MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 November 2021

Update

Rate this Research

RATINGS

Questar Gas Company

Domicile	Salt Lake City, Utah, United States
Long Term Rating	A3
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.

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Questar Gas Company

Update to credit analysis

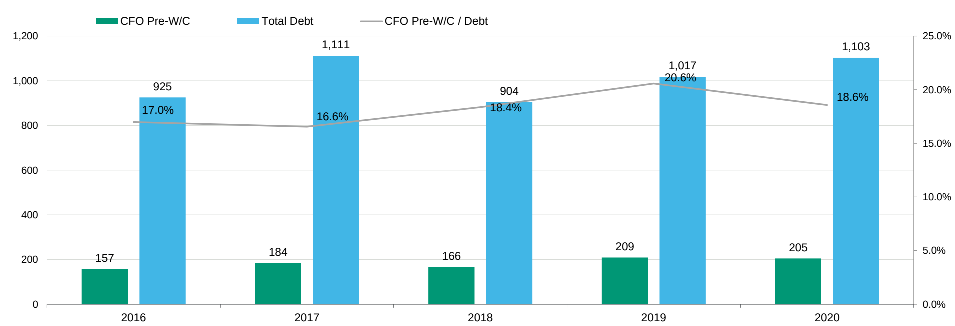
Summary

Questar Gas Company's credit profile reflects 1) low-risk operations as a local gas distribution company (LDC), 2) supportive regulators in Utah and Wyoming, 3) stable cash flow production through its suite of cost recovery mechanisms and 4) generally conservative financial policies.

Questar Gas' credit is constrained by an elevated capital investment program, which will keep cash flow to debt ratios around 17% over the next 12-18 months, and a longer-term transition to limit greenhouse gases from its operations.

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Stable and predictable cash flow derived from around $2.0 billion of rate base

» Constructive relationships with regulators in Utah and Wyoming

» Ring-fencing like provisions helps offset some risk from its highly levered parent

P.S.C.U. Docket No. 22-057-03
Data Request No. MDR_22 D.18 Attachment 2
Requested by R746-700-22
Date of DEU Response: May 2, 2022
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Credit challenges

- Elevated capital investment program
- Longer-term efforts to reduce greenhouse gas emissions from operations

Rating outlook

Questar Gas' stable outlook reflects the company's low business risk and steady cash flow production. The stable outlook also incorporates our view that the company will generate cash flow to debt metrics over 17% for the next two to three years.

Factors that could lead to an upgrade

- Cash flow to debt ratio above 20% on a sustainable basis, while maintaining the same degree of regulatory support
- A material improvement in cost recovery provisions

Factors that could lead to a downgrade

- Cash flow to debt ratio at 16%, or below, on a sustained basis
- If regulatory support or the ability to recover costs were to decline

Key indicators

Questar Gas Company [1]

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
CFO Pre-W/C + Interest / Interest	6.1x	6.2x	5.2x	7.4x	6.2x
CFO Pre-W/C / Debt	17.0%	16.6%	18.4%	20.6%	18.6%
CFO Pre-W/C – Dividends / Debt	13.7%	16.6%	18.4%	20.6%	18.6%
Debt / Capitalization	45.0%	52.7%	41.3%	42.0%	41.7%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Financial Metrics™
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.moodys.com for the most updated credit rating action information and rating history.

