



## **RATING ACTION COMMENTARY**

### **Fitch Affirms Questar Gas Company's Ratings; Outlook Stable**

Fri 19 Jul, 2024 - 1:09 PM ET

Fitch Ratings - Toronto - 19 Jul 2024: Fitch Ratings has affirmed Questar Gas Company's (QGC) Long-Term Issuer Default Rating (IDR) at 'A-' and its senior unsecured rating at 'A'. The Rating Outlook is Stable.

The rating and Stable Outlook reflect QGC's low-business risk model, operating as a local gas distribution company (LDC) serving around 1.2 million customers in Utah, Wyoming, and Idaho. QGC benefits from various regulatory rider mechanisms such as weather normalization, revenue decoupling, infrastructure replacement, and purchased gas adjustments. These mechanisms help mitigate regulatory lag and stabilize credit metrics. Additionally, QGC benefits from the expected continuation of strong underlying economic growth in the region it serves.

Fitch has also withdrawn the Short-Term 'F1' IDR and CP rating for QGC as this program is no longer in place and QGC is no longer expected to issue its own short-term debt. Going forward, the company will utilize an inter-company demand loan through its parent, Enbridge Inc. (ENB; BBB+/Stable).

## **KEY RATING DRIVERS**

**Acquisition by Enbridge Inc.:** In September 2023, ENB announced a definitive agreement to buy QGC from Dominion Energy, Inc. (DEI; BBB+/Stable). The acquisition was completed in June 2024 after obtaining all required regulatory approvals. The deal also included the purchase of Wexpro, an exploration and production company that supplies gas to Questar at cost.

Regulators did not impose any detrimental conditions during approval and several ring-fencing measures were reaffirmed, including restrictions on debt issuance for transaction cost recovery, commitment to operating the utility as a standalone entity and the requirement for an independent director. The acquisition does not have a direct rating impact on QGC as both the current parent and previous parent have the same IDR.

**Low-Risk Business Profile:** QGC, operating as a natural gas utility in Utah, Wyoming, and Idaho, represents a low-risk business profile, in Fitch's view. Most of QGC's customers are in Utah, which is experiencing significant growth. QGC recorded a five-year customer growth rate of 2.6%, which is expected to continue in line with the economic growth of its service territories.

**Base Rate Filing Outcome:** QGC filed a base rate case requesting an increase of \$2.1 million in March 2023. The request was based on a ROE of 10.3%. This proposed increase was driven by investments made to upgrade infrastructure. In December 2023, the Wyoming Commission approved a base rate increase of \$1.6 million with a ROE of 9.65% -- an increase from the prior authorized ROE of 9.35%. Fitch considers the rate case decision to be constructive. These new rates became effective in January 2024. Wyoming represents 3% of QGC's total rate base.

**Supportive Regulatory Framework:** QGC operates under the regulatory oversight of the Utah and Wyoming Public Service Commissions, regulators Fitch considers to be supportive of QGC's credit quality. The utility operates within a cost-of-service framework, seeking general base rate adjustments to recover operating expenses when necessary.

QGC is not exposed to commodity price risk, as the purchase price of natural gas is passed through to customers via a purchased gas adjustment clause reviewed semi-annually. The company also benefits from several rider mechanisms, including weather normalization, revenue decoupling and infrastructure replacement, which help reduce regulatory lag and stabilize credit metrics. ROE granted in Utah is generally consistent with industry averages across the U.S.

**Wexpro Agreements:** QGC sources a significant portion of its natural gas supply from its affiliate, Wexpro, under Wyoming and Utah regulatory agreements. Wexpro produces and sells gas at a regulated cost of service for QGC's customers, resulting in lower costs and

more stable customer bills.

Stable Credit Metrics: Rate increases received in 2022 and 2023 have been adequate, and various riders help stabilize cash flow. As of TTM March 31, 2024, QGC's FFO leverage was 4.9x, which is slightly higher than expected due to changes in working capital. Fitch expects FFO leverage will improve to a range of 4.2x-4.5x over the forecast period. Fitch anticipates QGC to continue to see elevated levels of capex for growth, reliability, and infrastructure upgrades.

