MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Places Questar Corp. on Review for Downgrade; Questar Gas and Questar Pipeline Affirmed; Outlooks Remain Stable

Global Credit Research - 01 Feb 2016

New York, February 01, 2016 -- Moody's Investors Service, ("Moody's") placed the Prime-1 short-term commercial paper rating of Questar Corporation (Questar) on review for downgrade. At the same time, Moody's affirmed the ratings of Questar's two principal subsidiaries: Questar Gas (A2 senior unsecured) and Questar Pipeline (A3 senior unsecured). The rating outlooks for Questar Gas and Questar Pipeline are stable.

RATINGS RATIONALE

"Questar's review for downgrade is prompted by today's announcement that the company agreed to be acquired by Dominion Resources in an all cash transaction," said Ryan Wobbrock, Assistant Vice President. "The review for downgrade only applies to Questar Corp. but not its regulated utility subsidiaries."

The review for downgrade will focus on the permanent financing and capital structure for Questar, including $250 million of parent-level debt and around $330 million of commercial paper currently outstanding. Moody's withdrew the A2 senior unsecured rating on $250 million of Questar Corp. debt, since it matures today; however, it is our understanding that the unsecured debt will be replaced with a like amount of commercial paper today, and/or some other form of financing until transaction close. For now, we incorporate a view that Dominion will finance the $4.4 billion equity purchase price with a balanced mix of both debt and equity. As a result, Dominion will be adding Questar to its corporate family at an approximately 13.5% ratio of cash flow to debt (including roughly 50/50 debt/equity acquisition financing).

Any downgrade to the fundamental credit quality of Questar would result in a downgrade of its commercial paper rating to P-2.

Moody's notes that Dominion has arranged for a committed term loan of $1.2 billion, a bridge facility for $2.7 billion and has articulated plans to tap its existing credit facility to the tune of $500 million. We believe the permanent financing will be put in place by the close of the transaction, which the company expects by year-end 2016.

Questar's $250 million of unsecured holding company debt matured today (February 1st) and will be repaid with commercial paper. It is our understanding that a $250 million private term loan will be arranged to repay commercial paper and replace the holding company debt until the transaction close.

Dominion ownership will result in Questar being held by a lower credit quality entity which will direct strategic, dividend and liquidity management policies for the unregulated intermediate holding company. While Questar's subsidiaries will still function in an integrated manner, the legal and organizational separation could result in a divergence in strategic decision-making amongst the three Questar constituents: Questar Gas, Questar Pipeline and Wexpro. This weakens the integrated and consolidated credit profile of what previously supported Questar's A2 consolidated rating. For example, Dominion has indicated its intent to transfer Questar Pipeline to Dominion Midstream, which would immediately result in a higher risk profile for Questar Corp., since it would be losing its most stable and predictable cash flow and a subsidiary that produces roughly 30% funds from operation (FFO) to debt.

"The removal of Questar Pipeline's FERC regulated operations increases the business risk profile for Questar. As an unregulated intermediate holding company, Questar's fundamental credit profile would be more appropriately positioned between that of its A-rated Questar Gas and Questar Pipeline subsidiaries and its Baa2-rated parent, Dominion" added Wobbrock.

The affirmation and stable outlook for Questar Pipeline is based on its low-risk natural gas pipeline operations, stable and predictable cash flow, and the strong regulatory support provided by the Federal Energy Regulatory Commission (FERC). However, we do see added risk for Questar Pipeline, which will be owned by a growth-oriented master limited partnership (MLP). We estimate that the pipeline will continue to upstream roughly $65 million of cash after maintenance capital, but there could now be pressure to upstream larger amounts should Dominion Midstream's growth plans deviate from current expectations.

The affirmation and stable outlook for Questar Gas reflects a very strong regulatory environment in Utah, which provides for a high degree of cash flow visibility. Cost recovery mechanisms such as decoupling, weather normalization and infrastructure trackers will help Questar Gas to produce cash flow to debt metrics between 20% - 25% on an sustainable basis. While this is lower than other A2 local gas distribution utility peers that average over 26% cash flow to debt, we view this level to be appropriate for Questar Gas' A2-rating, given its highly supportive regulatory environments in Utah, Wyoming and Idaho.

Rating Outlook

Questar's review for downgrade reflects the pending acquisition by an owner of lower credit quality and the loss of Questar's low-risk natural gas pipeline business that produces around 30% cash flow to debt. We expect to conclude the review at or near the time that the acquisition is completed.

