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**People's Counsel**

December 21, 2018

Brinda Westbrook-Sedgwick  
Commission Secretary  
Public Service Commission  
of the District of Columbia  
1325 G Street, N.W., Suite 800  
Washington, D.C. 20005

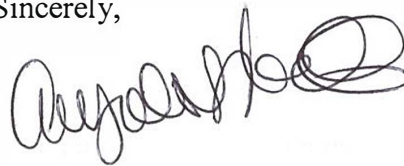
**Re: Formal Case No. 1142, In the Matter of the Merger of AltaGas, Ltd. and  
Washington Gas Holdings, Inc.**

Dear Ms. Westbrook-Sedgwick:

Enclosed please find the original and (3) copies of the *Office of the People's Counsel's for the District of Columbia Motion to Convene a Status Conference Regarding the Financial Health of AltaGas LTD and Washington Gas Light Company.*

If there are any questions regarding this matter, please contact me at 202.727.3071.

Sincerely,



Anjali G. Patel  
Senior Assistant People's Counsel

Enclosure

cc: Parties of Record

**BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF THE DISTRICT OF COLUMBIA**

**In the Matter of**

**the Merger Application of AltaGas  
Ltd. and WGL Holdings, Inc.**

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**Formal Case No. 1142**

**OFFICE OF THE PEOPLE’S COUNSEL  
FOR THE DISTRICT OF COLUMBIA’S  
MOTION TO CONVENE A STATUS CONFERENCE  
REGARDING THE FINANCIAL HEALTH OF  
ALTAGAS LTD AND WASHINGTON GAS LIGHT COMPANY**

Pursuant to Rules 105.8 and 129 of the Public Service Commission of the District of Columbia’s (“Commission” or “PSC”) Rules of Practice and Procedure,<sup>1</sup> the Office of the People’s Counsel for the District of Columbia (“OPC” or “Office”), the statutory representative of District of Columbia ratepayers with respect to utility matters,<sup>2</sup> respectfully requests that the Commission convene a status conference for the limited purpose of allowing AltaGas Ltd. (“AltaGas” or “ALA”), WGL Holdings Inc. (“WGLH”), and Washington Gas Light Company (“WGL” or “Washington Gas,” and collectively with ALA and WGLH “Companies”) to explain the Companies’ current financial status. AltaGas’s acquisition of WGL and WGLH was an epic event that garnered widespread public interest. Accordingly, it is important that the Companies lodge on the public record their explanation of their current financial status in order to facilitate transparency and otherwise ensure that consumers are kept informed as developments occur.<sup>3</sup>

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<sup>1</sup> 15 DCMR §§ 105.8, 129.

<sup>2</sup> D.C. Official Code § 34-804 (Lexis 2018).

<sup>3</sup> On December 13, 2018, OPC propounded data requests on the Companies regarding their financial status. The

OPC's motion is prompted by multiple reports that WGL and its parent company ALA's credit ratings have been downgraded by major credit agencies and by AltaGas's stock price declines. Before AltaGas and WGLH announced their intention to merge, WGLH and WGL's credit ratings were stable and strong,<sup>4</sup> and although during the merger proceeding two rating agencies changed the companies' outlook to negative, rather than stable, the ratings remained strong.<sup>5</sup> Less than six months have passed since AltaGas acquired WGL and WGLH through a \$6.4 billion dollar transaction.<sup>6</sup> In that short span of time, WGL and WGLH's credit ratings have been downgraded by major credit agencies at least twice. The first set of downgrades occurred immediately following the merger's close,<sup>7</sup> and the second occurred on December 19, 2018.<sup>8</sup>

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Companies are scheduled to respond to those data requests on December 28, 2018. *Formal Case No. 1142, In the Matter of the Merger Application of AltaGas Ltd. and WGL Holdings, Inc.* ("Formal Case No. 1142"), DR1142, OPC Data Request No. 18, filed December 13, 2018. The People's Counsel has also been in discussions with AltaGas to schedule a meeting to discuss financial and other issues related to the merger and merger compliance.

<sup>4</sup> *Formal Case No. 1142*, Order No. 19396 ¶ 11, rel. June 29, 2018 (explaining that Standard and Poor's ("S&P") and Moody's, respectively, assessed WGLH's senior, unsecured credit ratings at 'A-' and 'A3', and WGL's senior, unsecured credit ratings at 'A' and 'A1')("Order No. 19396").

<sup>5</sup> Order No. 19396, ¶ 9.

<sup>6</sup> *Formal Case No. 1142*, Letter from Ms. Moxila A. Upadhyaya to Ms. Brinda Westbrook-Sedgwick, Commission Secretary, re FC1142, filed July 9, 2018 (providing notice that the transaction closed on July 6, 2018). The value of the acquisition is based on an "all-cash transaction for approximately \$4.5 billion plus an assumption of approximately \$1.8 billion of WGL Holdings debt." *See also* Order No. 19396, ¶ 2.

