

Questar Gas Company (/gws/en/esp/issr/96444249)

FitchRatings

Fitch Assigns Initial 'A-' Issuer Default Rating to Questar Gas Company

Fitch Ratings-Chicago-15 December 2016: Fitch Ratings has assigned an initial Long-Term Issuer Default Rating (IDR) of 'A-' to Questar Gas Company. The senior unsecured debt rating is 'A' and the Short-Term IDR/Commercial Paper rating is 'F2'. The Rating Outlook is Stable. A full list of ratings follows at the end of this release.

KEY RATING DRIVERS

Low Risk Business Profile: Questar Gas is a local gas distribution utility serving customers in Utah, Wyoming, and Idaho. The majority of the company's customers are located in the state of Utah, which continues to experience significant growth. Questar's customer count increased by 2.9% in 2015, and is expected to continue to increase in line with Utah's economic growth.

Limited Regulatory Risk: Utah has implemented numerous rider mechanisms (including weather normalization, revenue decoupling, infrastructure replacement, and purchased gas adjustment) that serve to reduce regulatory lag and stabilize credit metrics. ROEs granted in Utah are generally in line with the industry averages. As a result of the Utah and Wyoming commissions' approval of the acquisition by Dominion Resources, Inc. (D, Long-Term IDR 'BBB+' /Stable Outlook), Questar Gas is currently precluded from filing a base rate case in Utah before July 2019 and in Wyoming from filing a general rate case with an effective date early than January 2020.

Strong Financial Metrics: Credit measures are in line with current rating level. The company's numerous riders help offset potential impact from the agreed to stay-out provisions. Additionally, D's agreement to maintain Questar Gas' total equity/total capitalization at a minimum of 48% (thru Dec. 2019) underpins Questar Gas's credit quality.

Manageable Capital Expenditures: Like most gas utilities, Questar has experienced increasing capital expenditures for growth, reliability, and infrastructure upgrades. As part of the merger approval Questar Gas and D committed to spending the following capital expenditures to maintain and improve Questar Gas' facilities - \$209 million in 2017, \$208 million in 2018, and \$233 million in 2019 with any variances to this plan to be supported by Questar Gas in its next general rate case. While the elevated capital expenditures exert some pressure on Questar's credit metrics, ratios are expected to remain in line with its current rating level.

Dominion Resources Ownership: Questar Gas is an indirect subsidiary of D. Questar Gas benefits from numerous ringfencing provisions in the merger approval, including separate books and records, separate legal entity, and D's commitment to maintain minimum 48% total equity/total capitalization at Questar Gas thru Dec 2019. D also committed to use reasonable efforts to maintain credit metrics consistent with strong investment-grade credit ratings (i.e. targeting single-A range.) Moderate linkage exists between Questar Gas and D's rating under Fitch's parent and subsidiary linkage criteria.

KEY ASSUMPTIONS

- Annual customer growth of 2.0% to 2.3%;
- Capital expenditures of \$209 million in 2017, \$208 million in 2018, and \$233 million in 2019;
- General rate case filings in Utah and Wyoming in 2H19;
- Minimum equity/total capital of 48%.

RATING SENSITIVITIES

Positive Rating Action: Positive rating action is not expected in the near term given Questar Gas' current metrics and minimal geographic diversity.

Negative Rating Action: Negative rating action would be considered if Questar Gas' adjusted Debt/EBITDAR is above 4.0x on a consistent basis. A downgrade of two notches or more at Dominion Resources would also likely trigger a downgrade of Questar Gas under Fitch's parent and subsidiary linkage criteria.

LIQUIDITY

Liquidity: Questar Gas has adequate liquidity. As a result of the acquisition by D, Questar Gas was added as a direct borrower on D's two credit facilities, which total \$5.5 billion. While Questar Gas' sublimit is set initially at \$250 million it can be revised as needed. As per the Utah merger agreement, D has agreed that it will provide Questar Gas with access to no less than \$750 million in short-term debt or commercial paper programs.

FULL LIST OF RATING ACTIONS

Fitch has assigned the following initial ratings to Questar Gas Company.

- Long-Term IDR at 'A-';
- Senior unsecured debt at 'A';
- Short-Term IDR at 'F2';
- Commercial Paper Rating at 'F2'.

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Disclosure: There were no financial statement adjustments made that were material to the rating rationale outlined above.

Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 27 Sep 2016) (<https://www.fitchratings.com/site/re/885629>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1016609&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiaW1hEODU4WEFOSIZWSkFLTzFBUlkyQl5vHYr93_j2oys)

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