

QUESTAR CORP  
Form 10-Q  
May 07, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**[X]**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarter ended March 31, 2009**

**[ ]**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_ to \_\_\_\_**

**QUESTAR CORPORATION**

(Exact name of registrant as specified in its charter)

**STATE OF UTAH**

(State or other jurisdiction of

incorporation or organization)

**001-08796**

Commission File No.

**87-0407509**

(I.R.S. Employer

Identification No.)

**180 East 100 South Street, P.O. Box 45433 Salt Lake City, Utah 84145-0433**

(Address of principal executive offices)

Registrant's telephone number, including area code **(801) 324-5699**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

☒

Non-accelerated filer

☐ (Do not check if a smaller reporting company)

Accelerated filer

☐

Smaller reporting company

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

On April 30, 2009, 174,054,864 shares of the registrant's common stock, without par value, were outstanding.

**Questar Corporation**

**Form 10-Q for the Quarter Ended March 31, 2009**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

QUESTAR CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

|                                                 | 3 Months Ended March 31,                |          |
|-------------------------------------------------|-----------------------------------------|----------|
|                                                 | <b>2009</b>                             | 2008     |
|                                                 | (in millions, except per share amounts) |          |
| <b>REVENUES</b>                                 |                                         |          |
| Market Resources                                | <b>\$ 472.7</b>                         | \$ 565.6 |
| Questar Pipeline                                | <b>40.7</b>                             | 44.7     |
| Questar Gas                                     | <b>405.7</b>                            | 390.2    |
| Total Revenues                                  | <b>919.1</b>                            | 1,000.5  |
| <b>OPERATING EXPENSES</b>                       |                                         |          |
| Cost of natural gas and other products sold     |                                         |          |
| (excluding operating expenses shown separately) | <b>315.3</b>                            | 404.0    |
| Operating and maintenance                       | <b>100.3</b>                            | 87.9     |
| General and administrative                      | <b>41.2</b>                             | 42.3     |
| Production and other taxes                      | <b>29.0</b>                             | 40.8     |
| Depreciation, depletion and amortization        | <b>161.3</b>                            | 110.7    |
| Exploration                                     | <b>3.1</b>                              | 3.5      |
| Abandonment and impairment                      | <b>3.7</b>                              | 2.6      |
| Total Operating Expenses                        | <b>653.9</b>                            | 691.8    |
| Net gain (loss) from asset sales                | <b>1.9</b>                              | (0.1)    |
| <b>OPERATING INCOME</b>                         | <b>267.1</b>                            | 308.6    |
| Interest and other income                       | <b>4.4</b>                              | 2.0      |

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|                                                    |                |          |
|----------------------------------------------------|----------------|----------|
| Income from unconsolidated affiliates              | <b>1.6</b>     | 0.2      |
| Net mark-to-market gain (loss) on basis-only swaps | <b>(134.9)</b> | 13.7     |
| Interest expense                                   | <b>(31.8)</b>  | (25.6)   |
| INCOME BEFORE INCOME TAXES                         | <b>106.4</b>   | 298.9    |
| Income taxes                                       | <b>(38.7)</b>  | (110.7)  |
| NET INCOME                                         | <b>67.7</b>    | 188.2    |
| Net income attributable to noncontrolling interest | <b>(0.5)</b>   | (2.4)    |
| NET INCOME ATTRIBUTABLE TO QUESTAR                 | <b>\$ 67.2</b> | \$ 185.8 |

EARNINGS PER COMMON SHARE ATTRIBUTABLE TO QUESTAR

|                                            |                |          |
|--------------------------------------------|----------------|----------|
| Basic                                      | <b>\$ 0.39</b> | \$ 1.08  |
| Diluted                                    | <b>0.38</b>    | 1.05     |
| Weighted-average common shares outstanding |                |          |
| Used in basic calculation                  | <b>173.8</b>   | 172.4    |
| Used in diluted calculation                | <b>175.9</b>   | 176.2    |
| Dividends per common share                 | <b>\$0.125</b> | \$0.1225 |