Parent-Subsidiary Rating Linkage: There is parent subsidiary relationship between ENB and QGC. Fitch determines ENB's standalone credit profile (SCP) based on consolidated metrics. Fitch considers QGC to have a stronger SCP than ENB. As such, Fitch has followed the stronger subsidiary path. Emphasis is placed on QGC's status as a regulated entity.

Legal ring fencing is considered porous given the general protections afforded by economic regulation. Access and control are evaluated as porous. While QGC will rely on ENB for its short-term borrowing needs and ENB is the sole source of equity for QGC, QGC still issues its own long-term debt externally. Due to the aforementioned linkage considerations, Fitch will limit the difference between the IDRs of ENB and QGC to two notches.

#### **DERIVATION SUMMARY**

QGC's business risk profile compares favorably to other LDC peers such as Southwest Gas Corporation (SWG; BBB+/Stable), DTE Gas Company (DTEG; BBB+/Stable), and Public Service Company of North Carolina (PSNC; A-/Stable). These companies operate in supportive regulatory environments which allow for supportive cost recovery mechanisms, including revenue decoupling, purchased gas cost adjustments, and the timely recovery of capex. As of TTM March 31, 2024, QGC's FFO leverage was 4.9x but Fitch expects this metric to improve to a range of 4.2x-4.5x over the forecast period.

DTEG's and SWG's Fitch forecasted FFO leverage is around 4.8x, while Fitch forecasts PSNC's FFO leverage to average around 4.5x over the same period. QGC, SWG, and PSNC benefit from above-average customer growth. In terms of customer base, QGC's 1.2 million customers are comparable to DTEG's 1.3 million but smaller than SWG's 2.2 million. PSNC is the smallest among these peers with 0.6 million customers. Fitch rates QGC one notch higher than DTEG and SWG due to lower leverage expectations.

#### **KEY ASSUMPTIONS**

--Customer growth of 2.0%-2.6%;

--QGC's annual capital spending to average \$300 million over the forecasted period of 2024-2027,

--Dividend payout necessary to maintain the existing capital structure;

--Capital structure commensurate with regulatory structure.

#### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--FFO leverage below 3.5x on a sustainable basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--An increase in FFO leverage above 4.5x on a sustainable basis;

--Unfavorable regulatory developments;

--Downgrade of two notches or more at ENB under Fitch's parent and subsidiary linkage criteria.

#### **LIQUIDITY AND DEBT STRUCTURE**

Adequate Liquidity: QGC was a participant in DEI's \$6.0 billion revolving credit agreement, which had a sublimit set at a maximum of \$1.0 billion. Following the acquisition, this credit facility was replaced with an ENB-provided inter-company lending arrangement demand loan similar to DEI.

QGC has only \$40 million in long-term debt maturing in 2024, with the next debt maturity of \$110 million due in 2027. Fitch views these long-term debt maturities as manageable.

## ISSUER PROFILE

Questar Gas Company is a regulated utility that supplies natural gas to regions in Utah, southwestern Wyoming, and a small portion of south-eastern Idaho. The company is a fully-owned U.S. subsidiary of Enbridge Inc.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Questar Gas Company	LT IDR	A-	Affirmed	A-
	ST IDR	WD	Withdrawn	F1
senior unsecured	ST	WD	Withdrawn	F1
senior unsecured	LT	A	Affirmed	A

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Additional information is available on [www.fitchratings.com](https://www.fitchratings.com)

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## APPLICABLE CRITERIA

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria - Effective from 13 October 2023 to 2 August 2024 \(pub. 13 Oct 2023\)](#)  
(including rating assumption sensitivity)

[Corporate Rating Criteria - Effective 3 November 2023 to 6 December 2024 \(pub. 03 Nov 2023\)](#) (including rating assumption sensitivity)

[Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 21 June 2024 to 6 December 2024 \(pub. 21 Jun 2024\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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## ENDORSEMENT STATUS

Questar Gas Company

EU Endorsed, UK Endorsed

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