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Ratings

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Questar Gas Co.

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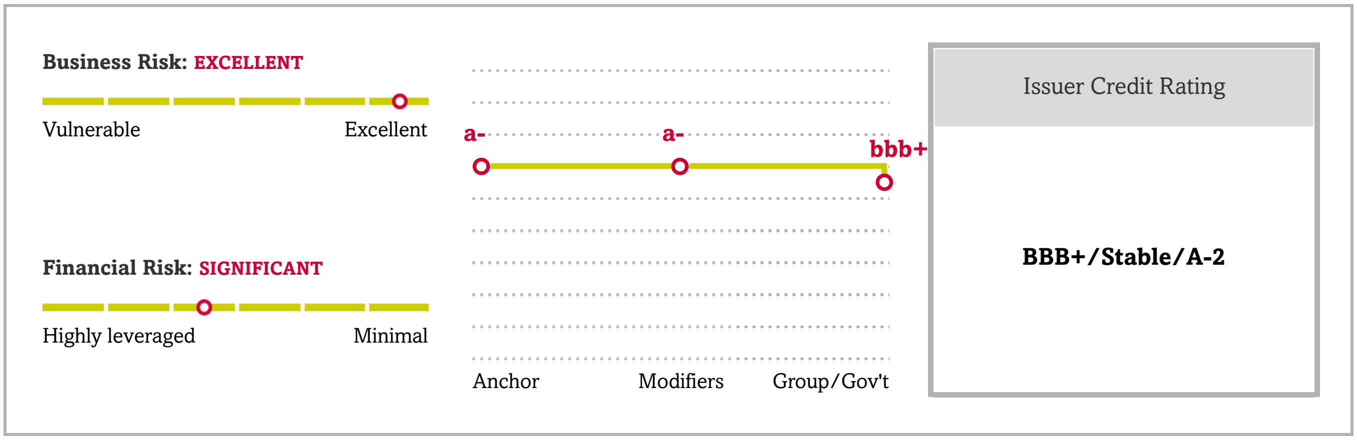

Credit Highlights

Overview

Key strengths	Key risks
Low-risk regulated utility business and effective management of regulatory risk.	Limited business and regulatory diversity.
Strong access to gas supply, transportation and storage.	Significant capital spending and negative discretionary cash flow.

We expect Questar Gas Co.'s (QGC) credit quality will be supported by both the utility's low-risk operation and the constructive regulatory framework of Utah. We expect QGC to maintain its stable cash flow and credit quality with the support from existing cost-recovery mechanisms.

Outlook:

S&P Global Ratings' stable outlook on Questar Gas Co. (QGC), reflects the outlook on ultimate parent Dominion Energy Inc. (Dominion)'s lower-risk utility businesses will show modest improvement to about 75% of consolidated EBITDA following the SCANA Corp. acquisition. We expect that financial measures will reflect the lower half of the range for its financial risk profile category, with funds from operations (FFO) to debt of 15%-16%.

Downside scenario

We could lower the rating on Dominion over the next two years if its financial measures materially weaken, reflecting FFO to debt below 13%. This could occur if the company's ability to effectively manage regulatory risk weakens or it suffers material delays and cost increases at its large projects, including the Atlantic Coast Pipeline.

Upside scenario

We could upgrade Dominion over the next two years if its financial measures significantly improve, reflecting FFO to debt that is consistently greater than 18%, without a material increase to business risk. This would most likely occur if the company finances a higher percentage of its future projects with a higher degree of equity, and continues to largely grow through its regulated utility operations.

Our Base-Case Scenario

Assumptions

- Continued cost recovery through approved rate cases and trackers;
- Capital expenditures averaging about $350 million per year through 2022;
- Negative discretionary cash flow, which indicates external funding needs; and
- All debt maturities to be refinanced.

Key Metrics

	2019a	2020e	2021f
FFO to debt (%)	18.1	21-22	20-21
Debt to EDITDA (x)	3.6	3.5-4	3.5-4

All figures are S&P Global Ratings adjusted.

e--Estimate. f--Forecast. FFO--Funds from operations. OCF--Operating cash flow.

Company Description

Questar Gas Co. distributes natural gas to residential and commercial customers in Utah, southwestern Wyoming, and southeastern Idaho. Questar Gas serves approximately 1 million sales and transportation customers. Questar Gas is the only non-municipal gas distribution utility in Utah, where over 97% of its customers are located. The company is based in Salt Lake City, Utah. Questar Gas Co. is a subsidiary of Dominion Energy Inc.

Business Risk:

Our business risk assessment of QGC reflects the utility's low-risk regulated natural gas distribution business, above average size, and its effective management of regulatory risk.

