

INFRASTRUCTURE AND PROJECT FINANCE

MOODY'S INVESTORS SERVICE

CREDIT OPINION

7 March 2024

Update



RATINGS

Questar Gas Company

Domicile	Salt Lake City, Utah, United States
Long Term Rating	Baa1
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 following downgrade to Baa1

Summary

Questar Gas Company's credit profile reflects its monopoly service territory and rate regulated operations as a local gas distribution company (LDC), as well as generally stable cash flow production through its suite of cost recovery mechanisms.

Questar Gas' financial profile was negatively impacted by its latest regulatory order in Utah which decreased the company's allowed equity capitalization to 51% from 55%. This will increase the utility's debt levels and act as a drag on cash flow, since earnings power is also reduced by the lower equity layer and higher interest expense. While we do not view the order to be a sign of regulatory contentiousness, it will increase the utility's leverage and reduce key financial metrics on a run-rate basis going forward. We now estimate that Questar Gas' ratio of CFO pre-WC to debt will be around 16% on a run-rate basis, down from 17-19% previously anticipated.

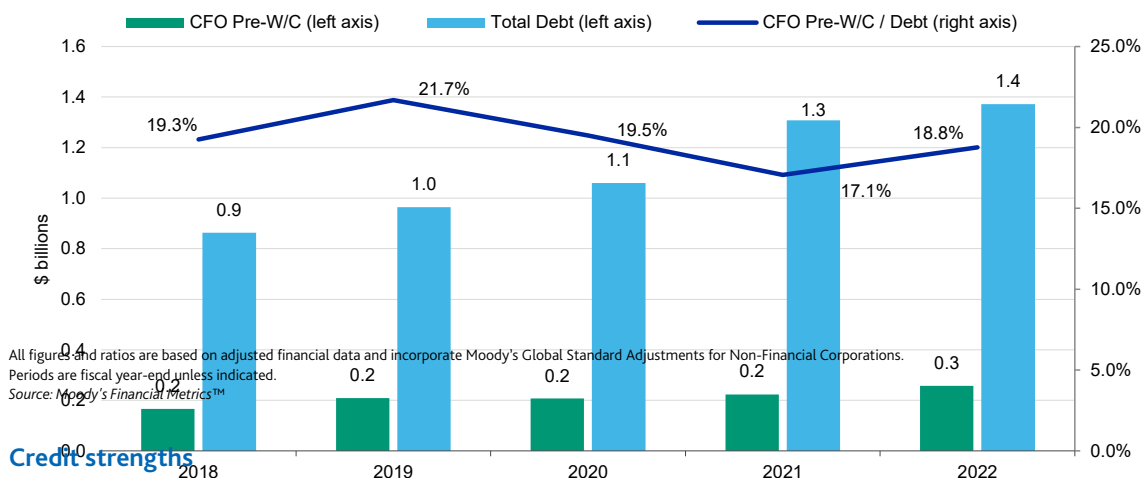
Recent Events

On 23 February 2023, we downgraded the long-term ratings of Questar Gas to Baa1 from A3 due to a higher level of debt required by its regulatory-approved capital structure in Utah - the company's primary jurisdiction.

The action was not related to its expected acquisition by Enbridge, Inc. (Baa1 negative). We believe that Enbridge will support the utility's credit and that Questar Gas will benefit from Enbridge's size, operational track record and access to capital. As such, Questar Gas' rating continues to be based upon its intrinsic credit quality, which is derived mostly from the Utah regulatory environment and its stand-alone financial profile.

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt



Credit strengths

- » Stable and predictable cash flow derived from around \$2.6 billion of rate base
- » Constructive relationships with regulators in Utah and Wyoming

Credit challenges

- » Weakening financial metrics following regulator approval of lower equity layer
- » Longer-term efforts to reduce greenhouse gas emissions from operations

Rating outlook

Questar Gas' stable outlook reflects its constructive and supportive regulatory environments in Utah and Wyoming and our expectation that the company will generate cash flow to debt metrics around 16% going forward.

Factors that could lead to an upgrade

- » CFO pre-WC to debt of at least 17% on a sustainable basis
- » Material improvement to cost recovery provisions

Factors that could lead to a downgrade

- » CFO pre-WC to debt ratio is sustained below 14%
- » If regulatory support from the PSCU declines

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

Key indicators

Exhibit 2

Questar Gas Company

	2018	2019	2020	2021	2022
CFO Pre-W/C + Interest / Interest	5.2x	7.4x	6.3x	6.7x	6.0x
CFO Pre-W/C / Debt	19.3%	21.7%	19.5%	17.1%	18.8%
CFO Pre-W/C – Dividends / Debt	19.3%	21.7%	19.5%	9.4%	18.8%
Debt / Capitalization	40.1%	40.7%	40.8%	45.2%	42.4%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are fiscal year-end unless indicated.

