas.

NOTE 18. SUBSEQUENT EVENTS

East Ohio has evaluated subsequent events through the date that these financial statements were available to be issued on May 4, 2020.

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion Energy Ohio for Consent and Authority to (1) Issue a Long-Term Note or Notes and (2) Enter into Interest Rate Management Agreements	)))))	Case No. 20-0175-GA-AIS

REPORT OF
THE EAST OHIO GAS COMPANY D/B/A DOMINION ENERGY OHIO

On May 6, 2020, a Finding and Order (the Order) was issued regarding the Application and Supplemental Application filed by The East Ohio Gas Company d/b/a Dominion Energy Ohio (DEO) on January 28, 2020, and April 22, 2020, respectively. The Order required DEO to file with the Commission a report containing certain information regarding the issuance of the Notes within 30 days of the consummation of the authorized transaction(s).

Please be advised that on June 2, 2020, DEO initiated and priced an offering of $1.8 billion of senior unsecured long-term notes, and the associated transaction closed on June 16, 2020. Concurrent with closing on June 16, 2020, net proceeds of the transaction were used to repay DEO's long-term intercompany notes in the amount of $1.665 billion and reduce short-term indebtedness. Pursuant to the requirements of the Order, DEO respectfully submits the attached documentation (Exhibit A) for the terms and particulars of the transaction.

Dated: July 2, 2020

The East Ohio Gas Company d/b/a
Dominion Energy Ohio

By: */s/ James E. Eck*
James E. Eck, Vice President and
General Manager

The East Ohio Gas Company
Issuance of Senior Unsecured Long Term Notes

In conjunction with Commission's Order in Case No. 20-0175-GA-AIS dated May 6, 2020, $1.8 billion of senior unsecured long-term notes were issued on June 16, 2020. The interest rates and maturities were established through negotiated offerings. Interest is to be paid semi-annually on December 15 and June 15 beginning December 15, 2020.

DEO - Note Detail			
	Series A	**Series B**	**Series C**
Principal	$500,000,000	$500,000,000	$800,000,000
Coupon	1.30%	2.00%	3.00%
Maturity date	June 15, 2025	June 15, 2030	June 15, 2050
Aggregate note principal		$1,800,000,000	
Less:			
Underwriters fees		$13,250,000	
Discount		$13,427,000	
Estimated other fees		$1,631,000	
Net proceeds to company		$1,771,692,000	
% net proceeds to notional value		98.4%	
Approximate interest cost savings (annual)		$34,400,000	
Offering weighted average interest rate		2.25%*	
Offering weighted average maturity		17.5 years*	

* A worksheet showing calculation of the weighted average interest cost and weighted maturity of the issuance is attached.

Dominion Energy Ohio

Interest rate and average maturity support

Weighted average interest rate for offering

Tenor	5	10	30
Interest rate	1.30%	2.00%	3.00%
Tranche weighting	27.8%	27.8%	44.4%
Weighted interest rate	0.3611%	0.5556%	1.3333%

Offering weighted average interest rate	**2.25%**

Weighted average maturity (years) for offering

Tranche Tenor	5	10	30
Tranche weighting	27.8%	27.8%	44.4%
Tranche maturity weight (years)	1.4	2.8	13.3

Offering weighted average maturity (years)	**17.5**

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Case No(s). 20-0175-GA-AIS

Summary: Report Report of The East Ohio Gas Company d/b/a Dominion Energy Ohio electronically filed by Christopher T Kennedy on behalf of The East Ohio Gas Company d/b/a Dominion Energy Ohio

Summary: Testimony Testimony of Daniel J. Duann, Ph.D. On Behalf Of The Office of The Ohio Consumers' Counsel and Northeast Ohio Public Energy Council electronically filed by Mrs. Tracy J Greene on behalf of Healey, Christopher