Factors that Could Lead to a Downgrade

The P-1 commercial paper rating for Questar Corp. will likely be downgraded upon the completion of the merger. For Questar Pipeline, a material change in corporate finance policies, such as dividends exceeding 100% of net income, could lead to a downgrade. This could occur if Dominion's large, MLP eligible, capital projects encounter delays, if other Dominion Midstream growth prospects slow, or if the MLP encounters difficulties in obtaining external financing.

Questar Gas could be downgraded if regulatory support declines, business risk exposure increases significantly, or if cash flow to debt metrics decline below 20% for a sustained period of time.

Factors that Could Lead to an Upgrade

It is unlikely that any of the Questar companies will be upgraded at this time; however, Questar Pipeline could be upgraded with FFO to debt over 30% and FFO less dividends to debt above 20%, on a sustainable basis.

Questar Gas could be upgraded to A1 if its cash flow to debt is consistently above 25% and its payout ratio remained around 65%.

The principal methodology used in rating Questar Corporation and Questar Gas Company was Regulated Electric and Gas Utilities published in December 2013. The principal methodology used in rating Questar Pipeline Company was Natural Gas Pipelines published in November 2012. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

On Review for Downgrade:

..Issuer: Questar Corporation

.... Commercial Paper, Placed on Review for Downgrade, currently P-1

Outlook Actions:

..Issuer: Questar Corporation

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Questar Gas Company

....Outlook, Remains Stable

..Issuer: Questar Pipeline Company

....Outlook, Remains Stable

Affirmations:

..Issuer: Questar Gas Company

....Senior Unsecured Medium-Term Note Program, Affirmed (P)A2

....Senior Unsecured Regular Bond/Debenture, Affirmed A2

..Issuer: Questar Pipeline Company

....Senior Unsecured Regular Bond/Debenture, Affirmed A3

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Research Update:

Questar Corp. And Subs Ratings Placed On CreditWatch Negative On Proposed Acquisition By Dominion Resources

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Research Update:

Questar Corp. And Subs Ratings Placed On CreditWatch Negative On Proposed Acquisition By Dominion Resources

Overview

- Questar Corp. has agreed to be acquired by Dominion Resources Inc.
- We are placing all ratings on Questar, including the 'A' issuer credit rating and our 'A-1' short-term debt rating, on CreditWatch with negative implications.
- We are placing all ratings on subsidiaries Questar Gas Co. and Questar Pipeline Co., including the 'A' issuer credit ratings and our senior unsecured debt ratings, on CreditWatch with negative implications.
- The negative CreditWatch listing reflects the potential for lower ratings on Questar when Dominion's acquisition of the company closes.

Rating Action

On Feb. 1, 2016, Standard & Poor's Ratings Services placed its ratings on Questar Corp. and subsidiaries Questar Gas Co. (QGC) and Questar Pipeline Co. (QPC), including the 'A' issuer credit ratings, on CreditWatch with negative implications.

Rationale

The CreditWatch negative placement on Questar Corp. (Questar) and subsidiaries QGC and QPC is based on Questar's agreement to be acquired by Dominion Resources Inc. (DRI).

When the acquisition successfully closes, we expect to view Questar as a "core" subsidiary of DRI, leading to our issuer credit rating on Questar being aligned with DRI's then-group credit profile. This assessment reflects the following:

- We expect that Questar will form a meaningful part of the combined entity, contributing about 15% of total EBITDA.
- QGC's service territory demonstrates above-average customer growth and benefits from constructive regulation.
- Questar operates in lines of business that are integral to the overall group's strategy and regulated utility and midstream energy operations.
- We expect DRI's senior management will demonstrate strong commitment to Questar given DRI's emphasis on maintaining the size and scope of its regulated utility and midstream energy operations.

Importantly, we do not anticipate that DRI will implement any structural or regulatory protections, ensuring that the company will have full access to Questar's resources and cash flows. Therefore, when the transaction closes, we expect that our issuer credit rating on Questar will be aligned with DRI's 'bbb+' group credit profile.

Based on its existing business composition, we assess Questar's business risk profile as excellent. This incorporates our very low industry risk assessment of the regulated utility industry and the low industry risk of the midstream energy industry, and a very low country risk based on the U.S.-only operations. In addition, the excellent business risk profile reflects a competitive position of strong. Supportive regulation, a growing service area with a mostly residential customer base, low operating risks, and lack of competition characterize the utility's excellent business risk profile. The business risk profile also benefits from strong access to gas supply and storage and from utility QGC's relationship with Wexpro Co. that provides natural gas to the utility at cost plus a fixed return. Questar derives 25% of consolidated EBITDA from QGC, 35% from QPC, and 40% from Wexpro.

