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Research Update:

Questar Corp. And Subs Ratings Placed On CreditWatch Negative On Proposed Acquisition By Dominion Resources

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Overview

- Questar Corp. has agreed to be acquired by Dominion Resources Inc.
- We are placing all ratings on Questar, including the 'A' issuer credit rating and our 'A-1' short-term debt rating, on CreditWatch with negative implications.
- We are placing all ratings on subsidiaries Questar Gas Co. and Questar Pipeline Co., including the 'A' issuer credit ratings and our senior unsecured debt ratings, on CreditWatch with negative implications.
- The negative CreditWatch listing reflects the potential for lower ratings on Questar when Dominion's acquisition of the company closes.

Rating Action

On Feb. 1, 2016, Standard & Poor's Ratings Services placed its ratings on Questar Corp. and subsidiaries Questar Gas Co. (QGC) and Questar Pipeline Co. (QPC), including the 'A' issuer credit ratings, on CreditWatch with negative implications.

Rationale

The CreditWatch negative placement on Questar Corp. (Questar) and subsidiaries QGC and QPC is based on Questar's agreement to be acquired by Dominion Resources Inc. (DRI).

When the acquisition successfully closes, we expect to view Questar as a "core" subsidiary of DRI, leading to our issuer credit rating on Questar being aligned with DRI's then-group credit profile. This assessment reflects the following:

- We expect that Questar will form a meaningful part of the combined entity, contributing about 15% of total EBITDA.
- QGC's service territory demonstrates above-average customer growth and benefits from constructive regulation.
- Questar operates in lines of business that are integral to the overall group's strategy and regulated utility and midstream energy operations.
- We expect DRI's senior management will demonstrate strong commitment to Questar given DRI's emphasis on maintaining the size and scope of its regulated utility and midstream energy operations.

Importantly, we do not anticipate that DRI will implement any structural or regulatory protections, ensuring that the company will have full access to Questar's resources and cash flows. Therefore, when the transaction closes, we expect that our issuer credit rating on Questar will be aligned with DRI's 'bbb+' group credit profile.

Based on its existing business composition, we assess Questar's business risk profile as excellent. This incorporates our very low industry risk assessment of the regulated utility industry and the low industry risk of the midstream energy industry, and a very low country risk based on the U.S.-only operations. In addition, the excellent business risk profile reflects a competitive position of strong. Supportive regulation, a growing service area with a mostly residential customer base, low operating risks, and lack of competition characterize the utility's excellent business risk profile. The business risk profile also benefits from strong access to gas supply and storage and from utility QGC's relationship with Wexpro Co. that provides natural gas to the utility at cost plus a fixed return. Questar derives 25% of consolidated EBITDA from QGC, 35% from QPC, and 40% from Wexpro.

We base our existing financial risk profile assessment of intermediate on the medial volatility financial ratio benchmarks. Under our base-case forecast, we expect Questar will generate funds from operations to total debt of 28% to 30% over the next few years. We expect debt to EBITDA to average 2.5x over the next few years. In addition, we expect a supplemental ratio of operating cash flow to debt of 32% to 34% over the next few years, bolstering and further supporting the intermediate determination. Management will need to maintain vigilant cost recovery to maintain these cash flow measures. With this strong cost recovery and an expectation that annual operating expenses will not grow more than 2%, we expect Questar to generate positive discretionary cash flow after capital spending and dividends, providing residual cash flow that the company could use to repay debt.

Based on our excellent business risk and intermediate financial risk profile assessments, there are two potential anchor outcomes ('a+' or 'a'). Our choice of an 'a' anchor reflects our view that the business risk is on the weaker end of the excellent category, partly because of the ownership of Wexpro and QPC. We expect to reassess the business and financial risk profiles of Questar as part of the CreditWatch review.

Liquidity

Questar has strong liquidity. We believe the company's liquidity sources are likely to cover its uses by more than 1.5x over the next 12 months and remain above 1x over the subsequent 12 months. We expect Questar to meet cash outflows even with a 30% decline in EBITDA.

The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets. Questar's liquidity benefits from stable cash flow generation,

ample availability under the revolving credit facilities, and modest debt maturities over the next few years.

Principal liquidity sources:

- We forecast cash and liquid investments of about \$30 million for the 12 months ending Sept. 30, 2016
- We forecast funds from operations of about \$505 million for the 12 months ending Sept. 30, 2016, and \$515 million for the 12 months ending Sept. 30, 2017
- Working capital inflows of about \$50 million for the 12 months ending Sept. 30, 2016, and \$50 million for the following 12 months
- Average availability of about \$750 million under the revolving credit facility

Principal liquidity uses:

- Debt maturities of about \$125 million, including outstanding commercial paper, for the 12 months ending Sept. 30, 2016 and \$250 million for the subsequent 12 months.
- Capital spending of about \$400 million for the 12 months ending Sept. 30, 2016 and about \$410 million for the 12 months ending Sept. 30, 2017
- Dividends of roughly \$145 million for the 12 months ending Sept. 30, 2016 and about \$145 million for the 12 months ending Sept. 30, 2017

Other Credit Considerations

Other modifiers do not affect the rating outcome.

Group Influence

Under our group rating methodology, when the DRI acquisition closes we would expect to view Questar as core to Dominion and therefore Questar's issuer credit rating would be aligned with Dominion's 'bbb+' group credit profile.

CreditWatch

The ratings on Questar, QGC, and QPC are on CreditWatch with negative implications, reflecting the prospect for a two-notch downgrade of Questar's issuer credit rating to 'BBB+' due to the company's agreement to be acquired by DRI. We expect to resolve the CreditWatch listing by the date of the transaction's closing, which could be by year-end 2016.

We could lower our ratings on Questar, QGC, and QPC to align them with our ratings on DRI.

Without regulatory or structural insulation measures that would insulate Questar from DRI after the transaction closes, we could affirm the existing ratings on Questar only if the acquisition by DRI does not materialize.

Ratings Score Snapshot

Corporate Credit Rating: A/Watch Neg/A-1

Business risk: Excellent

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

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: a

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a

- Group credit profile: a
- Entity status within group: Parent

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Midstream Energy Industry, Dec. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Placed On CreditWatch Negative

	To	From
Questar Corp.		
Corp credit rating	A/Watch Neg/A-1	A/Stable/A-1
Comm paper	A-1/Watch Neg	A-1
Questar Gas Co.		
Corp credit rating	A/Watch Neg/--	A/Stable/--
Senior unsecured	A/Watch Neg	A
Questar Pipeline Co.		
Corp credit rating	A/Watch Neg/--	A/Stable/--
Senior unsecured	A/Watch Neg	A

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