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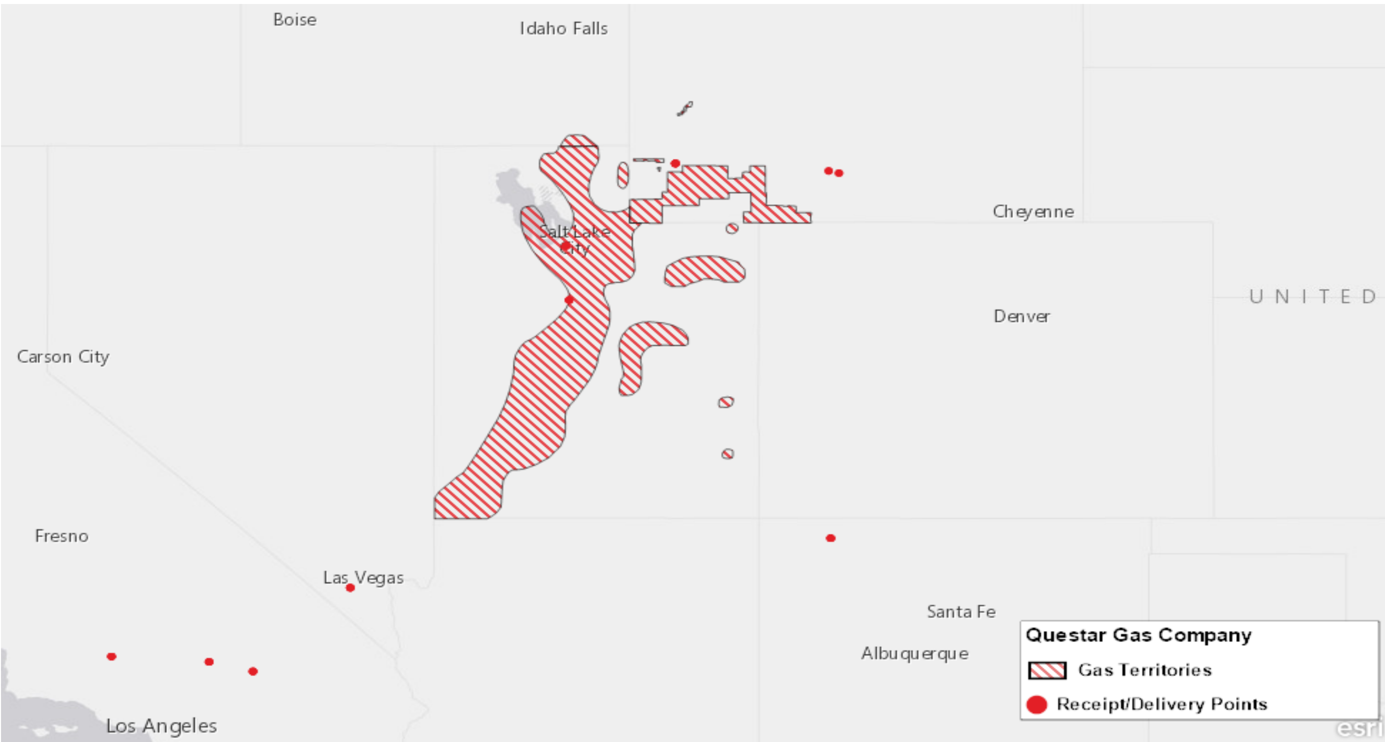
Profile

Questar Gas is a local gas distribution company that serves over 1.1 million customers primarily in Utah but also in Wyoming and Idaho. Questar Gas is primarily regulated by the Public Service Commission of Utah (PSCU) and the Wyoming Public Service Commission (WPSC) with a rate base of around $2.0 billion.

Exhibit 3
Questar's service territory spans the length of Utah and supports customer growth of about 2.4% per year



Source: SPGMI

Questar Gas' ultimate parent company is Dominion Energy Inc., 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 and supportive regulation provided by the PSCU, which regulates over 95% of the company's rate base, and the PSCW. Some of the key regulatory provisions include 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, even in a declining demand environment, which mitigates volume risk.

Another key cost recovery mechanism is an infrastructure rider, which allows the company to recover up to about $70 million (adjusted for inflation) of annual capital spending on certain infrastructure replacement projects between general rate cases. This helps to accelerate a degree of capex recovery (e.g., $72 million is roughly 24% of the $300 million of capex that Questar spent in 2020) thus supporting company cash flow and limiting the use of debt financing.

In July 2019, Questar Gas filed for its first general rate increase since 2014 with the PSCU. The filing requested just over a $19 million annual revenue increase, based on a $1.8 billion rate base with a 10.5% allowed ROE on an equity layer of 55%. The filing also requested a continuation of the infrastructure rider and that the recovery cap be raised to $80 million per year. In February 2020, the PSCU approved a base rate increase of $2.7 million with an ROE of 9.5% and equity layer of 55%. This was effective as of March 2020.

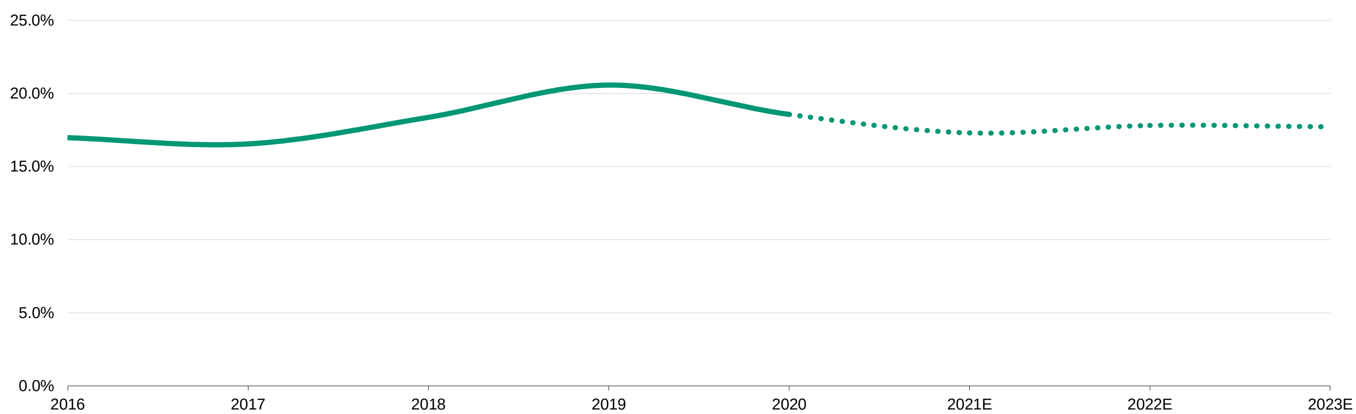
Stable financial metrics

The cost recovery provisions and financial support offered by regulators helps Questar Gas to generate stable and predictable cash flow and financial metrics.