See notes accompanying the condensed consolidated financial statements

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## QUESTAR CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

|                                                      | March 31,     |              |
|------------------------------------------------------|---------------|--------------|
|                                                      | 2009          | December 31, |
|                                                      | (Unaudited)   | 2008         |
|                                                      | (in millions) |              |
| ASSETS                                               |               |              |
| Current Assets                                       |               |              |
| Cash and cash equivalents                            |               | \$ 23.9      |
| Accounts receivable, net                             | \$ 302.4      | 386.6        |
| Unbilled-gas accounts receivable                     | 46.3          | 95.8         |
| Fair value of derivative contracts                   | 473.4         | 431.3        |
| Gas and oil storage                                  | 20.2          | 85.5         |
| Materials and supplies                               | 134.9         | 106.9        |
| Prepaid expenses and other                           | 57.4          | 55.0         |
| Total Current Assets                                 | 1,034.6       | 1,185.0      |
| Property, Plant and Equipment                        | 10,479.5      | 10,229.8     |
| Accumulated depreciation, depletion and amortization | (3,246.6)     | (3,096.8)    |
| Net Property, Plant and Equipment                    | 7,232.9       | 7,133.0      |
| Investment in unconsolidated affiliates              | 69.9          | 68.4         |
| Goodwill                                             | 69.9          | 70.0         |
| Regulatory assets                                    | 24.9          | 26.3         |
| Fair value of derivative contracts                   | 114.8         | 106.3        |
| Other noncurrent assets, net                         | 35.9          | 41.7         |
| Total Assets                                         | \$8,582.9     | \$8,630.7    |
| LIABILITIES AND EQUITY                               |               |              |
| Current Liabilities                                  |               |              |
| Checks outstanding in excess of cash balances        | \$ 16.3       |              |
| Short-term debt                                      | 65.5          | \$ 231.1     |
| Accounts payable and accrued expenses                | 432.4         | 681.6        |
| Fair value of derivative contracts                   | 9.1           | 0.5          |
| Purchase-gas adjustment                              | 98.6          | 45.8         |
| Deferred income taxes current                        | 158.8         | 130.6        |
| Current portion of long-term debt                    | 42.0          | 42.0         |
| Total Current Liabilities                            | 822.7         | 1,131.6      |

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|                                        |                  |           |
|----------------------------------------|------------------|-----------|
| Long-term debt, less current portion   | <b>2,129.0</b>   | 2,078.9   |
| Deferred income taxes                  | <b>1,346.7</b>   | 1,334.1   |
| Asset retirement obligations           | <b>180.8</b>     | 175.6     |
| Pension and postretirement benefits    | <b>253.2</b>     | 250.0     |
| Fair value of derivative contracts     | <b>156.3</b>     | 69.0      |
| Other long-term liabilities            | <b>142.2</b>     | 144.0     |
| <b>EQUITY</b>                          |                  |           |
| Common stock                           | <b>425.2</b>     | 451.0     |
| Retained earnings                      | <b>2,817.8</b>   | 2,772.3   |
| Accumulated other comprehensive income | <b>250.9</b>     | 194.7     |
| Total Common Shareholders' Equity      | <b>3,493.9</b>   | 3,418.0   |
| Noncontrolling interest                | <b>58.1</b>      | 29.5      |
| Total Equity                           | <b>3,552.0</b>   | 3,447.5   |
| Total Liabilities and Equity           | <b>\$8,582.9</b> | \$8,630.7 |

See notes accompanying the condensed consolidated financial statements

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## QUESTAR CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|                                                        | 3 Months Ended March 31, |          |
|--------------------------------------------------------|--------------------------|----------|
|                                                        | 2009                     | 2008     |
|                                                        | (in millions)            |          |
| OPERATING ACTIVITIES                                   |                          |          |
| Net income                                             | \$ 67.7                  | \$ 188.2 |
| Adjustments to reconcile net income to net cash        |                          |          |
| provided from operating activities:                    |                          |          |
| Depreciation, depletion and amortization               | 163.3                    | 112.6    |
| Deferred income taxes                                  | 7.4                      | 68.6     |
| Abandonment and impairment                             | 3.7                      | 2.6      |
| Share-based compensation                               | 5.4                      | 4.0      |
| Net (gain) loss from asset sales                       | (1.9)                    | 0.1      |
| (Income) from unconsolidated affiliates                | (1.6)                    | (0.2)    |
| Distributions from unconsolidated affiliates and other |                          | 0.8      |
| Net mark-to-market (gain) loss on basis-only swaps     | 134.9                    | (13.7)   |
| Changes in operating assets and liabilities            | 101.9                    | (53.3)   |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES            | 480.8                    | 309.7    |
| INVESTING ACTIVITIES                                   |                          |          |
| Capital expenditures                                   |                          |          |
| Property, plant and equipment                          | (390.5)                  | (993.9)  |
| Other investments                                      |                          | (1.5)    |
| Total capital expenditures                             | (390.5)                  | (995.4)  |
| Cash used in disposition of assets                     | (0.2)                    | (2.7)    |
| Proceeds from disposition of assets                    | 7.1                      | 0.4      |
| NET CASH USED IN INVESTING ACTIVITIES                  | (383.6)                  | (997.7)  |
| FINANCING ACTIVITIES                                   |                          |          |
| Common stock issued                                    | 3.2                      | 0.8      |
| Common stock repurchased                               | (4.0)                    | (8.6)    |
| Long-term debt issued, net of issuance costs           | 50.0                     | 994.8    |
| Long-term debt repaid                                  |                          | (193.0)  |
| Change in short-term debt                              | (165.6)                  | (108.6)  |

