State of Utah
Department of Commerce
Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Chris Parker, Director,
Artie Powell, Energy Manager
Charles Peterson, Technical Consultant
Doug Wheelwright, Utility Analyst

DATE: March 13, 2012

RE: Questar Gas Dividend Declaration February 17, 2011

I. RECOMMENDATION – No Action

Based upon the following analysis, the Division finds no indication that the capital and operations of Questar Gas Company will be impaired pursuant to UCA §54-4-27. Therefore, the Division recommends that the Commission take no action.

II. ISSUE

On February 10, 2012 the Board of Directors of Questar Gas Company (QGC) declared a quarterly cash dividend of $8,250,000. The dividend is payable to the Company's sole shareholder, Questar Corporation, on March 12, 2012.

Pursuant to Utah Code Annotated §54-4-27, the Company must notify the Commission of the dividend within five days of its declaration. The Commission has 30 days from the dividend declaration date to investigate whether the payment of such dividend would result in impairment of the capital or to the utility's service to the public, and if it finds that such impairment will or may occur, the Commission may order that the dividend not be paid.

III. ANALYSIS

The Division understands the terms "impaired" and "impairment" in the statute to mean that (1) the payment of the dividend will result in actions being taken against the Company by creditors, rating agencies, or others due to a reduction in the value of the capital, the violation of loan covenants, or other agreements; (2) the payment of the dividend would result in a reduced ability of the Company to provide service through a lack of working capital or other financial capacity to continue its operations in the same manner as it would if the dividend were not paid.

The Division of Public Utilities investigated the effects of the dividend on the capital and cash flows of the Company using the latest financial information available. This included the annual financial statements through December 31, 2011, Questar Corporation News Release dated February 17, 2012, and a review of the Company's bond rating from the various bond rating agencies.

Exhibit 1 sets forth the financial results for the periods ending December 31, 2006 through December 31, 2011. For the 12 months ending December 31, 2011, total revenue increased 7.3% from $902.9 million to $968.8 million. Natural gas costs as a percent of total sales showed a slight increase from 65.59% in 2010 to 66.65% in 2011. Earnings from Operation increased 6.2% from $88.6 million in 2010 to $94.1 million in 2011. During the same period, net income increased 5.0% from $43.9 million to $46.1 million. Net Income as a percentage of total revenue was 4.76% in 2011 compared to the 2006 through 2011 average of was 4.25%. Wexpro provided 52% of the natural gas supply in 2011 compared to 51% in 2010 and the Company experienced a 1.03% increase in the number of customers during 2011 from 909,600 to 919,000.

Weather, as measured in degree days, was 7% colder than normal in 2011. During this same period, the temperature adjusted usage per customer increased 3.9% from 106.9 dth in 2010 to 111.1 dth in 2011. This is the first increase in the usage per customer since 2006 and may be due in part to change in the dekatherm (dth) computation that was implemented in August 2010. The new calculation compensates for the ambient temperature and elevation at the meter. When the new calculations were approved by the Commission, it was anticipated that the new measurements would provide more accurate customer billing and reduce the lost and unaccounted for gas volumes. The Division has asked the Company for additional information and will continue to investigate the increase in the usage per customer.

The balance sheet information on pages 2 and 7 of Exhibit 1 identifies a decrease in accounts receivable from $171.3 million in 2010 to $153.1 million in 2011. The net plant in service has increased steadily from 2006 through 2011 averaging a 7.5% annual increase while total assets increased at an average rate of 6.17%. Capital expenditures increased from $108.6 million in 2010 to $121.5 million in 2011 partially due to the ongoing feeder line replacement program.

Page 4 of Exhibit 1 calculates the financial ratios for the periods under review. Short-term liquidity ratios for year-end 2011 are lower than historical averages with the current ratio at 0.58 and the quick ratio at 0.37 compared to the average of 0.76 and 0.49. The long-term solvency ratios are near the historical averages with Net Worth / Total Debt at 0.45 and Net Worth / Fixed Assets at 0.38. The profitability ratios are close to the historical averages with Return on Assets at 4.47% and Return on Total Capital of 8.32%. On an SEC financial reporting basis, the Company had a return on equity (ROE) of 10.83% for 2011. The company's authorized return on equity is 10.35% and is calculated based on different regulatory guidelines and does not appear to be earning more than the authorized return.

Included in the Other Financial Indicators section are four calculations used by Moody's as part of their bond rating guidelines. These include the EBIT / Interest, Debt / Book Capitalization, Retained Cash Flow / Debt and a Simple ROE calculation. All of these ratios are within the guidelines specified by the rating agencies as of year-end 2011. The financial characteristics of Questar Gas generally indicate a profitable and stable utility company.

The Company's regulatory capital structure is identified on page 4 and is currently 44.86% debt and 55.14% equity which are slightly different than the historical average of 47.75% debt and 52.25% equity. Long-term debt is currently $276.5 million and has averaged a 2.45% annual decrease since 2006. Of special mention is the note payable to Questar Corporation. Short term notes payable to the parent company have varied widely from the low of $13.2 million in 2006 to a high of $153.6 million as of December 2010. As of December 31, 2011, the note to Questar

Corporation stands at $142.7 million. It appears that Questar Gas continues to use its parent company as a "bank" from which it obtains short-term loans according to its need for liquidity. Common equity grew at an average rate of 6.54% for the periods under review and included a $30 million equity contribution from the parent company in 2008 and a $20 million equity contribution in 2011.

Page 5 of Exhibit 1 includes the operating statistics and looks at the revenue by customer class and the natural gas costs per dekatherm (dth) for each year under review. Residential and commercial sales provided 92.18% of the total revenue dollars but represented 66.33% of the total volume in 2011. Natural gas cost per dth shows a slight decrease from $5.34 in 2010 to $5.05 in 2011 and is lower than the historical average of $5.67.

Questar Corporation owns 100% of the stock in Questar Gas; therefore, the entire dividend payment of $8.25 million will be paid to Questar Corporation. The Company paid a total of $30.3 million in dividends during 2011 compared to $28.8 million in 2010. The $1.5 million increase represents a 5.2% growth rate compared to the historical average increase of 2.1%. The dividend payment represents a significant cash requirement for the Company and could become an issue if there is a downward trend in the overall profitability. At the present time, Questar Gas has adequate cash flow to maintain its debt service obligations and meet its financial needs. The Company is projected to maintain profitability levels similar to historical results and the Division will continue to monitor the actual results and the regulated return on equity.

Effective July 1, 2010, Questar Corporation completed a spin-off of the company's natural gas and oil exploration and production (E&P) business into QEP Resources, Inc. (QEP). QEP is comprised the former Questar Exploration & Production, Questar Gas Management and Questar Energy Trading. Shareholders of record as of June 18, 2010 were issued 1 share of QEP for each share of Questar Corp. As a result of the spin-off, Standard & Poor's upgraded Questar Gas from BBB+ to A as of July 8, 2010. Questar Gas' parent, Questar Corporation was also upgraded to A- by S&P and to A3 by Moody's. Questar Corp. does not issue debt at the parent-company level. The parent instead issues debt at the subsidiary level, primarily to provide capital-structure clarity for regulatory purposes.[1]

IV. CONCLUSION

The Division concludes that the payment of an $8,250,000 common stock dividend declared by Questar Gas's Board of Directors is within the discretion of the Company and it appears that there will be no impairment of the capital or the services rendered by the Company.

cc: Barrie McKay – Questar Gas
Michele Beck – Office of Consumer Services

[1] Questar Comments on Moody's Rating,, http://prnwire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/11-12-2002/0001839749&EDATE= > < Accessed June 9, 2010