STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:
Questar Corp.

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Table Of Contents

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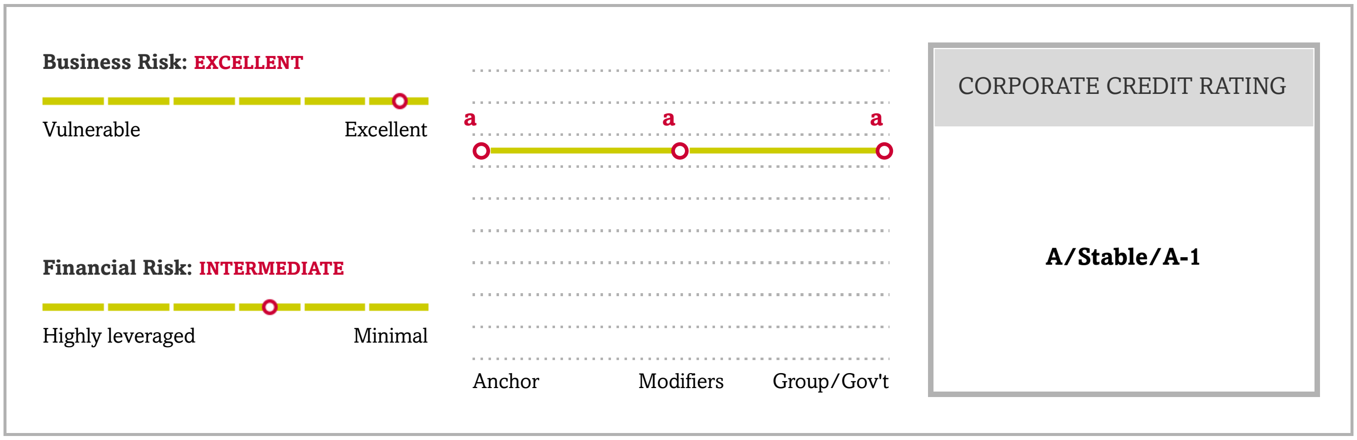

Rationale

Business Risk: Excellent	Financial Risk: Intermediate
• A supportive regulatory environment with cost recovery mechanisms that enhance cash flow predictability. • Low-operating-risk gas distribution utilities and pipeline assets. • A superior service territory with above-average population growth prospects. • Strong access to gas supply and storage. • An arrangement with Wexpro Co., the company's cost-of-service exploration and production operation, to provide natural gas to affiliate utility Questar Gas Co. at cost plus a fixed return. • Increased competition to process Rockies-area gas, resulting in lower natural gas liquids revenue at Questar Pipeline Co. • Exposure to weak natural gas prices, which may lead to lower pipeline throughput and cash flow.	• Modestly positive discretionary cash flow over the next several years. • Continued cash flow support through the regulatory process. • Significant capital spending over the next few years. • Rider recovery of infrastructure capital spending. • The ability to consistently access capital markets to fund capital investments. • Financial measures will continue to support the financial risk profile.

Outlook: Stable

The stable outlook on Questar Corp. reflects our expectation that financial measures will remain appropriate for the current rating, with support from Wexpro's cost-of-service gas supplies, Questar Gas' regulated business, and Questar Pipeline's pipeline and storage assets. Given the company's focus on regulated operations, we expect Questar to continue to reach constructive regulatory outcomes to avoid any meaningful rise in business risk and to fund capital investments in a balanced manner to support financial measures. Specifically, our base forecast includes funds from operations (FFO) to debt of about 28% supplemented by operating cash flow (OCF) to debt of over 28%, consistent with our expectations for the rating.

Downside scenario

We could lower the rating if business risk rises because of growth in nonregulated operations or financial measures deteriorate such that the company sustains FFO to total debt below 23%.

Upside scenario

We could raise the rating if the business risk profile further strengthens or if financial measures improve, including FFO to debt over 35%.

Standard & Poor's Base-Case Scenario

Assumptions

- Economic conditions in the company's service territory are improving, which will likely increase customer usage.
- EBITDA growth consisting of revenue increases and customer growth is likely to be about the same as in recent years.
- Modest annual operating expense growth of roughly 2%.
- Infrastructure replacement capital spending recovered through riders.
- Elevated capital spending of $375 million in 2015 and $400 million per year in 2016 and 2017.
- Single-digit growth in common dividends over the next few years.
- Limited debt maturities over the next three years.
- We expect cash flow shortfalls to be debt financed.

