

CREDIT OPINION

22 December 2017

Update

Rate this Research >>

RATINGS

Questar Gas Company

Domicile	Salt Lake City, Utah, United States
Long Term Rating	A2
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Ryan Wobbrock	+1.212.553.7104
VP-Senior Analyst	
ryan.wobbrock@moodys.com	
Poonam Thakur	+1.212.553.4635
Associate Analyst	
poonam.thakur@moodys.com	
Jim Hempstead	+1.212.553.4318
MD-Utilities	
james.hempstead@moodys.com	

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Questar Gas Company

Update to credit analysis

Summary

Questar Gas Company's (A2 stable) credit reflects 1) low-risk operations as a local gas distribution company (LDC), 2) supportive regulators in Utah and Wyoming and 3) stable cash flow production through its suite of cost recovery mechanisms.

The Questar Gas credit profile is constrained by 1) low-20% cash flow to debt ratio that is weak versus peers, 2) a base rate freeze that will further reduce financial metrics through 2020 and a highly levered parent company (i.e., Dominion Energy Inc. (DEI, Baa2 stable).

Exhibit 1

Historical CFO Pre-W/C, Total Debt and CFO Pre-W/C to Debt (\$ MM)



Source: Moody's Financial Metrics

Credit strengths

- » Stable and predictable cash flow derived from cost recovery mechanisms
- » Cooperative relationships with regulators in Utah and Wyoming
- » Ring-fencing like provisions helps offset some risk of its highly levered parent

Credit challenges

- » Base rate freeze through 2020 will weaken financial metrics
- » Elevated capital spend over the next three years
- » Highly levered parent that carries higher credit risk

Rating outlook

The stable outlook reflects ongoing cash collection through tracking mechanisms that should keep cash flow to debt at 20% over the next 12-18 months. Typically, we would expect the company to produce cash flow to debt in the mid-20% range, but now expect a decline in this metric due to a base rate freeze in Utah and Wyoming.

Factors that could lead to an upgrade

- » Cash flow to debt metrics above 25% on a sustainable basis, while maintaining the same degree of regulatory support that it currently has.

Factors that could lead to a downgrade

- » Cash flow to debt metrics below 20%, on a sustainable basis.
- » If regulatory provisions in either Utah or Wyoming were to become less supportive.
- » If parent credit risk increases, which could include a higher dependence upon Questar Gas dividends, reducing Questar Gas retained cash flow to debt to 15%.

Key indicators

Exhibit 2

KEY INDICATORS [1]

Questar Gas Company

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	9/30/2017(L)
CFO pre-WC + Interest / Interest	8.3x	5.2x	7.4x	6.1x	6.8x
CFO pre-WC / Debt	32.5%	17.2%	23.5%	17.8%	22.4%
CFO pre-WC – Dividends / Debt	26.5%	13.5%	17.8%	14.4%	22.4%
Debt / Capitalization	39.1%	42.4%	44.0%	43.9%	41.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

Profile

Questar Gas is a local gas distribution company that serves over 1 million customers primarily in Utah but also in Wyoming and Idaho. Questar Gas is primarily regulated by the PSCU and the PSCW and generates over \$900 million of revenue and about \$200 million of EBITDA through its LDC operations.

Questar Gas' ultimate parent company is Dominion Energy Inc. (Baa2 stable), one of the nation's largest producers and transporters of energy, headquartered in Richmond, VA.

Detailed credit considerations

Supportive regulatory environments with key cost recovery features

Questar Gas' credit profile is underpinned by its low-risk gas distribution operations in very supportive regulatory environments. The PSCU and PSCW provide Questar Gas with general rate case outcomes that allow the company to recover prudently incurred costs on a timely basis.

A key example of such recovery is the company's revenue decoupling mechanism and weather normalization adjustment, which help to provide revenue and cash flow certainty despite fluctuations in customer use patterns. Importantly, the decoupling mechanism also helps Questar Gas to recover its fixed charges in a flat to declining demand environment, which mitigates volume risk. We note that while the company is experiencing declining use on a per-customer basis, the overall service territory demand is experiencing growth of over 2.0% per year - a credit positive.

Another example is the company's infrastructure rider, which accelerates the recovery of certain distribution system investments, immediately upon project completion. This will be particularly helpful as the company makes capital expenditures associated with a multi-year high-pressure natural gas feeder-line replacement program. We expect this replacement program to continue to keep Questar Gas' capital expenditures elevated for several years, therefore the rider will accelerate the recovery of this investment and help to maintain a stronger financial profile than would otherwise be possible.

While timely cost recovery has been the norm in Utah and Wyoming, we note that a condition of the DEI acquisition approval included a base rate freeze for Questar Gas, in both jurisdictions, through 2020. This is credit negative which we expect to result in declining financial metrics over the next three years, but assume that rates and cash flow would increase thereafter.

Financial metrics will weaken, especially compared to peers

We expect that Questar Gas' financial profile will weaken through 2020 as a result of the Utah and Wyoming base rate freezes and a robust capital plan. Typically, we would expect the company to produce cash flow to debt in the mid-20% range, but now expect a decline in this metric toward 20% over the next twelve to eighteen months.

We maintain our stable view of the company's credit at this time, despite the rate freeze, since its decoupling mechanism and infrastructure replacement riders will continue to increase cash flow on an annual basis. We also expect that management will take steps to stabilize the company's financial profile in the meantime, such as the reduced dividend payout seen over the last twelve months (i.e., no dividends versus an average of about 60% over the last five years) and a capex financing strategy that balances debt and equity.

Cash flow to debt at 20% range is weak for the current credit profile - especially compared to the A2 LDC peer average, which produced over 26% through LTM 3Q17. Should the company's financial profile decline to levels consistently below 20% cash flow to debt, negative ratings pressure could ensue.

