News

Dominion set to merge with Questar

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Dominion Resources has reached an agreement to merge with Questar, a Salt Lake City-based natural gas business with opportunities to grow significantly over time as Western states comply with the Environmental Protection Agency's Clean Power Plan.

“We have spent a lot of time analyzing the Clean Power Plan and how important gas infrastructure will be to meet it,” Tom Farrell, chairman, president and CEO, said Monday during a conference call with analysts.

The company views Questar as a fast-growing regulated company with a significantly undervalued pipeline that will have opportunities to grow as gas needs in the region increase.

Dominion expects the $6 billion transaction, which includes about $4.4 billion in payment to Questar shareholders and the assumption of $1.6 billion in Questar's outstanding debt, to close before the end of the year.

Questar is a gas distribution, pipeline, storage and cost-of-service gas supply company that serves nearly 1 million customers in Utah, Wyoming and Idaho.

It has 2,700 miles of gas transmission pipeline and 124 Bcf of gas storage.

“It is a principle source of gas supply in the West,” Farrell said, noting the region will trend toward more natural gas use as it becomes more reliant on low-carbon gas-fired electric generation. Wyoming and Utah's power is now 80% coal-fired, he said.

Wyoming, with 87% of its generation now from coal must reduce carbon emissions 44% by 2030 under CPP. Utah, with 76% of its generation from coal, must reduce emissions 37%.

Questar adds geographic diversity to Dominion

Questar adds geographic diversity to Dominion's Eastern US gas operations, Farrell said. It also matches Dominion's HUB concept in which Dominion is the HUB of the Mid-Atlantic. Gas moving from the West, from the South and from Canada use Dominion's pipeline system, Farrell said.

“Questar provides the same service for the Western US. Most of the gas in the Western states goes through these pipelines,” Farrell said.

The merger will improve the balance of Dominion's electric and gas subsidiaries, Mark McGettrick, executive vice president and CFO, said during the conference call. Dominion has about 2.5 million electric customers. With the merger, the company will have about 2.3 million gas customers. The combined company would serve customers in seven states.

The acquisition will support Dominion Midstream Partners 2017 growth target of between 5% and 6% in 2017 and 7% to 9% annually in 2018 and afterwards. “The top of the range will be exceeded with this acquisition,” McGettrick said.

“This addition is well-aligned with Dominion's existing strategic focus on core regulated energy infrastructure operations,” Farrell said.

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Expansion of Dominion's Regulated Gas Infrastructure Business

Category	Dominion	Questar	Pro Forma (%increase)
Rate base ($ billion)	$2.40	$1.10	$3.5 (+46%)
Utility Customers	1.3M	1.0M	2.3M (+77%)
Pipeline miles	25,000	28,200	53,200 (+113%)
Rate base ($ billion)	$3.90	$0.90	$4.8 (+23%)
Pipeline miles	9,225	2,700	11,925 (+29%)
Storage capacity (Bcf)	933	124	1,057 (+13%)

The merger highlights that there continues to be a healthy appetite for regulated electric and gas assets, Paul Patterson, an analyst with Glenrock Associates, said Monday in an interview.

“We're seeing a significant premium for them,” he said. Dominion will pay about a 30% premium for Questar.

As examples of recent merger proposals, Patterson listed Exelon and Pepco, Southern Company and AGL Resources, Duke Energy and Piedmont, NextEra and Hawaiian Electric, Teco and Emera and Cleco by an investor group that includes Macquarie Infrastructure and British Columbia Investment Management.

Power industry has 'urge to merge': Patterson

“Dominion and Questar is another example of the power industry's urge to merge,” Patterson said.

Some of the proposed mergers involving large electric utilities and independent gas companies make more sense that others, Michelle Michot Foss, chief energy economist at the University of Texas' Bureau of Economic Geology's Center for Energy Economics, said.

"The Duke/Piedmont, Southern/AGL deals made some sense because they are in the same geographic market areas,” Foss said.

The Dominion/Questar merger does not have such a connection "so is a bit of an odd combination," she said.

“This is cross-country. What does Dominion know about Utah or the mountain West in general? It's not like El Paso/Kinder Morgan building a continental network; the Dominion/Questar systems are pretty separate,” Foss said.

Dominion also is not getting access to gas supply it can use at its core locations in the East, Foss said. Questar's gas exploration and production businesses for its gas utility are rolled into its Wexpro subsidiary, which has operations in Wyoming, Colorado and Utah. Wexpro also is a regulated business that recovers its well costs and earns an unlevered after-tax return of 20% on its investment base.

“On gas/power combos, there does seem to be this sense of déjà vu all over again. It doesn't mean that power folks are any better at figuring out the gas business, and neither does it shine a light on what the future may hold for gas,” she said.

The transaction requires approval of Questar's shareholders and clearance from the Federal Trade Commission under the Hart-Scott-Rodino Act. Questar and Dominion also will file for review and approval, if required, from the Utah Public Service Commission and the Wyoming Public Service Commission, and provide information regarding the transaction to the Idaho Public Utilities Commission.

When the transaction closes, Questar shareholders will receive $25 in cash for each share of Questar common stock, which represents about a 30% premium to the volume-weighted average stock price of Questar's last 20 trading days that ended Friday.

Pending approvals, Questar will operate as a wholly owned subsidiary of Dominion and maintain a significant presence and management structure in Salt Lake City.

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Combined Geographic and Asset Profile|graph Source: Dominion

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