<sup>7</sup> *Formal Case No. 1142*, Letter from Ms. Cathy Thurston-Seignious to Ms. Brinda Westbrook-Sedgwick, Commission Secretary, re FC1142- Washington Gas Light Company's Notice of Credit Rating Downgrade, filed July 11, 2018 ("July 11 Notice"). S&P downgraded WGL to an 'A-' rating and WGLH to 'BBB'. *Id.* at 7. In so doing, S&P explained that "The downgrade of WGLH and WGL stems from the close of the merger of WGLH with AltaGas." *Id.* S&P further explained that WGL's credit was rated "two notches" higher because of "certain insulation measures" and that because those insulation measures are absent with WGLH, it "would align the ratings of WGLH to the group credit profile of the new parent." *Id.* Moody's, similarly referencing the completed merger, downgraded WGL to a 'Baa1' rating and WGLH to 'A-' rating. *Id.* at 1. Fitch, another major credit rating agency downgraded WGL from 'A-' to 'A' and WGLH from 'A-' to 'BBB.' *Id.* at 15.

<sup>8</sup> *Formal Case No. 1142*, Letter from Ms. Cathy Thurston-Seignious to Ms. Brinda Westbrook-Sedgwick, Commission Secretary re FC1142- Merger Commitment No. 35- Washington Gas Light Company's Notice of Credit Rating Downgrade, filed December 20, 2018 ("December 20 Notice")(explaining that S&P was downgrading AltaGas one notch to 'BBB-').

Each of the ratings agencies have made clear that these downgrades are related directly to the merger and AltaGas's riskier profile. In its latest downgrade, S&P explained that:

- its downgrade of AltaGas's credit rating was reflective of its "view that, notwithstanding asset sales and a dividend cut to fund its capital program, AltaGas' financial metrics remain pressured;"<sup>9</sup>
- it lowered WGLH's rating to align with AltaGas and that it also lowered WGL's rating;
- and that "[t]he outlooks on both entities are negative" to "reflect [S&P's] negative outlook on parent AltaGas, which in turn reflects the uncertainty associated with the timing and pricing for AltaGas' proposed asset sales to meet its cash needs for the next two years."<sup>10</sup>

WGL's financial health was a major concern raised by OPC and other parties during the merger proceeding, and was one of the main reasons for the vigorous opposition to the initial merger application.<sup>11</sup> The parties attempted to address these concerns by including in the settlement agreement, strong ring-fencing commitments and other merger conditions to help keep the Commission apprised of any negative impacts to WGL's financial health related to its new parent and to provide certain triggers for immediate action if the impacts reach a tipping point. In authorizing the merger and accepting the settlement, the Commission added further language to strengthen the commitments.<sup>12</sup> The final merger conditions include terms that:

- define a "Material Adverse Effect," in part, as "any event, circumstance, occurrence, or change which materially impairs or has a material adverse effect on, or would reasonably be expected to materially impair or have a material adverse effect on . . . the overall financial condition of AltaGas and its consolidated affiliates and subsidiaries" and requires "[t]he Joint Applicants [to] acknowledge that the Commission has the right to open an investigation and take actions that are

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<sup>9</sup> December 20 Notice at 2.

<sup>10</sup> *Id.*

<sup>11</sup> *See, e.g. Formal Case No. 1142*, Initial Post-Hearing Brief of the Office of the People's Counsel for the District of Columbia at 51-63, filed Jan. 16, 2018; *Formal Case No. 1142*, Post-Hearing Reply Brief of the Office of the People's Counsel at 13-18, filed Feb. 7, 2018.

<sup>12</sup> Order No. 19396 ¶¶ 22, 33-34.

necessary to protect Washington Gas should a Material Adverse Effect occur,” Order No. 19396, Appendix A at 1, 30 (Merger Condition No. 80);

- grant “the Washington Gas board of directors . . .the unrestrained discretion and power to perform its own administrative services or secure administrative services from an entity other than AltaGas or its affiliates” if “AltaGas’s or Washington Gas’s credit ratings fall below investment grade by any of the three major credit rating agencies [or] AltaGas files for bankruptcy,” Order No. 19396, Appendix A at 8 (Merger Condition 18(b));
- require the Companies to “maintain the financial integrity and independence of Washington Gas in all respects and will exercise management prudence in matters relating to dividends, capital investments and other financial actions in order to maintain an investment grade credit rating consistent with its pre-merger operations,” Order No. 19396, Appendix A at 8 (Merger Condition 18(d));
- require WGL to inform “the Commission promptly if either AltaGas’s, WGL’s, or Washington Gas’s credit rating from any of the major credit rating agencies falls below” their respective credit ratings on July 9, 2018 or if they are put on negative outlook, and to provide the Commission with a plan “to restore Washington Gas’s credit ratings to investment grade within a targeted timeframe,” Order No. 19396, Appendix A at 14 (Merger Condition 35);
- authorize the Commission to “require AltaGas to deliver to Washington Gas collateral. . . to secure AltaGas’s tax indemnity to Washington Gas” in the event “AltaGas’ senior unsecured long term public debt securities, without third party credit enhancement, is downgraded to a rating that indicates ‘substantial risks’ (below B3 by Moody’s or B- by S&P or Fitch) by any of the three major credit rating agencies,” Order No. 19396, Appendix A at 18 (Merger Condition 43); and
- authorize the Commission to order AltaGas to divest its interest in Washington Gas if. . . “the rating for AltaGas’s senior unsecured long-term public debt securities, without third-party credit enhancement, are downgraded to a rating that indicates ‘substantial risks’ (i.e., below B3 by Moody’s or B- by S&P or Fitch) by at least two of the three major credit rating agencies, and, such condition continues for more than six (6) months, Order No. 19396, Appendix A at 22 (Merger Condition 60).