Risks of a highly-levered parent are mitigated by a track record of utility support and regulatory ring-fencing type provisions

While we analyze the credit of Questar Gas from a standalone perspective, the financial policies and credit of its parent company, DEI, do influence our view of all of DEI's subsidiaries to a degree.

DEI has a higher risk profile than many other utility holding companies due to very weak consolidated financial metrics (e.g., around 12% cash flow to debt through LTM 3Q17), a growing master limited partnership investment - which we view to be a form of financial engineering - and around 50% of its consolidated debt issued at the parent level.

Despite DEI having added risk and lower credit quality than Questar Gas, we also view DEI as having deep pockets, unfettered access to capital markets and a strong track record of managing utility credit quality. We believe that Questar Gas will continue to maintain strong regulatory relationships in Utah and Wyoming and will further benefit from the strong corporate resources of DEI.

The ring-fencing like provisions put in-place by the PSCU and PSCW also help to support Questar Gas' standalone credit profile. For example, by instituting measures focused on minimum equity levels, rating levels, intercompany lending restrictions, liquidity facility requirements and a "Special Bankruptcy Director" for Questar Gas, we see added regulatory focus on maintaining Questar Gas' individual credit quality. Some of these features also govern the degree to which DEI can increase Questar Gas' leverage ratios - a credit positive.

Liquidity Analysis

Questar Gas' standalone liquidity profile is relatively weak. Negative free cash flow is common in the sector, but the company had only \$25 million of credit facility availability to supplement cash needs as of 30 September. While DEI can also supply Questar Gas with intercompany loans or equity infusions, if Questar Gas' standalone liquidity profile continues to be constrained, it could jeopardize its P-1 commercial paper rating.

Questar Gas has direct access to the DEI master credit facilities. DEI currently has two shared credit facilities (with affiliates Virginia Electric and Power Company (A2 stable) and Dominion Energy Gas Holdings, LLC (A2 negative), and Questar Gas as co-borrowers) totaling \$5.5 billion, maturing in April 2020.

At 30 September, Questar Gas had an aggregate sub-limit of \$250 million under the shared facilities and \$225 million of commercial paper outstanding, leaving only \$25 million of capacity under the revolver. The sub-limit can be increased or decreased multiple times per year and if Questar Gas has liquidity needs in excess of its sub-limit, its needs can be satisfied through short-term intercompany borrowings from DEI.

The joint facilities contain no material adverse change clause for borrowings but do contain a maximum 65% debt to capitalization covenant (as defined in the credit agreements), and all four borrowers have reported that they remain comfortably in compliance with this covenant restriction.

The company's P-1 commercial paper (CP) rating is high for a company requiring external financing from a P-2 rated parent program and with only \$25 million available under its current sub-limit. The P-1 is currently derived from Questar Gas' A2 long-term rating and recognizes that sub-limits for DEI subsidiaries can be changed at the option of DEI multiple times per year.

We also note that while it is common practice for DEI and its subsidiaries to limit CP issuances to amounts available under the revolver backstop, the program documentation has no overt language that restricts CP issuance in this manner. We expect DEI to continue its practice of maintaining 100% backup, at all times, for funded commercial paper in the form of cash balances and its \$5.5 billion of committed bank credit facilities. Should there be a deviation of this practice, the P-1 of Questar Gas would be downgraded and could result in negative ratings implications for its long-term debt as well.

Questar Gas' internal liquidity consists of cash flow from operations of around \$140 million, versus capital expenditures of nearly \$200 million. With high capital expenditures over the next 12-18 months, we expect that Questar Gas will maintain a lower dividend payout over the next twelve to eighteen months. Through LTM 3Q17, the company has paid no dividends to DEI.

Questar Gas also has \$70 million and \$50 million in notes maturing in March 2018 and April 2018, respectively.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors		Current LTM 9/30/2017		Moody's 12-18 Month Forward View As of Date Published [3]	
Questar Gas Company					
Regulated Electric and Gas Utilities Industry Grid [1][2]					
Factor	Measure	Score	Measure	Score	
Factor 1 : Regulatory Framework (25%)					
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A	
b) Consistency and Predictability of Regulation	A	A	A	A	
Factor 2 : Ability to Recover Costs and Earn Returns (25%)					
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A	
b) Sufficiency of Rates and Returns	A	A	A	A	
Factor 3 : Diversification (10%)					
a) Market Position	Baa	Baa	Baa	Baa	
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A	
Factor 4 : Financial Strength (40%)					
a) CFO pre-WC + Interest / Interest (3 Year Avg)	6.8x	Aa	6x - 7x	Aa	
b) CFO pre-WC / Debt (3 Year Avg)	22.2%	A	20% - 25%	A	
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.1%	A	16% - 20%	A	
d) Debt / Capitalization (3 Year Avg)	42.6%	A	45% - 50%	Baa	
Rating:					
Grid-Indicated Rating Before Notching Adjustment		A2		A2	
HoldCo Structural Subordination Notching	0	0	0	0	
a) Indicated Rating from Grid		A2		A2	
b) Actual Rating Assigned		A2		A2	

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 9/30/2017(L)

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
QUESTAR GAS COMPANY	
Outlook	Stable
Senior Unsecured	A2
Commercial Paper	P-1
ULT PARENT: DOMINION ENERGY, INC.	
Outlook	Stable
Bkd LT IRB/PC	Baa2
Senior Unsecured	Baa2
Jr Subordinate	Baa3
Pref. Shelf	(P)Ba1
Commercial Paper	P-2

Source: Moody's Investors Service

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1098308

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454