QGC effectively manages regulatory risk through a credit supportive rate design, the use of multiple cost recovery mechanisms including a fuel cost adjustment, a weather normalization adjustment, decoupling, and an infrastructure cost tracking adjustment. QGC's cash flows are generally stable and largely insulated from fluctuations in gas prices, weather, and usage. Furthermore, most of the customer base is residential and commercial, providing an additional measure of cash flow stability. Marginally effecting the company's business risk profile is the general lack of business or regulatory diversity.

QGC has access to gas supply (65% of the utility's supply) due to its relationship with Wexpro, a cost-of-service exploration and production operation company providing natural gas to QGC at cost plus a fixed return. In addition, Dominion Energy Questar Pipeline LLC, another affiliate, provides QGC with long-term transportation contracts and storage. These relationships and contracts minimizes QGC's supply risk compared to peers.

Peer comparison

Table 1

Questar Gas Co.--Peer Comparison					
Industry sector: Gas					
	Questar Gas Co.	**PacifiCorp**	**Avista Corp.**	**IDACORP Inc.**	**Black Hills Corp.**
Ratings as of March 5, 2020	BBB+/Stable/A-2	A/Stable/A-1	BBB/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2018--				
(Mil. $)					
Revenue	917.6	5,026.0	1,396.9	1,370.8	1,754.3
EBITDA	216.9	2,053.9	474.5	539.1	622.4
FFO	140.8	1,532.7	350.2	423.8	473.2
Interest expense	40.6	405.2	109.9	116.1	140.3
Cash interest paid	37.4	377.2	109.5	110.0	134.5
Cash flow from operations	211.8	1,796.7	369.7	494.1	509.1
Capital expenditure	217.1	1,240.2	431.0	280.3	461.1
FOCF	(5.3)	556.5	(61.3)	213.8	48.0
DCF	(5.3)	106.5	(159.3)	88.7	(86.9)
Cash and short-term investments	6.6	77.0	14.7	267.5	20.8
Debt	777.6	7,469.5	2,463.1	2,204.0	3,336.1
Equity	1,011.8	7,844.0	1,774.0	2,375.8	2,287.4
Adjusted ratios					
EBITDA margin (%)	23.6	40.9	34.0	39.3	35.5
Return on capital (%)	8.3	7.4	6.7	8.0	7.5
EBITDA interest coverage (x)	5.3	5.1	4.3	4.6	4.4
FFO cash interest coverage (x)	4.8	5.1	4.2	4.9	4.5
Debt/EBITDA (x)	3.6	3.6	5.2	4.1	5.4
FFO/debt (%)	18.1	20.5	14.2	19.2	14.2
Cash flow from operations/debt (%)	27.2	24.1	15.0	22.4	15.3
FOCF/debt (%)	(0.7)	7.4	(2.5)	9.7	1.4
DCF/debt (%)	(0.7)	1.4	(6.5)	4.0	(2.6)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. Source: S&P Global Ratings and company data.

Financial Risk:

We assess the company's financial measures using our medial volatility financial benchmarks, reflecting the company's steady cash flow and rate-regulated utility operations and effective regulatory risk management.

Under our base-case scenario, which includes improving economic conditions in the company's service territory, a rate case gradually kicking in for 2020 and 2021, and capital spending of about $350 million, we expect financial measures consistent with the higher end of the range for the company's financial risk category. Specifically, we expect FFO to debt of about 18% to 20%.

Financial summary

Table 2

Questar Gas Co.--Financial Summary					
Industry sector: Gas					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. $)					
Revenue	917.6	947.0	921.3	917.6	960.9
EBITDA	216.9	215.2	187.6	179.1	164.5
FFO	140.8	203.7	192.9	130.3	150.9
Interest expense	40.6	35.6	33.5	28.4	28.7
Cash interest paid	37.4	33.5	29.7	27.7	26.8
Cash flow from operations	211.8	140.8	200.7	116.0	113.2
Capital expenditure	217.1	215.2	250.8	228.7	174.2
FOCF	(5.3)	(74.4)	(50.1)	(112.7)	(61.0)
DCF	(5.3)	(74.4)	(80.1)	(159.7)	(88.0)
Cash and short-term investments	6.6	6.7	7.6	10.5	19.8
Gross available cash	6.6	6.7	7.6	10.5	19.8
Debt	777.6	958.3	872.5	753.8	634.4
Equity	1,011.8	725.1	657.6	624.7	597.0
Adjusted ratios					
EBITDA margin (%)	23.6	22.7	20.4	19.5	17.1
Return on capital (%)	8.3	9.3	8.8	9.8	9.8
EBITDA interest coverage (x)	5.3	6.0	5.6	6.3	5.7
FFO cash interest coverage (x)	4.8	7.1	7.5	5.7	6.6
Debt/EBITDA (x)	3.6	4.5	4.7	4.2	3.9
FFO/debt (%)	18.1	21.3	22.1	17.3	23.8
Cash flow from operations/debt (%)	27.2	14.7	23.0	15.4	17.8
FOCF/debt (%)	(0.7)	(7.8)	(5.7)	(15.0)	(9.6)
DCF/debt (%)	(0.7)	(7.8)	(9.2)	(21.2)	(13.9)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. Source: S&P Global Ratings and company data.