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|                                                       |                |        |
|-------------------------------------------------------|----------------|--------|
| Checks outstanding in excess of cash balances         | <b>16.3</b>    | 3.8    |
| Dividends paid                                        | <b>(21.7)</b>  | (21.2) |
| Excess tax benefits from share-based compensation     | <b>0.7</b>     | 7.1    |
| Distribution to noncontrolling interest               |                | (2.3)  |
| Other                                                 |                | 1.0    |
| NET CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES | <b>(121.1)</b> | 673.8  |
| Change in cash and cash equivalents                   | <b>(23.9)</b>  | (14.2) |
| Beginning cash and cash equivalents                   | <b>23.9</b>    | 14.2   |
| Ending cash and cash equivalents                      | \$ -           | \$ -   |

See notes accompanying the condensed consolidated financial statements

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QUESTAR CORPORATION

NOTES ACCOMPANYING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 Nature of Business**

Questar Corporation (Questar or the Company) is a natural gas-focused energy company with five major lines of business — gas and oil exploration and production, midstream field services, energy marketing, interstate gas transportation, and retail gas distribution — which are conducted through its three principal subsidiaries:

•

Questar Market Resources, Inc. (Market Resources) is a subholding company that operates through four principal subsidiaries. Questar Exploration and Production Company (Questar E&P) acquires, explores for, develops and produces natural gas, oil and NGL. Wexpro Company (Wexpro) manages, develops and produces cost-of-service reserves for gas utility affiliate Questar Gas. Questar Gas Management Company (Gas Management) provides midstream field services including natural gas-gathering and processing services for affiliates and third parties. Questar Energy Trading Company (Energy Trading) markets equity and third-party natural gas and oil, provides risk-management services and owns and operates an underground gas-storage reservoir.

•

Questar Pipeline Company (Questar Pipeline) provides interstate natural gas transportation and storage and other energy services.

•

Questar Gas Company (Questar Gas) provides retail natural gas distribution services in Utah, Wyoming and Idaho.

Questar operates in the Rocky Mountain and Midcontinent regions of the United States of America and is headquartered in Salt Lake City, Utah. Shares of Questar common stock trade on the New York Stock Exchange under the symbol STR.

**Note 2 Basis of Presentation of Interim Consolidated Financial Statements**

The interim condensed consolidated financial statements contain the accounts of Questar and its majority-owned or controlled subsidiaries. The condensed consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and with the instructions for quarterly reports on Form 10-Q and

Regulations S-X and S-K. All significant intercompany accounts and transactions have been eliminated in consolidation.

On January 1, 2009, Questar adopted Statement of Financial Accounting Standards (SFAS) 160 Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS 160 requires ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the Consolidated Balance Sheets within shareholders' equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the Consolidated Statements of Income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; and any retained noncontrolling equity investment in a former subsidiary be initially measured at fair value.

The condensed consolidated financial statements reflect all normal, recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of financial position and results of operations for the interim periods presented. Interim condensed consolidated financial statements do not include all of the information and notes required by GAAP for audited annual consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Certain reclassifications were made to prior-period financial statements to conform with the current presentation.

The preparation of the condensed consolidated financial statements and notes in conformity with GAAP requires that management make estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities, and disclosure of contingent assets and liabilities. Actual results could differ from estimates. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

All dollar and share amounts in this quarterly report on Form 10-Q are in millions, except per-share information and where otherwise noted.