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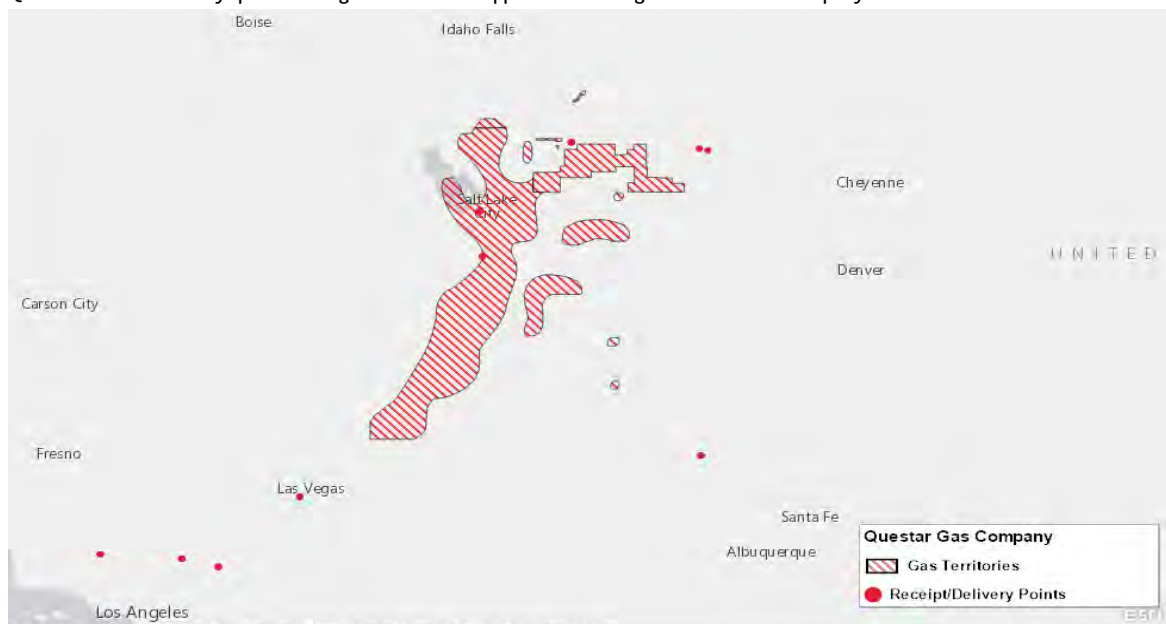
Source: Moody's Financial Metrics and Moody's Investors Service forecasts

Profile

Questar Gas is a local gas distribution company that serves over 1.2 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 \$2.6 billion.

Exhibit 3

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



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 Source: S&P Capital IQ

Detailed credit considerations

Regulatory environments provide supportive cost recovery provisions

Questar Gas' credit profile is underpinned by its low-risk gas distribution operations and supportive regulatory provisions provided by the PSCU, which regulates over 95% of the company's rate base, and the PSCW.

The company's key regulatory provisions include an infrastructure replacement tracker that add to rate base on an annual basis (approximately \$85 million per year, adjusted for inflation), as well as a 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 the utility to recover its fixed charges, even in a declining demand environment, which mitigates volume risk.

Despite a lower allowed equity capitalization (see section below), the PSCU's latest rate order was constructive on several fronts, including the continuation of its infrastructure rider and a new cost tracker for pipeline expansion in specific rural locations of up to \$23 million for the rate year. These mechanisms help to accelerate a degree of capital expenditure recovery, thus supporting company cash flow and limiting the use of debt financing.

Lower allowed equity capitalization will reduce financial ratios

Although we view the PSCU's most recent rate order as constructive and supportive on most issues, the overriding credit impact will be negative due to a 400 basis point reduction in Questar Gas' equity capitalization, to 51% from 55%. In its order, the PSCU noted that the 55% equity layer was instituted as part of a 2019 stipulation attempting to mitigate the cash flow pressures of the 2017 Tax Cuts and Jobs Act. Furthermore, we acknowledge that no parties, including Questar Gas, proposed that a 55% equity layer be applied during the rate case testimony. As such, we do not view this change in itself as punitive; however, it will have a lasting adverse effect. We estimate that it will increase debt by approximately \$102 million and reduce net income by roughly \$8 million, based on a \$2.6 billion rate base and despite a slight increase in allowed ROE, as illustrated in the exhibit below.

