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CREDIT OPINION
30 January 2019

Update

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RATINGS

Questar Gas Company

Domicile	Salt Lake City, Utah, United States
Long Term Rating	A2
Type	Senior Unsecured - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Questar Gas Company

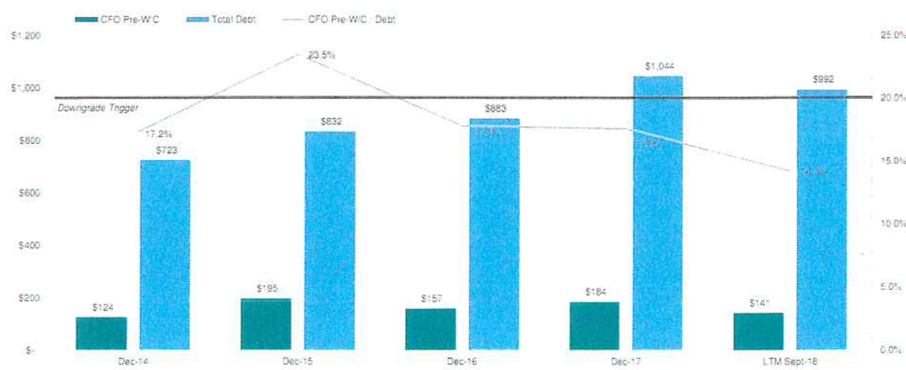
Update to credit analysis

Summary

Questar Gas Company's (A2 negative) credit profile reflects 1) low-risk operations as a local gas distribution company (LDC), 2) supportive regulators in Utah and Wyoming, 3) stable cash flow production through its suite of cost recovery mechanisms and 4) an expectation for more conservative financial policies with regard to capital structure over the next 12-18 months.

The Questar Gas credit profile is constrained by 1) very weak financial metrics versus peers, 2) a base rate freeze and tax reform impacts that will reduce cash flow metrics through 2020 and 3) a highly levered parent company (i.e., Dominion Energy Inc. (DEI, Baa2 stable).

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt
($MM)



Source: Moody's Financial Metrics

Credit strengths

» Stable and predictable cash flow derived from cost recovery mechanisms on around $1 billion of rate base

» Cooperative relationships with regulators in Utah and Wyoming

» Management financial policies are improving the capital structure

» Ring-fencing like provisions helps offset some risk of its highly levered parent

EXHIBIT H2
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ADVANCED REPORTING SOLUTIONS

Credit challenges

» Base rate freeze through 2020 and tax reform impacts will weaken financial metrics

» Elevated capital spend over the next three years

» Highly levered parent that carries higher credit risk

» Carbon transition exposure

Rating outlook

The negative outlook for Questar Gas reflects the company's financial profile, which has been weak for the rating since Dominion acquired the company in 2016. Moody's expects Questar Gas to generate a ratio of cash flow to debt in the high teens range over the next few years, primarily reflecting a decline in cash flow triggered by a general rate freeze, tax reform and increasing debt.

Factors that could lead to an upgrade

» Cash flow to debt metrics above 25% on a sustainable basis, while maintaining the same degree of regulatory support that it currently has.

Factors that could lead to a downgrade

» Cash flow to debt metrics below 20%, on a sustainable basis.

» If regulatory provisions in either Utah or Wyoming were to become less supportive.

Key indicators

Exhibit 2
Questar Gas Company [1]

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Sept-18
CFO Pre-W/C + Interest / Interest	5.2x	7.4x	6.1x	6.2x	4.6x
CFO Pre-W/C / Debt	17.2%	23.5%	17.8%	17.6%	14.3%
CFO Pre-W/C – Dividends / Debt	13.5%	17.8%	14.4%	17.6%	14.3%
Debt / Capitalization	42.4%	44.0%	43.9%	51.2%	48.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Questar Gas is a local gas distribution company that serves over 1 million customers primarily in Utah but also in Wyoming and Idaho. Questar Gas is primarily regulated by the PSCU and the PSCW and generates around $950 million of revenue and about $220 million of EBITDA through its LDC operations.

Questar Gas' ultimate parent company is Dominion Energy Inc. (Baa2 stable), one of the nation's largest producers and transporters of energy, headquartered in Richmond, VA.

