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Rating Action: Moody's Affirms Questar's Ratings; Stable Rating Outlook

Global Credit Research - 02 Sep 2014

New York, September 02, 2014 -- Moody's Investors Service, ("Moody's") today affirmed the ratings of Questar Corporation (Questar) and its subsidiaries. The ratings affirmed include: Questar's A2 senior unsecured and Prime-1 short term commercial paper ratings; Questar Gas Company's (Questar Gas) A2 senior unsecured rating and Questar Pipeline Company's (Questar Pipeline) A3 senior unsecured rating. The rating outlooks for Questar, Questar Gas and Questar Pipeline are stable.

"Questar benefits from supportive regulatory treatment in Utah and Wyoming" said Ryan Wobbrock, Associate Vice President. "The timely recovery of costs and investments will produce a strong financial profile, even as capital expenditures rise over the next three years."

RATINGS RATIONALE

Questar's A2 rating reflects the low risk business profile of its three subsidiary businesses: natural gas distribution, natural gas transmission and exploration and production. The vast majority of Questar's revenues, assets and cash flow is supported by constructive regulatory frameworks in Utah, Wyoming and the Federal Energy Regulatory Commission.

Questar's stable rating outlook reflects the predictable cash flow generation provided by gas distribution and gas pipeline infrastructure assets, both of which contribute approximately \$140 million of cash flow from operations per year. Combined, these businesses produce roughly 60% of Questar's annual cash flow from operations.

The remaining 40% of consolidated cash flow is contributed from Wexpro, a quasi regulated exploration and production (E&P) subsidiary. Wexpro's operations are designed to serve Questar Gas under a cost-of-service basis, with rates having been approved by the Utah Public Service Commission (UPSC) and Wyoming Public Service Commission since 1981. Wexpro's relationship with its utility affiliate is governed by the Wexpro Agreement and Wexpro II Agreement. The agreements reduce the business risk associated with Wexpro's more risky E&P operations, while still allowing Wexpro to earn approximately 20% return on equity, currently.

The combination of Wexpro's quasi-regulated cost recovery and unlevered financial profile help support Questar's A2 consolidated credit strength, which is the same rating as its subsidiary, Questar Gas and 1-notch higher than subsidiary Questar Pipeline.

"This rating relationship is unique in the utility sector," added Wobbrock "since many holding company ratings are notched lower than their subsidiaries for structural subordination or holding company debt levels."

Today, Questar maintains approximately \$250 million of debt at the holding company, which equates to about 20% of the total consolidated \$1.3 billion of long-term debt. However, Moody's does not apply a lower rating at Questar due to the interrelated operations of the Questar family, along with Wexpro's strong financial metrics and quasi regulated operations.

Questar Gas' rating reflects the regulatory environment, cost recovery mechanisms and organic growth in its predominant Utah jurisdiction. Similarly, Questar Pipeline's rating are supported by FERC regulation and moderately long contract lives that average about 7 years in duration as of August 31, 2014.

RATING OUTLOOK

Questar's stable outlook is based on the expectation that Questar will manage its capital structure so that its consolidated cash flow to debt metrics (e.g., CFO pre-WC to debt) will remain above 25%, while maintaining strong liquidity and a quasi regulated cost recovery profile for non-utility operations.

WHAT COULD CHANGE THE RATING - UP

A positive rating action for Questar could result if it sustains improved credit metrics, including CFO pre-WC to debt over 30% on a sustainable basis.

WHAT COULD CHANGE THE RATING - DOWN

Questar's ratings would be downgraded if there were a weakening in cost recovery provisions provided by the UPSC and WPSC, such as modifications to the Wexpro Agreements or a lack of rate support for gas distribution activities. If Questar's consolidated financial profile were to decline, such that CFO pre-WC to debt fell below the mid-20% range for an extended period, or if Wexpro's cash flow to parent company debt dropped below 30%.

The methodologies used in this rating were Regulated Electric and Gas Utilities published in December 2013, and Natural Gas Pipelines published in November 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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