### **Note 3 Earnings Per Share (EPS)**

Basic EPS is computed by dividing net income attributable to Questar by the weighted-average number of common shares outstanding during the reporting period. Diluted EPS includes the potential increase in the number of outstanding shares that could result from the exercise of in-the-money stock options. The EPS calculation reflects the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) Emerging Issues Task Force (EITF) 03-06-1 Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. EITF 03-06-1 addresses whether instruments granted in share-based payment transactions are participating securities and therefore have a potential dilutive effect on EPS. The

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adoption of EITF 03-06-1 did not have a material effect on the Company's EPS calculations. A reconciliation of the components of basic and diluted shares used in the EPS calculation follows:

|                                                                              | 3 Months Ended March 31, |       |
|------------------------------------------------------------------------------|--------------------------|-------|
|                                                                              | 2009                     | 2008  |
|                                                                              | (in millions)            |       |
| Weighted-average basic common shares outstanding                             | 173.8                    | 172.4 |
| Potential number of shares issuable under the Long-term Stock Incentive Plan | 2.1                      | 3.8   |
| Average diluted common shares outstanding                                    | 175.9                    | 176.2 |

#### Note 4 Share-Based Compensation

Questar issues stock options and restricted shares to certain officers, employees and non-employee directors under its Long-term Stock Incentive Plan (LTSIP) and accounts for the transactions according to SFAS 123R Share-Based Payment. First quarter share-based compensation expense amounted to \$5.4 million in 2009 compared with \$4.0 million in 2008. Deferred share-based compensation, representing the unvested restricted shares awards amounted to \$24.2 million at March 31, 2009, and \$17.7 million at December 31, 2008. First quarter cash flow from tax deductions in excess of recognized compensation expense amounted to \$0.7 million in 2009 and \$7.1 million in 2008. There were 8,417,329 shares available for future grant at March 31, 2009.

The Company uses the Black-Scholes-Merton mathematical model in estimating the fair value of stock options for accounting purposes. Fair-value calculations rely upon subjective assumptions used in the mathematical model and may not be representative of future results. The Black-Scholes-Merton model was intended for measuring the value of options traded on an exchange. The calculated fair value of options granted and major assumptions used in the model at the date of grant are listed below:

|                                     | February<br>2009 |
|-------------------------------------|------------------|
| Fair value of options at grant date | \$35.38          |
| Risk-free interest rate             | 1.78%            |
| Expected price volatility           | 28.1%            |
| Expected dividend yield             | 1.39%            |
| Expected life in years              | 5.0              |

Unvested stock options increased by 807,332 shares in the first three months of 2009. Stock-option transactions under the terms of the LTSIP are summarized below:

|                                  | Outstanding      | Weighted-average |                |                |
|----------------------------------|------------------|------------------|----------------|----------------|
|                                  | Options          | Price Range      |                | Price          |
| Balance at January 1, 2009       | 4,183,075        | \$7.50           | \$53.83        | \$17.53        |
| Granted                          | 854,000          |                  | 35.38          | 35.38          |
| Exercised                        | (164,264)        | 7.50             | 14.01          | 8.75           |
| <b>Balance at March 31, 2009</b> | <b>4,872,811</b> | <b>\$7.50</b>    | <b>\$53.83</b> | <b>\$20.95</b> |

| Options Outstanding      |                                      |                                          |                                 | Options Exercisable                  |                                 | Unvested Options                  |                                 |  |
|--------------------------|--------------------------------------|------------------------------------------|---------------------------------|--------------------------------------|---------------------------------|-----------------------------------|---------------------------------|--|
| Range of exercise prices | Number outstanding at March 31, 2009 | Weighted-average remaining term in years | Weighted-average exercise price | Number exercisable at March 31, 2009 | Weighted-average exercise price | Number unvested at March 31, 2009 | Weighted-average exercise price |  |
| \$ 7.50                  | 284,180                              | 0.9                                      | \$ 7.50                         | 284,180                              | \$ 7.50                         |                                   |                                 |  |
| 11.48                    |                                      |                                          |                                 |                                      |                                 |                                   |                                 |  |
| 11.98                    | 855,488                              | 2.9                                      | 11.58                           | 855,488                              | 11.58                           |                                   |                                 |  |
| 13.56                    |                                      |                                          |                                 |                                      |                                 |                                   |                                 |  |
| 14.86                    | 1,907,369                            | 3.2                                      | 13.71                           | 1,907,369                            | 13.71                           |                                   |                                 |  |
| 17.55                    |                                      |                                          |                                 |                                      |                                 |                                   |                                 |  |
| 28.58                    | 401,774                              | 3.5                                      | 27.13                           | 114,274                              | 23.48                           | 287,500                           | \$28.58                         |  |
| \$35.38                  |                                      |                                          |                                 |                                      |                                 |                                   |                                 |  |
| \$53.83                  | 1,424,000                            | 5.9                                      | 37.22                           | 46,668                               | 41.08                           | 1,377,332                         | 37.09                           |  |
|                          | <b>4,872,811</b>                     | <b>3.8</b>                               | <b>\$20.95</b>                  | <b>3,207,979</b>                     | <b>\$13.34</b>                  | <b>1,664,832</b>                  | <b>\$35.62</b>                  |  |