Detailed credit considerations

Supportive regulatory environments with key cost recovery features

Questar Gas' credit profile is underpinned by its low-risk gas distribution operations in very supportive regulatory environments. The PSCU and PSCW provide Questar Gas with cost recovery provisions that allow the company to recover prudently incurred costs on a timely basis.

Some of the key regulatory provisions include the company's revenue decoupling mechanism and weather normalization adjustment, which help to provide revenue and cash flow certainty despite fluctuations in customer use patterns. Importantly, the decoupling mechanism also helps Questar Gas to recover its fixed charges in a flat to declining demand environment, which mitigates volume risk. We note that while the company is experiencing declining use on a per-customer basis, the overall service territory demand is experiencing growth of around 2.0% per year - a credit positive.

The company's infrastructure rider accelerates the recovery of certain distribution system investments, once the projects are complete. This will be particularly helpful as the company makes capital expenditures associated with a multi-year high-pressure natural gas feeder-line replacement program. We expect this replacement program to continue to keep Questar Gas' capital expenditures elevated for several years, therefore the rider will accelerate the recovery of this investment and help to maintain a stronger financial profile than would otherwise be possible.

While timely cost recovery has been the norm in Utah and Wyoming, we note that a condition of the Dominion acquisition approval included a base rate freeze for Questar Gas, in both jurisdictions, through 2020. This is credit negative which we expect to result in declining financial metrics over the next two years, but assume that rates and cash flow would increase thereafter.

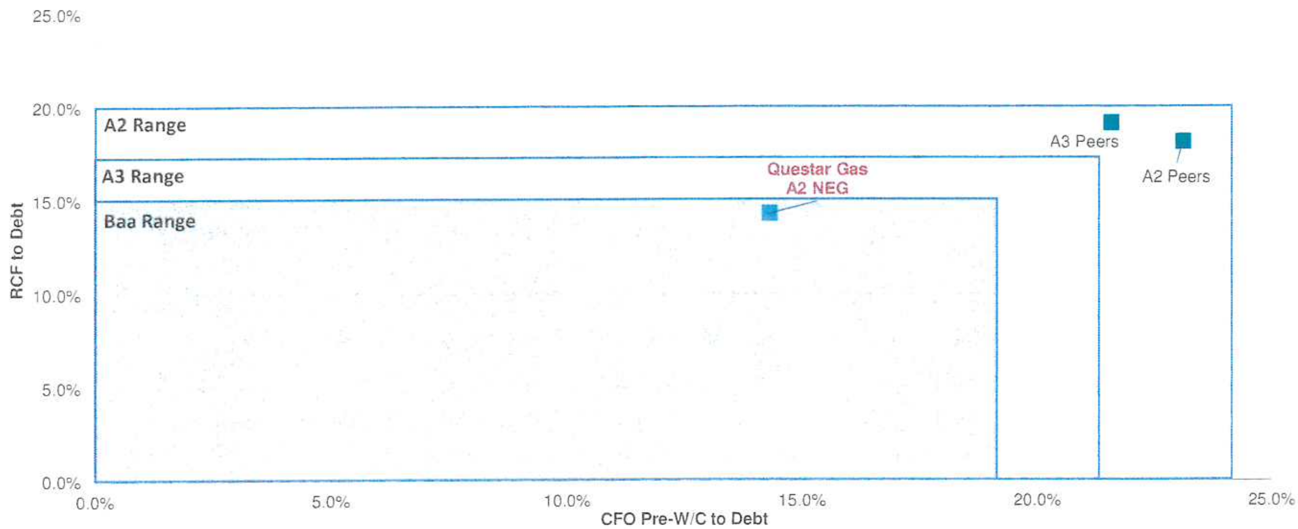
Weakened cash flow will persist over the next 18 months, but managing financial policies should help improve metrics

At about 14%, Questar Gas' ratio of CFO pre-WC to debt through LTM 3Q18, is much lower than A2 LDC peers that have averaged around 23% over the same period. We expect that Questar Gas' financial profile will remain relatively weak through 2020 as a result of the Utah and Wyoming base rate freezes, a robust capital plan and cash flow headwinds due to December 2017 tax reform. For example, we expect cash flow from operations to stagnate around $180 million.

