STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:
Questar Gas Co.

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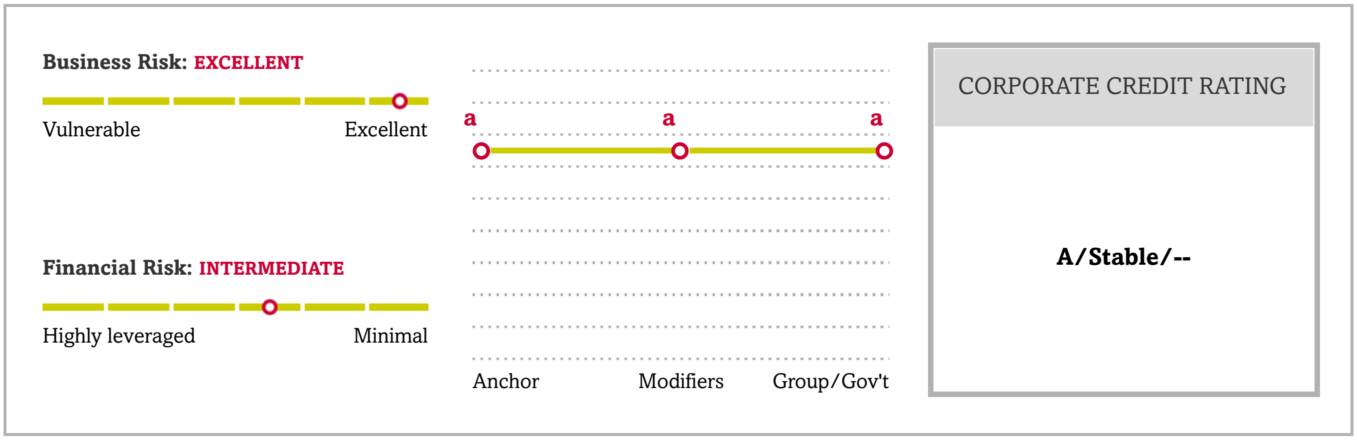

Rationale

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 affiliate Wexpro Co., an exploration and production operation, to provide natural gas to the utility at cost plus a fixed return • Affiliate Questar Pipeline Co. continues to be a supplier of gas to the utility	• Capital spending remains mostly steady • Rate recovery mitigates some regulatory lag • Supportive cost recovery through rates including surcharges • Financial measures remain in line with our financial risk profile assessment

Anchor Determination

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 use of affiliate operations of Wexpro and Questar Pipeline.

Outlook: Stable

The stable outlooks on parent Questar Corp. and natural gas utility Questar Gas Co. reflect 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 rises 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 25% supplemented by cash flow from operations (CFO) to debt of over 25%, 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	Key Metrics
• The economic conditions in the company's service territory continue to improve incrementally resulting in improving cash flow measures • Annual EBITDA growth over the forecast period • Adequate regulatory outcomes in Utah • Current rate surcharges retained	In our base case, we expect Questar Gas' key financial measures to be equivalent to historical performance during the next few years. For 12 months ended Dec. 31, 2013, FFO to debt was 23.4%, at the low end of the "intermediate" category under our medial volatility benchmarks. Debt to EBTIDA was about 3.6x, at the low end of the "significant" category under our medial volatility benchmarks. Bolstering the "intermediate" determination is CFO to debt, which was 27.8%, the low end of the "modest" category. We expect discretionary cash flow to remain negative over the next few years, raising external funding needs. This reflects capital spending and dividend payments to its parent company. Beyond our base-case forecast, we expect to see financial measures similar to historical levels.

Business Risk: Excellent

We base our assessment of Questar Gas' business risk profile on what we view as the company's "strong" competitive position, "very low" industry risk derived from the regulated utility industry, and the "very low" country risk of the U.S. The utility's competitive position reflects its 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 its relationship with Wexpro, the company's cost-of-service exploration and production operation that provides natural gas to Questar Gas at cost plus a fixed return.

Questar Gas' constructive relationship with the Utah Public Service Commission, which covers more than 95% of its customer base, has resulted in 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, the majority of the time, 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).

Financial Risk: Intermediate

Based on our medial volatility financial ratio benchmarks, our assessment of Questar Gas' financial risk profile is "intermediate". This reflects the natural gas distribution utility model and the recurring cash flow from providing natural gas. As a utility, capital spending is ongoing for maintenance purposes and for new projects. Recovery of these costs through rates has generally been supportive. External funding needs exist since our base case reflects discretionary cash flow that we expect to remain negative over the next three years. Steady cost recovery through the regulatory process will be required to maintain cash flow measures, including FFO to debt greater than 23% on average and CFO to debt in excess of 19%, which are both within the range for the "intermediate" category. We expect debt to EBITDA to be about 3.5x on average, at the upper end of the range for the "intermediate" category.

Liquidity: Strong

Questar Gas' liquidity reflects that of Questar, which we consider "strong", 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 them given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and liquid investments of about $10 million in 2014 and $12 million in 2015 • FFO of about $435 million in 2014 and $450 million in 2015 • Credit facility availability of about $380 million in 2014 and $430 million in 2015 • Working capital of about $5 million in 2014 and $20 million in 2015	• Capital spending of about $380 million in 2014 and $370 million in 2015 • Debt maturities of $25 million in 2015 • Dividends of about $130 million in 2014 and $140 million in 2015

Other Modifiers

Other modifiers have no affect on the rating outcome.

Group Influence

The stand-alone credit profile of 'a' for Questar Gas reflects its business risk and financial risk profiles. This is the same as the 'a' group credit profile (GCP) for Questar. Under our group rating methodology, we consider Questar Gas to be integral to the Questar group and, therefore, we designate it as a core entity to its parent based on factors including our view that Questar Gas is highly unlikely to be sold, integral to the group strategy, and has a strong long-term commitment from senior management. Therefore, we align the issuer credit rating on Questar Gas with the Questar GCP.

Ratings Score Snapshot

Corporate Credit Rating

A/Stable/--

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:** Core (no impact)

Related Criteria And Research

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 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 - Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business 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-