Key Metrics

	2014A	2015E	2016E
FFO/debt (%)	28.8	28-29	29-30
OCF/debt (%)	25.9	32-33	33-34
Debt/EBITDA (x)	2.7	2.5-2.7	2.4-2.6

Standard & Poor's adjusted measures. A—Actual. E—Estimate. FFO--funds from operations. OCF--operating cash flow.

Business Risk: Excellent

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 Questar Gas' relationship with Wexpro that provides natural gas to the utility at cost plus a fixed return. Questar's consolidated EBITDA consists of approximately 25% from Questar Gas, 35% from Questar Pipeline, and 40% from Wexpro.

Questar Gas' constructive relationship with the Utah Public Service Commission, which covers more than 95% of its customer base, leads to a supportive rate design that provides stable cash flows largely insulated from fluctuations in gas prices, weather, and usage. Questar Gas also has a decoupling mechanism and an infrastructure tracker to recover about $45 million per year associated with the replacement of high-pressure feeder lines. Its relationship with Wexpro, which minimizes gas supply risk with cost-of-service natural gas reserves, provides an operational advantage over other gas utilities. Wexpro supplies about 50% of Questar Gas' gas needs largely at a cost lower than what the utility would incur on the open market. In addition to volumes that Wexpro provides, Questar Gas receives gas via long-term transportation contracts with Questar Pipeline and storage capacity at Clay Basin and three peak-day storage facilities (Leroy, Coalville, and Chalk Creek).

With a double-digit weighted average contract life, Questar Pipeline has an above-average remaining contract life compared with an average of about five years for its pipeline peers. A straight-fixed-variable rate design reduces the pipeline's exposure to volumetric risk by allowing the company to recover substantially all fixed costs through a demand charge. It also benefits from its strategic location, given interconnections with several major pipeline systems and access to major producing areas. Although the pipeline's cash flows have benefited from strong natural gas liquids (NGL) prices, increased processing competition in the Rockies is likely to reduce future NGL revenue.

Financial Risk: Intermediate

We base our financial risk profile assessment of "intermediate" on the medial volatility financial ratio benchmarks. Under our base-case forecast, we expect Questar will generate FFO 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 the supplemental ratio of operating cash flow to debt to range from 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 could be used for debt repayment.

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 Questar Pipeline.

Liquidity: Strong

Questar has "strong" liquidity as our criteria define the term. 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.

There are modest debt maturities over the next three years, including $250 million in 2016. We expect the company to refinance these given its satisfactory standing in the credit markets. Questar's revolving credit facility backstops the company's commercial paper program. The company's liquidity benefits from stable cash flow, ample availability under the credit facility, and modest debt maturities over the next few years.

Principal Liquidity Sources	Principal Liquidity Uses
• We forecast cash and liquid investments of about $30 million for 12 months ending March 31, 2016; • We forecast FFO of about $500 million for 12 months ending March 31, 2016, and $515 million for 12 months ending March 31, 2017; • Average availability of about $750 million under the revolving credit facility; and • Working capital inflows of about $50 million for 12 months ending March 31, 2016, and $50 million for 12 months ending March 31, 2017.	• Capital spending of about $380 million for 12 months ending March 31, 2016, and $400 million for 12 months ending March 31, 2017; • Debt maturities including outstanding commercial paper of $320 million for 12 months ending March 31, 2016, and $250 million for 12 months ending March 31, 2017; and • Dividends of roughly $140 million for 12 months ending March 31, 2016, and $145 million for 12 months ending March 31, 2017.

Other Credit Considerations

Other modifiers have no impact on the rating outcome.

Group Influence

Under our group rating methodology, we view Questar as the parent of a group whose core members are Questar Gas, Questar Pipeline, and Wexpro. Questar's group credit profile is 'a' leading to an issuer credit rating of 'A'.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/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)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

- **Group credit profile:** a

Issue Rating

We rate Questar's senior unsecured debt one notch lower than the issuer credit rating because priority liabilities, including operating utility debt, exceed 20% of total assets. The short-term rating on Questar is 'A-1' based on the issuer credit rating on the company and our assessment of its liquidity as at least adequate.

Related Criteria And Research

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria Corporates Industrials: Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria – Corporates – General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	**a+/a**	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-