State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director,
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Doug Wheelwright, Technical Consultant

DATE: February 28, 2013

RE: Questar Gas Dividend Declaration February 12, 2013

I. RECOMMENDATION – No Action

Based upon the following analysis, the Division finds no indication that the capital and operations of Questar Gas Company will be impaired pursuant to UCA §54-4-27. Therefore, the Division recommends that the Commission take no action.

II. ISSUE

On February 12, 2013 the Board of Directors of Questar Gas Company (QGC) declared a quarterly cash dividend of $8,875,000. The dividend is payable to the Company's sole shareholder, Questar Corporation, on March 18, 2013. On February 19, 2013, the Commission issued an Action Request to the Division to review and make recommendations. This memo is the Division response to the Action Request.

Pursuant to Utah Code Annotated §54-4-27, the Company must notify the Commission of the dividend within five days of its declaration. The Commission has 30 days from the dividend declaration date to investigate whether the payment of such dividend would result in impairment of the capital or to the utility's service to the public, and if it finds that such impairment will or may occur, the Commission may order that the dividend not be paid.

III. ANALYSIS

The Division understands the terms "impaired" and "impairment" in the statute to mean that (1) the payment of the dividend will result in actions being taken against the Company by creditors, rating agencies, or others due to a reduction in the value of the capital, the violation of loan covenants, or other agreements; (2) the payment of the dividend would result in a reduced ability of the Company to provide service through a lack of working capital or other financial capacity to continue its operations in the same manner as it would if the dividend were not paid.

The Division of Public Utilities investigated the effects of the dividend on the capital and cash flows of the Company using the latest financial information available. This included the annual financial statements through December 31, 2012, Questar Corporation News Release dated February 12, 2012, and a review of the Company's bond rating from the various bond rating agencies. The financial characteristics of Questar Gas generally indicate a profitable and stable utility company.

Exhibit 1 is a summary of the financial results for the periods ending December 31, 2007 through December 31, 2012. For the 12 months ending December 31, 2012, total revenue decreased 11.0% from $968.8 million to $862.2 million. The decrease in total revenue corresponds with a 17.4% decrease in the natural gas commodity cost from $645.7 million in 2011 to $533.3 million in 2012. Wexpro provided 68% of the natural gas supply in 2012 compared to 52% in 2011 and 51% in 2010. The higher percentage in 2012 was due to increased production and lower Questar Gas sales volumes driven by warmer than normal weather.

Earnings from Operations decreased 1.3% from $94.1 million in 2011 to $92.9 million in 2012. During the same period, net income increased 2.2% from $46.1 million to $47.1 million. Net Income as a percentage of total revenue was 5.46% in 2012 compared to the five year average of 4.72%. Weather, as measured in degree days, was 16% warmer than normal in 2012. During this same period, the temperature adjusted usage per customer decreased 2.43% from 111.1 Dth in 2011 to 108.4 Dth in 2012. During 2012, the Company experienced a 1.31% increase in the number of customers from 919,000 to 931,000.

The balance sheet information on pages 2 and 7 of Exhibit 1 identifies an increase in accounts receivable from $153.1 million in 2011 to $177.0 million in 2012. The net plant and equipment has increased steadily from 2007 through 2012 averaging a 7.06% annual increase while total assets increased at an average rate of 6.22%. Capital expenditures increased from $83.8 million in 2009 to $164.0 million in 2012 primarily due to the ongoing feeder line replacement program.

Page 4 of Exhibit 1 calculates the financial ratios for the periods under review. Short-term liquidity ratios for 2012 are slightly lower than historical averages with the current ratio at 0.69 and the quick ratio at 0.45 compared to the average of 0.76 and 0.48. The long-term solvency ratios are near the historical averages with Net Worth / Total Debt at 0.42 and Net Worth / Fixed Assets at 0.37. The profitability ratios are changing with the increase in capital expenditures. Return on Total Assets shows a slight decrease from the average of 4.38% to 4.12% in 2012. Return on Total Capital was 7.89% in 2012, close to the average of 7.99%. On an SEC financial reporting basis, the Company had a Return on Equity (ROE) of 10.24% for 2012. The company's authorized return on equity is 10.35% and is calculated based on different regulatory guidelines. The calculation for the regulatory ROE has historically been lower than the SEC amount and will be provided with the Results of Operation filed in March. Based on the preliminary calculations, the Company does not appear to be earning more than the authorized rate of return.

Included in the Other Financial Indicators section are four calculations used by Moody's as part of their bond rating guidelines. These include the EBIT / Interest, Debt / Book Capitalization, Retained Cash Flow / Debt and a Simple ROE calculation. All of these ratios are within the guidelines specified by the rating agencies as of year-end 2012.

The Company's regulatory capital structure is currently 47.70% debt and 52.30% equity which are close to the historical average of 47.36% debt and 52.64% equity. Common equity grew at an average rate of 6.54% for the periods under review and included a $30 million equity contribution from the parent company in 2008 and a $20 million equity contribution in 2011.

Long-term debt is currently $384.5 million. In December 2012 the Company issued $150.0 million in private placement notes. This new debt was issued at an average rate of 3.2% and replaces $133.5 million in maturing debt with an average rate of 6.1%. Questar Corp. does not issue debt at the parent-company level. The parent instead issues debt at the subsidiary level, primarily to provide capital-structure clarity for regulatory purposes.[1] Of special mention is the note payable to Questar Corporation. Short term notes payable to the parent company have varied widely from the low of $72.9 million in 2007 to the current $166.1 million as of December 2012. It appears that Questar Gas continues to use its parent company as a "bank" from which it obtains short-term loans according to its need for liquidity.

Page 5 of Exhibit 1 includes the operating statistics and looks at the revenue by customer class along with the natural gas costs per dekatherm (Dth) for each year under review. Residential and commercial sales provided 91.44% of the total revenue dollars but represented 59.05% of the total volume in 2012. The volume of gas for transportation and industrial customers increased 18.10% from the previous year and represents 38.06% of the total volume and 11.9% of the total revenue. System natural gas cost per Dth decreased 5.54% from $5.05 in 2011 to $4.77 in 2012.

Questar Corporation owns 100% of the stock in Questar Gas; therefore, the entire dividend payment of $8.875 million will be paid to Questar Corporation. The Company paid a total of $33.0 million in dividends during 2012 compared to $30.3 million in 2011. The $2.7 million increase represents an 8.9% growth rate compared to the historical average increase of 4.1%. The dividend payment represents a significant cash requirement for the Company and could become an issue if there is a downward trend in the overall profitability. At the present time, Questar Gas has adequate cash flow to maintain its debt service obligations and meet its financial needs. The Company is projected to maintain profitability levels similar to historical results and the Division will continue to monitor the actual results and the regulated return on equity.

[1] Questar Comments on Moody's Rating,, http://prnwire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/11-12-2002/0001839749&EDATE= > < Accessed June 9, 2010

IV. CONCLUSION

The Division concludes that the payment of an $8,875,000 common stock dividend declared by Questar Gas's Board of Directors is within the discretion of the Company and it appears that there will be no impairment of the capital or the services rendered by the Company.

cc: Barrie McKay – Questar Gas
Michele Beck – Office of Consumer Services