However, management has taken steps to stabilize and improve the company's financial profile until new rates can begin in mid-2020. For example, Questar Gas has made no dividend payments since 4Q16 and has received approval from the UPSC to temporarily increase the equity component of the LDC's capital structure, as a means to improve financial credit metrics. In January 2019, Questar Gas received commission approval to exceed the 55% equity layer of capitalization that was ordered in the 2016 merger approval. This should help stave off the pace of increasing debt during the cash flow stagnation and keep CFO pre-WC to debt - and CFO pre-WC less dividends to debt - between 16-18%.

Despite the greater retained cash flow, the company's financial profile remains weak compared to peer LDCs that have similar cost recovery mechanisms and operate in very supportive regulatory jurisdictions. Exhibit 3 shows a comparison of CFO pre-WC to debt and CFO pre-WC less dividends to debt for Questar Gas and its peers.

Exhibit 3



Source: Moody's Financial Metrics

Parent contagion risk reduced by utility ring-fencing type provisions and de-risking events in 2018

The ring-fencing like provisions put in-place by the PSCU and PSCW help to support Questar Gas' standalone credit profile and provide some downside protections from its highly levered parent. For example, by instituting measures focused on minimum equity levels, rating levels, intercompany lending restrictions, liquidity facility requirements and a "Special Bankruptcy Director" for Questar Gas, we see added regulatory focus on maintaining Questar Gas' individual credit quality. Some of these features also govern the degree to which Dominion can increase Questar Gas' leverage ratios - a credit positive.

Moreover, Dominion made significant progress toward lowering its business and financial risk in 2018. Some of the key features include the reduction of holding company debt by around $8.0 billion ($5.0 billion on a consolidated basis) by way of selling three merchant power generation plants and its 50% interest in Blue Racer (Ba1 stable) midstream gas business with higher risk operations. Furthermore, the acquisition of SCANA Corp. (Ba1 positive) added over $800 million of rate regulated utility cash flow to the consolidated operations and provides more geographic and regulatory diversity going forward.

Low carbon transition risk

Questar Gas has low carbon transition risk within the utility sector because it is a gas LDC and natural gas commodity purchase costs are fully passed through to customers with an effective cost recovery mechanism. Moreover, the company's decoupling mechanism helps to insulate its financial profile from the potential negative impacts of lower sales volume, should usage decline.

Liquidity analysis

Questar Gas' internal liquidity consists of cash flow from operations around $180 million, versus capital expenditures above $230 million. We expect that Questar Gas will maintain a lower dividend payout through 2019, in-line with the past 12 months, but will still require external liquidity sources to maintain an adequate liquidity profile.

To supplement the company's negative free cash flow, Questar Gas has direct access to Dominion's $6.0 billion master credit facility, by way of a $250 million sub-limit. On 30 September, Questar Gas had $110 million of commercial paper (CP) outstanding, leaving around $140 million of available borrowing capacity per the sub-limit. The sub-limit can be increased or decreased multiple times per year and if Questar Gas has liquidity needs in excess of its sub-limit, its needs can be satisfied through short-term intercompany borrowings from Dominion.

The master credit facility is a joint facility that also names affiliates Virginia Electric and Power Company (A2 stable) and Dominion Energy Gas Holdings, LLC (A3 stable) as co-borrowers. The facility matures in March 2023. The joint facilities contain no material adverse change clause for borrowings but do contain a maximum 67.5% debt to capitalization covenant (Questar Gas' specific covenant is 65%), and all four borrowers have reported that they remain comfortably in compliance with this covenant restriction.

Questar's P-1 CP rating is currently derived from Questar Gas' A2 long-term rating and recognizes that sub-limits for Dominion subsidiaries can be changed at the option of Dominion multiple times per year.

We also note that while it is common practice for Dominion and its subsidiaries to limit CP issuances to amounts available under the revolver backstop, the program documentation has no overt language that restricts CP issuance in this manner. We expect Dominion to continue its practice of maintaining 100% backup, at all times, for funded commercial paper in the form of cash balances and its $6.0 billion of committed bank credit facility. Should there be a deviation of this practice, the P-1 of Questar Gas would be downgraded and could result in negative ratings implications for its long-term debt as well.

Questar Gas also has $40 million and $110 million in notes maturing in December 2024 and December 2027, respectively.

