S&P Global
Ratings

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Summary:

Questar Gas Co.

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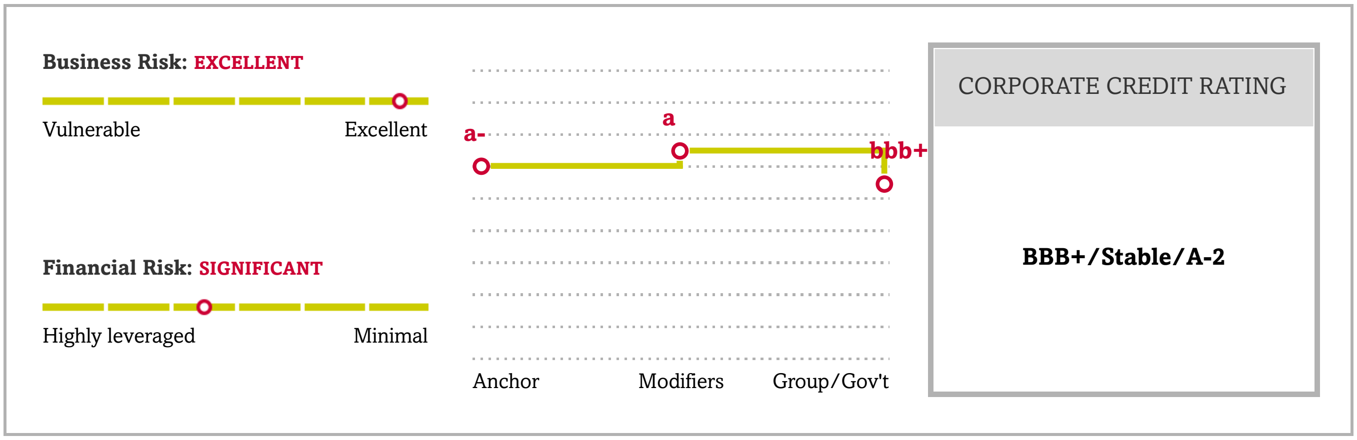

Rationale

Business Risk: Excellent	Financial Risk: Significant
• Low-operating-risk gas distribution utility; • Effective management of regulatory risk; • Above average size utility; • Lack of business or regulatory diversity; and • Strong access to gas supply and storage.	• We assess the company's financial measures using more moderate financial benchmarks compared to the typical corporate issuer, reflecting its lower-risk regulated utility business and its effective management of regulatory risk; • Recovery mechanisms enhance cash flow predictability and mitigates regulatory lag; and • Financial measures that consistently reflect the higher-end of the range for its financial risk profile category.

Outlook: Stable

S&P Global Ratings' stable outlook on Salt Lake City-based Questar Gas Co.(QGC), reflects the outlook on ultimate parent Dominion Energy, Inc. (Dominion) and the expectation that Dominion will continue consisting of mostly lower-risk regulated utilities. Additionally, we expect Dominion's consolidated financial measures will improve gradually, consistent with the middle of the range for the significant financial risk profile category, reflecting consolidated funds from operations (FFO) to debt of about 17%.

Downside scenario

We could lower the rating on QGC over the next 12-24 months if its ultimate parent, Dominion's business risk profile weakens either by less-effective management of regulatory risk or through disproportionate growth of its higher-risk businesses. We could also lower the rating if Dominion's consolidated financial measures consistently reflected the lower end of the range for the significant financial risk profile category, reflecting consolidated FFO to debt consistently below 15%.

Upside scenario

We could raise the ratings on QGC over the next 12-24 months if its ultimate parent, Dominion's consolidated financial measures consistently improved to the higher end of the range for the significant financial risk profile category, reflecting FFO to debt consistently greater than 20%.

Our Base-Case Scenario

Questar Gas Co.

Assumptions

- Incrementally improving economic conditions in the company's service territory, resulting in higher cash flows;
- Future rate case increases;
- Continued use of riders;
- Capital expenditures averaging about $220 million annually;
- Dividends at about $40 million; and
- Negative discretionary cash flow.

Key Metrics

	2016A	2017E	2018E
FFO to debt (%)	17.5	18-22	18-22
OCF to debt (%)	22.8	18-23	18-23
Debt to EBITDA (x)	4.7	4.2-4.7	4.2-4.7

S&P Global Ratings' adjusted measures. A—Actual. E—Estimate. FFO-- Funds from operations. OCF—Operating cash flow.

Business Risk: Excellent

Our stand-alone business risk assessment of QGC reflects the utility's low-risk regulated natural gas distribution business, above average size, and its effective management of regulatory risk.

QGC serves approximately one million customers in Utah (about 97%), southwestern Wyoming, and southeastern Idaho. Constructive regulation in Utah strengthens the company's management of regulatory risk including a credit supportive rate design and the use of multiple regulatory mechanisms including a fuel cost adjustment, a weather normalization adjustment, decoupling, and an infrastructure cost tracking adjustment. QGC cash flows are generally stable and largely insulated from fluctuations in gas prices, weather, and usage. Furthermore, most of the customer base is residential and commercial, providing an additional measure of cash flow stability. Marginally effecting the company's business risk profile is the general lack of business or regulatory diversity.

QGC has good access to gas supply (65% of the utility's supply) due to its relationship with Wexpro, a cost-of-service exploration and production operation company providing natural gas to QGC at cost plus a fixed return. In addition, Dominion Energy Questar Pipeline, LLC, another affiliate, provides QGC with long-term transportation contracts and storage. These relationships and contracts minimizes QGC's supply risk compared to peers.

Financial Risk: Significant

We assess the company's financial measures using more moderate financial benchmarks compared to the typical corporate issuer, reflecting its low-risk regulated utility business and its effective management of regulatory risk.

Under our base-case scenario, which includes improving economic conditions in the company's service territory, a rate case increase in 2020, capital spending of about $220 million, and dividends of about $40 million, we expect financial measures consistent with the higher end of the range for the company's financial risk category. Specifically, we expect FFO to debt of about 20%.

Liquidity: Adequate

QGC has adequate liquidity, in our view, and can more than cover its needs for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months, which is the minimum threshold for an adequate liquidity assessment under our criteria. Under our stress scenario, we do not expect the company would require access to the capital markets during that period to meet liquidity needs. Our assessment also reflects the company's stable cash flow generation, generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash FFO of about $175 million; • Credit facility availability of $250 million; and • Minimal cash of about $10 million.	• Long-term debt maturities of about $120 million in 2018; • Maintenance capital spending of about $125 million; and • Dividends of about $40 million.

Other Credit Considerations

We assess the comparable rating analysis modifier for QGC as positive, reflecting our view that QGC's financial measures will consistently reflect the higher end of the range for its financial risk profile.

Group Influence

Although QGC accounts for a relatively small portion of Dominion's overall business, representing less than 5% of Dominion's operating income, we assess QGC as a core subsidiary of Dominion, under our group rating methodology. This reflects our view that QGC is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. As a result, we assess QGC's issuer credit rating as in line with Dominion's 'bbb+' group credit profile.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a

- **Group credit profile:** bbb+
- **Entity status within group:** Core (-2 notches from SACP)

Issue Ratings

Questar Gas' unsecured debt is rated the same as the corporate credit rating because it is unsecured debt of a qualifying investment-grade regulated utility.

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 - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

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-