OPC is concerned with what appears to be a downward trend and the extent to which this represents a decline in the financial health of the Companies. AltaGas and WGLH’s current S&P credit ratings of ‘BBB-’ are at the lowest rung of investment grade status and only one step above junk bonds. And WGL’s current credit ratings just meet the Commission’s preferred “minimum

investment grade level of BBB+ as rated by S&P [] or Baa1 as rated by Moody's."<sup>13</sup> Moreover, AltaGas's financial concerns are not limited to credit ratings. Since the merger closed, AltaGas's stock prices have dropped 55% from \$21.39 (CAD\$29.08) on July 6, 2018, the day the merger was completed, to \$9.93 (CAD\$13.50) on December 20; the current price represents a five-year low in the stock price.<sup>14</sup>

OPC submits that rather than waiting until AltaGas' and WGLH's ratings fall below-investment grade, the Commission should take immediate and proactive action to get ahead of the problem. In authorizing the merger, the Commission made plain that "given the immediate level of elevated financial risks" it would be "monitor[ing] AltaGas' post-merger finances closely so that [it could] act quickly to protect ratepayers if the need arises."<sup>15</sup> OPC submits that the most effective way to monitor the post-merger finances would be to convene a status conference during which the Companies representatives would, at minimum, be asked to explain the current financial state of WGL and AltaGas, and to share their plans to ensure there is no further deterioration in WGL's financial integrity and that WGL's credit rating remains at investment grade consistent with its pre-merger operations.<sup>16</sup> Based on the information that is shared at the status conference, the Commission can make a reasoned and factual determination that there is no immediate threat to consumers and/or decide what steps, if any, are needed to ensure that ratepayers are protected.

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<sup>13</sup> Order No. 19396 ¶ 34 (adding language regarding the Commission's preferred investment level to Term 32 of the Merger conditions); *Id.*, Appendix A at Condition No. 32 (stating that "AltaGas acknowledges the Commission's preference for maintaining Washington Gas' credit rating at least at the minimum investment grade level of BBB+ as rated by S&P and Fitch or Baa1 as rated by Moody's, assuming a reasonable regulatory environment and reasonable capital market conditions.)

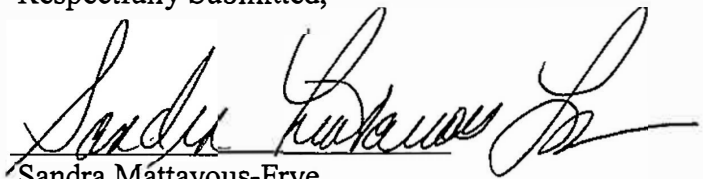
<sup>14</sup> Bloomberg, ALA:CN, AltaGas Ltd, <https://www.bloomberg.com/quote/ALA:CN> (last accessed December 21, 2018).

<sup>15</sup> Order No. 19396, ¶ 33.

<sup>16</sup> *See* 15 DCMR § 129.2 (requiring that "Participants shall be prepared to discuss procedural and substantive matters involved in the proceeding, and shall be authorized to make commitments with respect to those matters.").

**WHEREFORE**, the Office of the People's Counsel respectfully requests the Commission convene a status conference on AltaGas, WGLH, and WGL's financial health, including the Companies' credit ratings, and take any necessary and appropriate action following the conference to ensure WGL maintains its financial health.

Respectfully Submitted,



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Dated: December 21, 2018

## CERTIFICATE OF SERVICE

**Formal Case No. 1142, In the Matter of the Merger of AltaGas Ltd. and WGL Holdings, Inc.**

I certify that on December 21, 2018, 2018, a copy of the *Office of the People's Counsel's for the District of Columbia Motion to Convene a Status Conference Regarding the Financial Health of AltaGas LTD and Washington Gas Light Company* was served on the following parties of record by hand delivery, first class mail, postage prepaid or electronic mail:

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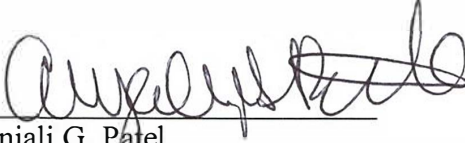
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