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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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.

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

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.

Ryan Wobbrock
Asst Vice President - Analyst
Infrastructure Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

William L. Hess
MD - Utilities
Infrastructure Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

MOODY'S
INVESTORS SERVICE

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.