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Restricted-share grants typically vest in equal installments over a three or four year period from the grant date. Several grants vest in a single installment after a specified period. The weighted-average vesting period of unvested restricted shares at March 31, 2009, was 20 months. Transactions involving restricted shares under the terms of the LTSIP are summarized below:

|                                  | Restricted<br>Shares | Price Range    |                | Weighted-average<br>Price |
|----------------------------------|----------------------|----------------|----------------|---------------------------|
| Balance at January 1, 2009       | 856,000              | \$24.33        | \$70.13        | \$45.64                   |
| Granted                          | 302,250              | 33.98          | 36.50          | 35.38                     |
| Distributed                      | (245,666)            | 24.33          | 57.47          | 35.59                     |
| Forfeited                        | (1,900)              | 49.97          | 62.50          | 55.91                     |
| <b>Balance at March 31, 2009</b> | <b>910,684</b>       | <b>\$25.12</b> | <b>\$70.13</b> | <b>\$44.93</b>            |

#### Note 5 Asset Retirement Obligations (ARO)

Questar recognizes ARO in accordance with SFAS 143 Accounting for Asset Retirement Obligations. SFAS 143 addresses the financial accounting and reporting of the fair value of legal obligations associated with the retirement of tangible long-lived assets. At Questar, ARO applies primarily to abandonment costs associated with gas and oil wells and certain other properties. The fair value of abandonment costs are estimated by Company personnel based on retirement costs of similar properties (Level 3 inputs under the provisions of SFAS 157) available to field operations and depreciated over the life of the related assets. Revisions to ARO estimates result from changes in expected cash flows. Income or expense resulting from the settlement of ARO liabilities is included in other income on the Consolidated Statements of Income. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate. Changes in ARO were as follows:

| Level 3                     | 2009           | 2008    |
|-----------------------------|----------------|---------|
|                             | (in millions)  |         |
| ARO liability at January 1, | <b>\$175.6</b> | \$149.1 |
| Accretion                   | <b>2.7</b>     | 2.4     |
| Liabilities incurred        | <b>0.8</b>     | 4.4     |
| Revisions                   | <b>2.4</b>     | 1.5     |
| Liabilities settled         | <b>(0.7)</b>   | (0.2)   |
| ARO liability at March 31,  | <b>\$180.8</b> | \$157.2 |

Wexpro collects from Questar Gas and deposits in trust certain funds related to estimated ARO costs. The funds are used to satisfy retirement obligations as the properties are abandoned and recorded in other noncurrent assets on the Consolidated Balance Sheets. Trust funds are invested primarily in a money-market account with a balance of \$10.3 million at March 31, 2009. The fair value of Wexpro's trust is based on asset summary statements provided by the bank holding the trust and considered Level 2 under the provisions of SFAS 157.

**Note 6 Capitalized Exploratory Well Costs**

Net changes in capitalized exploratory well costs are presented in the table below and exclude amounts that were capitalized and subsequently expensed in the period. All costs have been capitalized for less than one year.

|                                                              | <b>2009</b>    | 2008  |
|--------------------------------------------------------------|----------------|-------|
|                                                              | (in millions)  |       |
| Balance at January 1,                                        | <b>\$ 17.0</b> | \$1.5 |
| Additions to capitalized exploratory well costs pending the  |                |       |
| determination of proved reserves                             | <b>8.3</b>     |       |
| Reclassifications to property, plant and equipment after the |                |       |
| determination of proved reserves                             | <b>(14.3)</b>  |       |
| Balance at March 31,                                         | <b>\$ 11.0</b> | \$1.5 |

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## **Note 7 Fair-Value Measures**

Beginning in 2008, Questar adopted the effective provisions of SFAS 157 Fair-Value Measures. SFAS 157 defines fair value in applying GAAP, establishes a framework for measuring fair value and expands disclosures about fair-value measurements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 establishes a fair-value hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Level 2 fair value of derivative contracts is located in Note 8. The fair value of these derivative contracts is based on market prices posted on the NYMEX on the last trading day of the reporting period.

