MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 October 2016

Update

Rate this Research

RATINGS

PNG Companies LLC

Domicile	United States
Long Term Rating	Baa2
Type	Senior Secured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PNG Companies LLC

Holding company of natural gas LDCs

Summary Rating Rationale

PNG Companies LLC's (PNG, Baa2 stable) rating is primarily based on the low business risk profile of its primary subsidiary Peoples Natural Gas Company LLC's (Peoples, not rated) regulated gas distribution operations and the successful integration of Equitable Gas Company, LLC (Equitable, not rated), which expanded the utility's regulated operations significantly. The rating further reflects the credit supportive regulatory framework in Pennsylvania as well as PNG's limited exposure to industrial customers. On the other hand, the rating is constrained by the high consolidated leverage (including debt at holding companies LDC Holdings and LDC Holdings II, both not rated) that puts pressure on the utility's cash flow. Our rating also recognizes that any increase in indebtedness and dividend distributions are subject to conditions established by the Pennsylvania Public Utility Commission (PAPUC) and the covenants embedded in the financing documents.

Credit Strengths

» Generally supportive regulatory environment and recovery mechanisms

» Stable credit profile and metrics

Credit Challenges

» High consolidated leverage pressures utility's cash flow

Rating Outlook

The stable outlook reflects our expectation that PNG's credit profile and metrics will remain consistent with the company's rating and that the regulatory framework in Pennsylvania will remain credit supportive. The stable outlook also assumes continued maintenance of adequate liquidity and prudent corporate financial policies.

Factors that Could Lead to an Upgrade

A rating upgrade could be considered if there is a significant improvement in PNG's consolidated financial metrics over time such that cash flow from operations pre-working capital changes (CFO pre-W/C) to debt exceeds 19% on a sustained basis.

Factors that Could Lead to a Downgrade

PNG's rating could be downgraded if there is a significant change in the credit supportiveness of the regulatory framework in Pennsylvania, manifested by an adverse outcome of a future rate case or termination of either the Distribution System Improvement Charge (DSIC) or purchased gas recovery mechanisms. A rating downgrade could also be triggered by a strained liquidity profile, a weak financial performance resulting from poor cash flows, or a meaningful increase in the consolidated indebtedness that results in weakened credit metrics, including CFO pre-W/C to debt lower than 11% for an extended period.

Detailed Rating Considerations

- Generally supportive regulatory environment and recovery mechanisms

We view the regulatory environment in Pennsylvania to be credit supportive, evidenced by constructive outcomes in the previous rate cases and implementation of various rate adjustment mechanisms. Peoples, PNG Companies' primary utility subsidiary, continues to execute on its accelerated infrastructure replacement program, which includes pipeline replacement. As part of the Equitable transaction, Peoples agreed to a general rate case stay out until January 1, 2018. Given other rate adjustment mechanisms available to Peoples, as well as the cost savings and synergies from the acquisition, we view the fixed base rates to be credit neutral.

Outside of general rate cases, Peoples is allowed to utilize various rate adjustment mechanisms. A non-automatic purchased gas recovery mechanism, which requires annual filings, allows for the recovery of purchased natural gas costs. Quarterly filings are permitted to update its projected and un-recovered gas costs. Moreover, the Distribution System Improvement Charge (DSIC) allows for quarterly true-ups of recovery for long-term infrastructure improvements and reduces regulatory lag. Under the Long-Term Infrastructure Improvement Plan (LTIIP) approved in 2014, Peoples has been accelerating its capital investments. The utility's investments made under this plan are eligible for recovery through the DSIC mechanism.

- Stable credit profile and improved metrics

PNG's CFO pre-W/C to debt ratio averaged 19.5% for the last twelve month period ending 30 June 2016. When we include the debt at LDC Holdings, the intermediate parent holding company of PNG Companies, the metric would be about 200 basis points lower in the same period. The key coverage metric of around 19% shows an improvement in its cash flow while its debt level has remained relatively constant over the last three years. On average, CFO pre-W/C to debt was about 17% over the last three years. We anticipate that the company will maintain a CFO pre-W/C to debt ratio, excluding parent debt, in the high teens range, based on our expectation that the company's cash flow and earnings will remain stable. In 2015, PNG's capital expenditures (capex) totaled $116 million and, under the approved LTIIP, we expect its capex over the next 2-3 years to increase to the $140-180 million range, with costs being eligible for recovery through the DSIC mechanism. Peoples' base rate will be unchanged as the company agreed to the base rate freeze through 2018 as part of the Equitable transaction approval agreement with the PAPUC.

LDC Holdings LLC has a $170 million term loan due in August 2018, which was upsized from $83 million in August 2013 to support the Equitable transaction. There are cross defaults provisions between the two intermediate parent companies, LDC Holdings and LDC Holdings II. PNG's rating factors in the impact of the leverage at these entities, although we analyze PNG's credit profile and metrics both with and without the parent company debt consolidated.