Questar Gas' last general rate case made new rates effective March 2020, which were based upon a $2.0 billion rate base, 55% equity capitalization and allowed ROE of 9.5%. Based upon these provisions, we expect annual cash flow from operations to persist at around $200-$250 million and debt levels to increase due to the elevated capital expenditure program, which should lead to cash flow to debt ratios of consistently over 17%.

Exhibit 4

Questar Gas' ratio of CFO pre-WC to debt should remain steady in the high-teen's percent range



Source: Moody's Financial Metrics and Moody's Investors Service projections

The company's 2020 net income benefitted from lower O&M expenses. If these levels are sustainable and customer growth continues, we see the potential for Questar Gas to produce cash flow to debt metrics within a 17-19% range.

Dominion has been a supportive owner, while regulatory ring-fencing provisions offer an extra layer of credit protection

In general, we view holding companies like Dominion, with high parent level leverage and growing dividends, as a constraint on the credit quality of its operating subsidiaries, since the operating companies collectively service those obligations. However, we have also seen Dominion being supportive of Questar Gas' credit profile in multiple ways over the past few years.

Examples of this support include a $200 million equity infusion into the utility in 2018, used to retire short-term debt, withholding dividends over the last four years and obtaining regulatory approval of a higher level of equity capitalization (i.e., 55% from around 52%).

Moreover, as part of Dominion's 2016 acquisition of Questar Corp., the PSCU and PSCW required certain ring-fencing like provisions to support Questar Gas' stand alone credit profile and provide some downside protections from a probability of default perspective. 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 Dominion can increase Questar Gas' leverage ratios - a credit positive.

ESG considerations

Environmental

As a gas distribution company, Questar Gas has moderately negative exposure to environmental risk because of fugitive emissions associated with its natural gas distribution operations. Through the company's pipeline replacement program, growing use of renewable natural gas (RNG), and eventually hydrogen, Questar Gas expects to significantly reduce its methane emissions over time.

Dominion has committed to net zero carbon and methane emissions across its nationwide electric generation and natural gas infrastructure operations by 2050. As part of these efforts, Questar Gas is incorporating the use of renewable natural gas on it system, which is expected to be roughly 4% of the utility's throughput by 2040. Questar Gas is also making plans to have its infrastructure prepared to receive up to 5% hydrogen by 2030.

Social

Social risks are moderately negative reflecting the fundamental utility risk that demographics and societal trends could include social pressures or public concerns around affordability, utility reputation or environmental issues. We see these as somewhat mitigated given the location of Questar Gas' service territory in Utah and Wyoming - states within a region that is generally supportive of natural gas infrastructure. The support is observable through the quasi-regulated operations of Wexpro Energy, a natural gas exploration and production affiliate that is also owned by Dominion, which provides cost-of-service gas to Questar Gas (up to 55% of the utility's supply is sourced from Wexpro) and the February 2021 passage of Utah House Bill 17, which prohibits municipalities and counties from making certain restrictions on energy utility services, including natural gas. The Wexpro relationship, in particular, help Questar Gas to avoid a degree of customer rate shock in times of high-priced market alternatives for gas supply.

The company is also moderately exposed to responsible production risk because of the risk to public safety inherent in its gas distribution operations.

Governance

Questar Gas' governance is driven by that of Dominion Energy its ultimate parent company, a credit positive.

Dominion's governance is broadly in line with other utilities and does not pose particular risk, despite high holding company leverage and at times complex financial structures (e.g., joint ventures or certain hybrid securities). Financial policies regarding strategic direction, business risk, equity issuance and dividends have also proven to be more credit supportive in recent years.

Liquidity analysis

Questar Gas' internal liquidity consists of about $215 million of cash flow from operations that we project in 2022, compared to at least $300 million of capex, and our expectation that upstream dividend payments to Dominion will resume, resulting in negative free cash flow of at least $85 million.

These cash deficits are supplemented by Questar Gas' access to Dominion's $6.0 billion master revolving credit facility (expiring in June 2026), and the utility's current sub-limit of $250 million, less any amounts outstanding to co-borrowers. This sub-limit could be adjusted upward or downward multiple times per year, subject to 5 business days notice. Questar also has access to a utility money pool with its regulated utility affiliates and can receive intercompany lending from Dominion.