Liquidity: Adequate

We assess QGC's liquidity as adequate because we believe its liquidity sources will likely exceed uses by more than 1.1x over the next 12 months. We anticipate that its net sources will remain positive even if its EBITDA declines by 10%. This assessment also reflects QGC's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses

- Cash FFO of about $190 million;
- Credit facility availability of $250 million; and
- Minimal cash assumed.
- Maintenance capital spending of about $320 million; and
- Debt maturities of about $60 million.

Environmental, Social, And Governance

Although Dominion has been gradually reducing its exposure to coal generation, it sources just under 20% of its net-generation capacity from coal, exposing it to higher emissions and risks related to coal ash remediation. Furthermore, the company's nuclear generation (just above 20% net generation capacity) exposes it to higher operating and nuclear waste management risks. However, the company has been trying to reduce its environmental footprint--it has reduced its emissions rate by more than 50% from 2000 levels, and has committed to installing 3,000 additional megawatts of solar and wind generation by 2022. The company recently announced its updated emissions reduction targets of 55% carbon emissions levels versus 2005 levels by 2030 and 80% by 2050. The company has already begun closing coal plants to meet these targets.

From a social perspective, the company faces risks like gas leaks, which could cause significant financial liabilities and disrupt the communities it serves, given that about 30% of its operations consist of natural gas transmission and distribution. However, this risk is partially mitigated by the company's ongoing investments to enhance the safety and reliability of its natural gas infrastructure by fully replacing or upgrading it over the next 15 years, which is sooner than many peers. Dominion is one of only three utility companies with an environmental justice policy, which ensures that all stakeholders, including local communities, have a voice in decisions on infrastructure investments.

We view governance factors as supporting the company's investment-grade credit quality and in line with peers. The board also recently created a sustainability and corporate responsibility committee to oversee the environmental justice policy, emissions reduction targets/performance, and other facets of the company's ESG and sustainability program.

Group Influence

We assess QGC as a core subsidiary of Dominion, under our group rating methodology. This reflects our view that QGC is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. As a result, we assess QGC's issuer credit rating as in line with Dominion's 'bbb+' group credit profile.

Issue Ratings - Subordination Risk Analysis

We rate the senior unsecured debt at QGC the same as the issuer credit rating because it is unsecured debt of a qualifying investment-grade regulated utility.

Reconciliation

Table 3

Reconciliation Of Questar Gas Co. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2018--						
Questar Gas Co. reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	765.8	213.6	138.0	36.2	216.9	212.9	218.2
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(38.7)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(36.3)	--	--
Accessible cash and liquid investments	(6.6)	--	--	--	--	--	--
Capitalized interest	--	--	--	1.1	(1.1)	(1.1)	(1.1)
Asset retirement obligations	62.6	3.3	3.3	3.3	--	--	--
Nonoperating income (expense)	--	--	3.2	--	--	--	--
Debt: Other	(44.2)	--	--	--	--	--	--
Total adjustments	11.8	3.3	6.5	4.4	(76.1)	(1.1)	(1.1)
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
Adjusted	777.6	216.9	144.5	40.6	140.8	211.8	217.1

Source: S&P Global Ratings and company data.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low

- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

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

Stand-alone credit profile : a-

- **Group credit profile:** bbb+
- **Entity status within group:** Core (-1 notch from SACP)

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 6, 2020)*

Questar Gas Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
Issuer Credit Ratings History	
27-Dec-2018	BBB+/Stable/A-2
03-Jan-2018	BBB+/Negative/A-2
28-Nov-2016	BBB+/Stable/A-2
16-Sep-2016	BBB+/Stable/--
01-Feb-2016	A/Watch Neg/--
Related Entities	
Dominion Energy Gas Holdings, LLC	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
Dominion Energy, Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BBB
Junior Subordinated	BBB-
Senior Unsecured	BBB
Dominion Energy Questar Pipeline, LLC	
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Dominion Resources Capital Trust III	
Preference Stock	BBB-
Public Service Co. of North Carolina Inc.	
Issuer Credit Rating	BBB+/Stable/A-2

Ratings Detail (As Of March 6, 2020)*(cont.)	
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
SCANA Corp.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB
South Carolina Electric & Gas Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB-
Senior Secured	A
South Carolina Fuel Co.	
Issuer Credit Rating	--/--/A-2
Virginia Electric & Power Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BBB-
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.