We base our existing financial risk profile assessment of intermediate on the medial volatility financial ratio benchmarks. Under our base-case forecast, we expect Questar will generate funds from operations to total debt of 28% to 30% over the next few years. We expect debt to EBITDA to average 2.5x over the next few years. In addition, we expect a supplemental ratio of operating cash flow to debt of 32% to 34% over the next few years, bolstering and further supporting the intermediate determination. Management will need to maintain vigilant cost recovery to maintain these cash flow measures. With this strong cost recovery and an expectation that annual operating expenses will not grow more than 2%, we expect Questar to generate positive discretionary cash flow after capital spending and dividends, providing residual cash flow that the company could use to repay debt.

Based on our excellent business risk and intermediate financial risk profile assessments, there are two potential anchor outcomes ('a+' or 'a'). Our choice of an 'a' anchor reflects our view that the business risk is on the weaker end of the excellent category, partly because of the ownership of Wexpro and QPC. We expect to reassess the business and financial risk profiles of Questar as part of the CreditWatch review.

Liquidity

Questar has strong liquidity. We believe the company's liquidity sources are likely to cover its uses by more than 1.5x over the next 12 months and remain above 1x over the subsequent 12 months. We expect Questar to meet cash outflows even with a 30% decline in EBITDA.

The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets. Questar's liquidity benefits from stable cash flow generation, ample availability under the revolving credit facilities, and modest debt maturities over the next few years.

Principal liquidity sources:

- We forecast cash and liquid investments of about $30 million for the 12 months ending Sept. 30, 2016
- We forecast funds from operations of about $505 million for the 12 months ending Sept. 30, 2016, and $515 million for the 12 months ending Sept. 30, 2017
- Working capital inflows of about $50 million for the 12 months ending Sept. 30, 2016, and $50 million for the following 12 months
- Average availability of about $750 million under the revolving credit facility

Principal liquidity uses:

- Debt maturities of about $125 million, including outstanding commercial paper, for the 12 months ending Sept. 30, 2016 and $250 million for the subsequent 12 months.
- Capital spending of about $400 million for the 12 months ending Sept. 30, 2016 and about $410 million for the 12 months ending Sept. 30, 2017
- Dividends of roughly $145 million for the 12 months ending Sept. 30, 2016 and about $145 million for the 12 months ending Sept. 30, 2017

Other Credit Considerations

Other modifiers do not affect the rating outcome.

Group Influence

Under our group rating methodology, when the DRI acquisition closes we would expect to view Questar as core to Dominion and therefore Questar's issuer credit rating would be aligned with Dominion's 'bbb+' group credit profile.

CreditWatch

The ratings on Questar, QGC, and QPC are on CreditWatch with negative implications, reflecting the prospect for a two-notch downgrade of Questar's issuer credit rating to 'BBB+' due to the company's agreement to be acquired by DRI. We expect to resolve the CreditWatch listing by the date of the transaction's closing, which could be by year-end 2016.

We could lower our ratings on Questar, QGC, and QPC to align them with our ratings on DRI.

Without regulatory or structural insulation measures that would insulate Questar from DRI after the transaction closes, we could affirm the existing ratings on Questar only if the acquisition by DRI does not materialize.

Ratings Score Snapshot

Corporate Credit Rating: A/Watch Neg/A-1

Business risk: Excellent
  Country risk: Very low
  Industry risk: Very low
  Competitive position: Strong

Financial risk: Intermediate
  Cash flow/leverage: Intermediate

Anchor: a

Modifiers
  Diversification/portfolio effect: Neutral (no impact)
  Capital structure: Neutral (no impact)
  Liquidity: Strong (no impact)
  Financial policy: Neutral (no impact)
  Management and governance: Satisfactory (no impact)
  Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a
  Group credit profile: a
  Entity status within group: Parent

Related Criteria And Research

Related Criteria
  Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
  Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
  Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
  Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
  General Criteria: Methodology: Industry Risk, Nov. 19, 2013
  General Criteria: Group Rating Methodology, Nov. 19, 2013
  Corporate Methodology, Nov. 19, 2013
  Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
  Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
  General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
  2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Placed On CreditWatch Negative

	To	From
Questar Corp.		
Corp credit rating	A/Watch Neg/A-1	A/Stable/A-1
Comm paper	A-1/Watch Neg	A-1
Questar Gas Co.		
Corp credit rating	A/Watch Neg/--	A/Stable/--
Senior unsecured	A/Watch Neg	A
Questar Pipeline Co.		
Corp credit rating	A/Watch Neg/--	A/Stable/--
Senior unsecured	A/Watch Neg	A

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