- Ring-fencing like provisions insulate utilities of PNG Companies

Moody's considers the conditions included in the PAPUC's approval of the Peoples acquisition by SteelRiver Infrastructure Partners (SteelRiver, not rated) requiring the ring-fencing of Peoples from other SteelRiver-owned companies as credit positive for PNG Companies' utilities. These provisions include a requirement that LDC Holdings' long-term debt to capitalization ratio not exceed 60% for any period longer than one year (unless approved by the PAPUC). Also, Peoples' dividend to PNG must be limited to a level that maintains a maximum debt to capitalization ratio at the utility, excluding working capital borrowing, of 55%. The ring fencing provisions also prevent Peoples from guaranteeing debt or credit facilities of any affiliate, mortgaging utility assets on behalf of an affiliate, or loaning money or otherwise extending credit to any affiliate.

Liquidity Analysis

We expect PNG to maintain adequate liquidity over the next 12 months.

PNG maintains a $300 million five-year revolving credit facility expiring in August 2018. As of 30 June 2016, PNG had no borrowings under the facility. The facility contains a debt to consolidated capitalization covenant ratio requirement of equal to or less than 60%. As 30 June 2016, PNG was in compliance and we anticipate that PNG will continue to be able to comply with this covenant. We note that this facility ranks pari passu with PNG's senior secured notes.

The next long-term debt maturity is in 2017 when $255 million of senior secured notes are due, consisting of $105 million is due in February and $150 million is due in December. Also, PNG Companies has a $125 million term bank facility due in February 2018.

Key Covenants

There are covenants embedded in PNG's and LDC Holdings' financial documentation which limit dividend distributions and the incurrence of additional debt, helping to assure prudent financial management. PNG's notes include covenants that require consolidated EBITDA to consolidated interest expense be at least 2.0x, and consolidated debt to consolidated capitalization to be no more than 60%. As mentioned in the liquidity section, PNG's bank credit facility requires consolidated debt to consolidated capitalization to be no more than 60%. We consider the cross guarantees between LDC Holdings and LDC Holdings II to be credit neutral given that we expect no deterioration in LDC Holdings II's financial performance.

Corporate Profile

PNG Companies LLC (PNG, Baa2 stable) is the holding company of natural gas local distribution companies: Peoples Natural Gas Company LLC (Peoples, unrated), Peoples Gas WV LLC (Peoples WV, unrated), Peoples Gas KY LLC (Peoples KY, unrated) and two unregulated subsidiaries, Peoples Homeworks LLC (unrated) and PNG Gathering LLC (unrated). Within the PNG family, total rate base amounted to approximately $1.4 billion at the end of 2015.

Peoples is the largest gas utility in terms of customer volume in the Pittsburgh area with approximately 638,000 customers predominantly in 16 counties in southwestern Pennsylvania, with a small customer base in West Virginia and Kentucky, post the Equitable Gas Company, LLC (Equitable, not rated)) acquisition at the end of 2013. Through the Equitable acquisition, PNG added approximately 277,000 customers. Peoples, including Equitable, accounts for approximately 98% of PNG's EBITDA with the remaining 2% coming from the additional non-core businesses added to the family. Operations are subject to regulation by the Pennsylvania Public Utility Commission (PAPUC) and the West Virginia Public Service Commission (WVPSC), with limited jurisdiction regulation by the Kentucky Public Service Commission (KPSC).

PNG is a direct subsidiary of LDC Holdings LLC (not rated). LDC Holdings LLC has a sister company LDC Holdings II LLC (not rated), which owns a small local gas distribution company (Peoples TWP LLC, not rated) in the Pittsburgh area. LDC Holdings LLC and LDC Holdings II LLC are wholly-owned indirect subsidiaries of funds managed by affiliates of SteelRiver Infrastructure Partners (SteelRiver, not rated). SteelRiver, together with its managed funds, is a long-term owner focused on investing in PNG as a local gas distribution growth platform, whether through acquisitions like the Equitable transaction or through organic growth such as infrastructure investments. As long as SteelRiver maintains its strategy of financing and capitalizing acquisitions in a conservative manner, we do not see PNG's infrastructure fund owner as a negative to the company's credit quality.

Rating Methodology and Scorecard Factors

Exhibit 1

Rating Factors				
PNG Companies LLC -Private				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current LTM 6/30/2016**		**Moody's 12-18 Month Forward View As of Date Published [3]**	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.1x	A	4.8x - 5.3x	A
b) CFO pre-WC / Debt (3 Year Avg)	18.9%	Baa	16% - 19%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	10.5%	Baa	10% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	47.6%	A	46% - 50%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching			0	0
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 2

Category	Moody's Rating
PNG COMPANIES LLC	
Outlook	Stable
Senior Secured	Baa2

Source: Moody's Investors Service

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