Dominion's joint revolving credit facility also makes funds available to affiliate utilities Virginia Electric and Power Company (A2 stable) and Dominion Energy South Carolina (Baa2 positive). The facility is used for working capital purposes, issuances of letters of credit, potential bank borrowings and as support for Dominion, VEPCO's, DESC's and Questar Gas' respective commercial paper programs. The joint facility contains no material adverse change clause for borrowings but does contain a maximum 65% debt to capitalization financial covenant (as defined in the credit agreements). Dominion is in compliance with the covenant as of 30 September 2021.

We note that while it is common practice for Dominion 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. Moreover, although Dominion has the ability to change the sub-limits up to six times every year, it requires 5 business days' notice to do so.

In August 2021, Questar Gas issued, through private placements, $125 million of 2.21% senior notes and $125 million of 3.15% senior notes that mature in 2031 and 2051, respectively. The next debt maturities at Questar Gas include $40 million of notes due in December 2024 and $110 million on December 2027.

Rating methodology and scorecard factors

Methodology Scorecard Factors
Questar Gas Company

Regulated Electric and Gas Utilities Industry [1][2]	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
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	A	A
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)	6.2x	Aa	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	19.2%	A	17% - 19%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	19.2%	A	13% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	41.7%	A	40% - 45%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		A2		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2020(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 6

Category	Moody's Rating
QUESTAR GAS COMPANY	
Outlook	Stable
Senior Unsecured	A3
Commercial Paper	P-2
ULT PARENT: DOMINION ENERGY, INC.	
Outlook	Stable

Senior Unsecured	Baa2
Jr Subordinate	Baa3
Pref. Stock	Ba1
Commercial Paper	P-2

Source: Moody's Investors Service

Appendix

Exhibit 7

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
As Adjusted					
FFO	**157**	**184**	**166**	**194**	**201**
+/- Other	0	0	0	16	4
CFO Pre-WC	**157**	**184**	**166**	**209**	**205**
+/- ΔWC	44	-43	47	-87	-19
CFO	**201**	**141**	**213**	**122**	**186**
- Div	30	0	0	0	0
- Capex	240	215	218	204	301
FCF	**-69**	**-74**	**-5**	**-82**	**-115**
(CFO Pre-W/C) / Debt	17.0%	16.6%	18.4%	20.6%	18.6%
(CFO Pre-W/C - Dividends) / Debt	13.7%	16.6%	18.4%	20.6%	18.6%
FFO / Debt	17.0%	16.6%	18.4%	19.0%	18.2%
RCF / Debt	13.7%	16.6%	18.4%	19.0%	18.2%
Revenue	921	947	918	929	929
Interest Expense	31	35	40	33	39
Net Income	65	70	52	90	105
Total Assets	2,507	2,698	2,816	3,022	3,273
Total Liabilities	1,853	1,977	1,808	1,920	2,054
Total Equity	654	721	1,007	1,101	1,219

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 8

Peer Comparison Table [1]

	Questar Gas Company A3 (Stable)			DTE Gas Company A3 (Stable)			Southwest Gas Corporation Baa1 (Stable)			Public Service Co. of North Carolina, Inc. Baa1 (Stable)			UGI Utilities, Inc. A2 (Negative)		
(In US millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-19	FYE Dec-20	FYE Sept-21	FYE Dec-19	FYE Dec-20	FYE Jun-21	FYE Dec-20	FYE Dec-20	FYE Jun-21	FYE Sep-19	FYE Sep-20	FYE Jun-21
Revenue	918	929	929	1,415	1,462	1,396	1,358	1,369	1,351	500	545	525	1,092	1,049	1,030
CFO Pre-W/C	166	209	205	337	368	409	428	399	402	113	115	139	344	276	288
Total Debt	904	1,017	1,103	1,826	1,997	2,168	2,369	2,730	2,864	934	911	973	1,138	1,335	1,439
CFO Pre-W/C + Interest / Interest	5.2x	7.4x	6.2x	5.5x	5.5x	6.0x	5.4x	4.7x	4.6x	3.7x	3.6x	4.3x	8.0x	6.1x	5.9x
CFO Pre-W/C / Debt	18.4%	20.6%	18.6%	18.5%	18.4%	18.9%	18.1%	14.6%	14.0%	12.1%	12.6%	14.3%	30.2%	20.7%	20.0%
CFO Pre-W/C – Dividends / Debt	18.4%	20.6%	18.6%	12.3%	12.3%	12.6%	14.4%	11.1%	10.4%	7.4%	11.2%	14.3%	25.8%	19.2%	16.5%
Debt / Capitalization	41.3%	42.0%	41.7%	43.9%	44.2%	43.9%	51.2%	51.9%	50.4%	47.2%	43.1%	41.0%	43.3%	45.2%	45.3%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

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