Exhibit 4

Illustrative financial impact of Questar Gas' 2022 PSCU order

Regulatory		Previous		2022 Order
Rate Base	\$	2,562	\$	2,562
Equity		55%		51%
ROE		9.5%		9.6%
Net Inc.	\$	134	\$	125
Difference			\$	(8)
Debt	\$	1,153	\$	1,255
Difference			\$	102

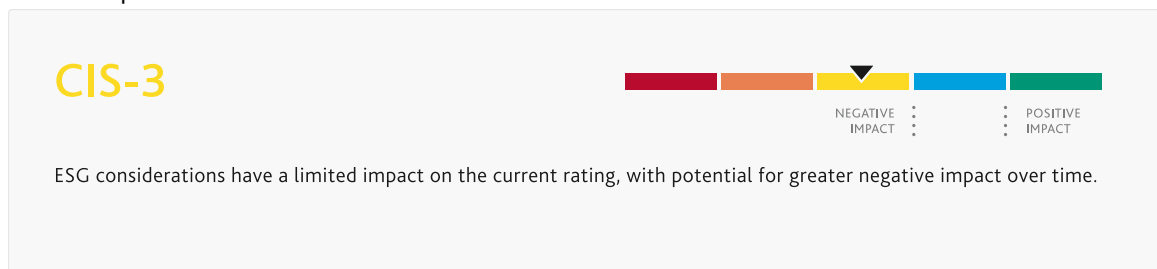
Source: Moody's Investors Service

The combination of these effects will also reduce Questar Gas' run-rate CFO pre-WC to debt ratio to around 16% - a level that is consistent with the financial performance of Baa1 low-risk peers. We also note that deferred fuel cost recovery will produce stronger financial metrics in 2024; however, this is not a sustainable trend under typical operating conditions.

ESG considerations

Questar Gas Company's ESG credit impact score is CIS-3

Exhibit 5
ESG credit impact score



Source: Moody's Ratings

Questar Gas' CIS-3 indicates that ESG considerations have a limited impact on the current credit rating with greater potential for future negative impact over time. Physical climate risks such as storms and increased exposure to demographic and social trends, including a less supportive regulatory environment and customer affordability concerns, could weaken credit quality over the long-term.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Questar Gas' **E-3** score is driven by its sole function as a transporter of hydrocarbons. While its assets are positioned underground, providing relief from surface-level storm damage, severe flooding could be harmful to operations.

Social

Questar Gas' **S-3** score reflects the fundamental utility risk that demographics and societal trends could include social pressures or public concern around affordability, utility reputational or environmental concerns. In turn, these pressures could result in adverse political intervention into utility operations or regulatory changes.

Governance

Questar Gas' **G-2** score is driven by that of its parent. Dominion's governance is broadly in-line with other utilities and does not pose particular risk (**G-2** issuer profile score), despite high holding company leverage and at-times complex financial structures (e.g., joint ventures or certain hybrid securities). We expect Enbridge ownership to provide strong governance, including financial, operational and strategic support to Questar Gas as well.

ESG Issuer Profile Scores and Credit Impact Scores for Questar Gas are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for Questar Gas on MDC and view the ESG Scores section.

Liquidity analysis

Questar Gas' internal liquidity consists of about \$250-\$300 million of cash flow from operations that we project in 2024, compared to capital expenditures around \$400 million, resulting in negative free cash flow of about \$100-\$150 million before any upstream dividends to Dominion. We expect the utility to size its dividend in accordance with maintaining its regulatory authorized capital structure of 51% equity. We expect the company to continue to be in a free cash flow deficit position and require external liquidity support from Dominion, currently, and Enbridge after the transaction closes.

Currently, these cash deficits are supplemented by Questar Gas' access to Dominion's \$6 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 Gas also has access to a utility money pool with its regulated utility affiliates and can receive intercompany lending from Dominion.

We note that while it is common practice for Dominion and its subsidiaries to limit commercial paper issuances to amounts available under the revolver backstop, the program documentation has no overt language that restricts commercial paper 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.

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

The principal methodology used for this rating is the [Regulated Electric and Gas Utilities rating methodology](#), published in June 2017. The scorecard indicated outcome for our 12-18 months forward view is A3, one notch below the actual rating assigned of Baa1.