Exhibit 4
Dominion's credit facility profile as of 30 September 2018 [1]

Company	Current Sub-Limit	CP Outstanding	Letters of Credit	Total Use as % of Sub-Limit	Sub-Limit Available
Total	$ 6,000	$ 2,928	$ 132	51%	$ 2,940
DEI	$ 3,500	$ 1,743	$ 71	52%	$ 1,686
VEPCO	$ 1,500	$ 934	$ 61	66%	$ 505
DEGH	$ 750	$ 141	$ -	19%	$ 609
Questar Gas	$ 250	$ 110	$ -	44%	$ 140

Dominion represents Dominion Energy Inc.'s parent and unregulated operations
[1] This does not incorporate any of the cash receipts from the sale of Blue Racer, merchant assets, and settlement of forward equity sale.
Source: Company reports

Rating methodology and scorecard factors

Exhibit 5

Rating Factors

Questar Gas Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 9/30/2018		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.3x	Aa	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.6%	A	16% - 18%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.1%	A	16% - 18%	A
d) Debt / Capitalization (3 Year Avg)	44.2%	A	40% - 44%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 9/30/2018(L)

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics

Appendix

Exhibit 6

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-14	Dec-15	Dec-16	Dec-17	LTM Sept-18
As Adjusted					
FFO	**162**	**179**	**157**	**184**	**141**
+/- Other	(37)	16	-	-	-
CFO Pre-WC	**124**	**195**	**157**	**184**	**141**
+/- ΔWC	5	(63)	44	(43)	63
CFO	**129**	**132**	**201**	**141**	**205**
- Div	27	47	30	-	-
- Capex	175	217	240	215	252
FCF	**(72)**	**(132)**	**(69)**	**(74)**	**(47)**
(CFO Pre-W/C) / Debt	17.2%	23.5%	17.8%	17.6%	14.3%
(CFO Pre-W/C - Dividends) / Debt	13.5%	17.8%	14.4%	17.6%	14.3%
FFO / Debt	22.3%	21.5%	17.8%	17.6%	14.3%
RCF / Debt	18.6%	15.9%	14.4%	17.6%	14.3%
Revenue	961	918	921	947	948
Cost of Good Sold	603	553	528	550	561
Interest Expense	30	30	31	35	39
Net Income	56	60	65	70	70
Total Assets	1,969	2,193	2,507	2,698	2,695
Total Liabilities	1,372	1,571	1,853	1,977	1,929
Total Equity	597	621	654	721	766

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 7

Peer Comparison Table [1]

	Questar Gas Company A2 Negative			South Jersey Gas Company A2 Negative			UGI Utilities, Inc. A2 Stable			ONE Gas, Inc A2 Stable			Public Service Co. of North Carolina, Inc. A3 Negative		
(in US millions)	FYE Dec-16	FYE Dec-17	LTM Sept-18	FYE Dec-16	FYE Dec-17	LTM Sept-18	FYE Sep-16	FYE Sep-17	LTM Sept-18	FYE Dec-16	FYE Dec-17	LTM Sept-18	FYE Dec-16	FYE Dec-17	LTM Sept-18
Revenue	921	947	948	461	517	538	768	888	1,092	1,427	1,540	1,632	423	470	498
CFO Pre-W/C	157	184	141	118	172	200	215	298	344	296	376	462	128	157	123
Total Debt	883	1,044	992	837	984	1,060	1,000	1,095	1,138	1,608	1,702	1,621	572	747	886
CFO Pre-W/C / Debt	17.8%	17.6%	14.3%	14.1%	17.5%	18.9%	21.4%	27.2%	30.2%	18.4%	22.1%	28.5%	22.4%	21.0%	13.8%
CFO Pre-W/C – Dividends / Debt	14.4%	17.6%	14.3%	14.1%	15.4%	17.0%	16.7%	22.0%	25.8%	13.9%	16.9%	22.6%	16.5%	16.2%	9.0%
Debt / Capitalization	43.9%	51.2%	48.8%	39.3%	45.4%	45.2%	40.5%	40.3%	43.3%	35.6%	40.0%	38.0%	34.9%	43.3%	47.1%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
QUESTAR GAS COMPANY	
Outlook	Negative
Senior Unsecured	A2
Commercial Paper	P-1
ULT PARENT: DOMINION ENERGY, INC.	
Outlook	Stable
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Commercial Paper	P-2

Source: Moody's Investors Service

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