State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI, *Executive Director*
THOMAS BRADY, *Deputy Director*
CHRIS PARKER, *Director, Division of Public Utilities*

GARY HERBERT, *Governor*
GREG BELL, *Lieutenant Governor*

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: May 30, 2013

RE: Questar Gas Dividend Declaration, May 10, 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 May 10, 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 Monday, June 10, 2013. On May 22, 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

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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, quarterly financial statements as of March 31, 2013, Questar Corporation News Release dated May 10, 2013, 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, 2008 through March 31, 2013. Because of the seasonal nature of its business, Questar Gas typically reports income in the first and fourth quarters of the year and losses in the second and third quarters of the year. 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.

For the first quarter of 2013, total revenue was $51.8 million higher than the same period in 2012. Cost of natural gas sold increased 23% for the first quarter of 2013 and net income was $2.1 million higher than the same period in 2012. The increase in total revenue was the result of colder than normal temperatures during the first quarter of the year. Weather, as measured in degree days was 18% colder than normal during the first quarter.

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 5.55% annual increase while total assets increased at an average rate of 6.22%. Capital expenditures increased from $82.6 million in 2009 to $162.1 million in 2012 primarily due to the ongoing feeder line replacement program. Capital expenditures for the first quarter of 2013 were $31.7 million compared to $44.8 million for the same period last year.

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 to 4.12% in 2012 compared to the average of 4.38%. Return on Total Capital was 7.89% in 2012, slightly below 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. On a fully-adjusted Utah jurisdictional basis, Questar Gas's return on equity was 9.02% for year-end 2012[1] compared to 9.84% for year-end 2011.[2] Based on the 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,

[1] Questar Gas, Utah Results of Operations, 12 Months Ending December 31, 2012
[2] Questar Gas, Utah Results of Operations, 12 Months Ending December 31, 2011

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 was 47.70% debt and 52.30% equity as of year-end 2012 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 Corporation typically 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.[3] 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 $87.0 million in 2009 to $166.1 million as of December 2012. As of March 31, 2013, the note payable has been reduced to $132.3 million. 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

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[3] 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

$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.

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