Exhibit 7

Rating factors

Questar Gas Company

Regulated Electric and Gas Utilities Industry [1][2]	Current FY 12/31/2022		Moody's 12-18 Month Forward View As of Date Published [3]	
	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)	6.3x	Aa	5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	18.4%	Baa	15% - 17%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15.7%	A	12% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	42.8%	A	43% - 48%	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		Baa1		Baa1

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™ and Moody's Investors Service forecasts

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Appendix

Exhibit 8

Moody's-adjusted cash flow metrics

Questar Gas Company

(In \$ millions)	2018	2019	2020	2021	2022
FFO	166.1	193.5	202.5	218.5	257.2
+/- Other	0.0	15.8	4.2	4.6	0.0
CFO Pre-WC	166.1	209.3	206.7	223.1	257.2
+/- ΔWC	46.8	(87.1)	(20.8)	(65.3)	(58.8)
CFO	212.9	122.2	185.9	157.8	198.4
- Div	0.0	0.0	0.0	100.0	0.0
- Capex	218.2	203.9	301.3	344.5	337.0
FCF	(5.3)	(81.7)	(115.4)	(286.7)	(138.6)
(CFO Pre-W/C) / Debt	19.3%	21.7%	19.5%	17.1%	18.8%
(CFO Pre-W/C - Dividends) / Debt	19.3%	21.7%	19.5%	9.4%	18.8%
FFO / Debt	19.3%	20.1%	19.1%	16.7%	18.8%
RCF / Debt	19.3%	20.1%	19.1%	9.1%	18.8%
Revenue	917.6	929.0	928.7	1,005.6	1,318.4
Interest Expense	39.7	32.7	39.4	39.3	51.6
Net Income	52.4	90.4	105.4	109.0	110.7
Total Assets	2,815.5	3,021.5	3,272.7	3,605.7	4,300.6
Total Liabilities	1,808.4	1,920.4	2,053.9	2,363.8	2,831.3
Total Equity	1,007.1	1,101.1	1,218.8	1,241.9	1,469.3

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are fiscal year-end unless indicated.

Source: Moody's Financial Metrics™

Exhibit 9

Peer Comparison

Questar Gas Company

(In \$ millions)	Questar Gas Company			DTE Gas Company			Public Service Co. of North Carolina, Inc.			Southwest Gas Corporation			UGI Utilities, Inc.		
	Baa1 Stable			A3 Stable			Baa1 Stable			Baa1 Stable			A3 Stable		
	FY Dec-20	FY Dec-21	FY Dec-22	FY Dec-21	FY Dec-22	LTM Sep-23	FY Dec-20	FY Dec-21	FY Sep-22	FY Dec-21	FY Dec-22	LTM Sep-23	FY Sep-21	FY Sep-22	FY Sep-23
Revenue	929	1,006	1,318	1,396	1,532	1,785	525	597	820	1,351	1,522	2,374	1,030	1,070	1,547
CFO Pre-W/C	207	223	257	409	393	711	139	146	194	402	463	506	288	310	370
Total Debt	1,060	1,307	1,371	2,168	2,310	2,512	973	1,126	1,236	2,864	3,182	3,672	1,439	1,505	1,751
CFO Pre-W/C - Interest / Interest	6.3x	6.7x	6.0x	6.0x	5.8x	7.9x	4.3x	4.8x	5.3x	14.6x	5.4x	4.3x	5.9x	6.3x	5.9x
CFO Pre-W/C / Debt	19.5%	17.1%	18.8%	18.9%	17.0%	28.3%	14.3%	13.0%	15.7%	14.0%	14.6%	13.8%	20.0%	20.6%	21.1%
CFO Pre-W/C - Dividends / Debt	19.5%	9.4%	18.8%	12.6%	10.6%	20.9%	14.3%	6.8%	8.2%	10.4%	11.1%	9.9%	16.5%	18.3%	21.1%
Debt / Capitalization	40.8%	45.2%	42.4%	43.9%	43.5%	41.5%	41.0%	44.4%	45.8%	50.4%	50.1%	48.7%	45.3%	44.0%	42.7%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

LTM = Last 12 months.

Source: Moody's Financial Metrics™

Ratings

Exhibit 10

Category	Moody's Rating
QUESTAR GAS COMPANY	
Outlook	Stable
Senior Unsecured	Baa1
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 Ratings

MOODY'S INVESTORS SERVICE

INFRASTRUCTURE AND PROJECT FINANCE

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