In February 2008, the FASB issued FASB Staff Position Financial Accounting Standard 157-2 Partial Deferral of the Effective Date of Statement 157, which delayed the effective date of SFAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. On January 1, 2009, Questar adopted, without material impact on the consolidated financial statements, the provisions of SFAS 157 related to nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which includes, among other things, asset retirement obligations. The initial valuation of asset retirement obligations is a Level 3 fair value and is discussed in Note 5.

## **Note 8 Derivative Contracts**

### **Commodity-Price Risk Management**

Market Resources subsidiaries use gas- and oil-price-derivatives in the normal course of business to reduce, or hedge, the risk of adverse commodity-price movements. However, these same arrangements typically limit future gains from favorable price movements. Derivative contracts are currently in place for a significant share of Questar E&P-owned gas and oil production and a portion of Energy Trading gas- and oil-marketing transactions. On January 1, 2009, the Company adopted SFAS 161 Disclosures about Derivative Instruments and Hedging Activities, which requires more detailed information about hedging transactions including the location and effect on the primary consolidated financial statements.

Market Resources has established policies and procedures for managing commodity-price risks through the use of derivatives. These policies and procedures are reviewed periodically by the Finance and Audit Committee of the Company's Board of Directors. Market Resources hedges natural gas and oil prices to support rate of return and cash-flow targets and protect earnings from downward movements in commodity prices. The volume of hedged production and the mix of derivative instruments are regularly evaluated and adjusted by management in response to changing market conditions. Market Resources may hedge up to 100% of forecast production from proved reserves when prices meet earnings and cash-flow objectives. Market Resources does not enter into derivative arrangements for speculative purposes.

Market Resources uses fixed-price swaps to realize a known price for a specific volume of production delivered into a regional sales point. A fixed-price swap is a derivative instrument that exchanges or swaps the floating or daily price of a specified volume of natural gas, oil or NGL, over a specified period, for a fixed price for the specified volume over the same period (typically three months or longer). In the normal course of business, the Company sells its equity natural gas, oil and NGL production to third parties at first-of-the-month or daily floating prices related to indices reported in industry publications. The fixed-price swap price is reduced by gathering costs and adjusted for product quality to determine the net-to-the-well price. Swap agreements do not require the physical transfer of gas between the parties at settlement. Swap transactions are settled in cash with one party paying the other for the net difference in prices, multiplied by the relevant volume, for the settlement period.

Market Resources enters into commodity-price derivative arrangements that do not have margin requirements or collateral provisions that would require funding prior to the scheduled cash settlement dates. The amount of credit available under these arrangements may vary depending on the credit ratings assigned to Market Resources debt. Derivative-arrangement counterparties are normally banks and energy-trading firms with investment-grade credit ratings. The Company regularly monitors counterparty exposure, credit worthiness and performance.

Generally, derivative instruments are matched to equity gas and oil production, thus qualifying as cash-flow hedges. Changes in the fair value of cash-flow hedges are recorded on the Consolidated Balance Sheets and in accumulated other comprehensive income (loss) until the underlying gas or oil is produced. Gas hedges are typically structured as fixed-price swaps into regional pipelines, locking in basis and hedge effectiveness. The ineffective portion of cash-flow hedges is immediately recognized in the determination of net income.

Also, Questar E&P may use natural gas basis-only swaps to protect cash flows and net income from widening natural gas-price basis differentials that may result from capacity constraints on regional gas pipelines. However, natural gas basis-only swaps

expose the company to losses from narrowing natural gas-price basis differentials. A basis-only swap does not qualify for hedge accounting treatment. These contracts are marked to market with any change in the valuation recognized in the determination of net income. The net mark-to-market effect of basis-only swaps is reported in the Consolidated Statements of Income below operating income.

3 Months  
Ended March  
31,  
**2009**  
(in millions)

***Effect of derivative instruments designated as hedges***

Revenues

Fixed-price swaps increased revenues **\$155.1**

Cost Of Natural Gas And Other Products Sold

Fixed-price swaps increased product costs **0.6**

***Effect of derivative instruments not designated as hedges***

Net mark-to-market (loss) on basis-only swaps **(\$134.9)**

Settlements for the first three months of 2009 resulted in a transfer of \$78.9 million after-tax income from Accumulated Other Comprehensive Income to revenues in the Consolidated Statements of Income. In the next 12 months \$318.5 million or 80% of the \$397.8 million after-tax unrealized income in Accumulated Other Comprehensive Income will be settled and transferred to revenues in the Consolidated Statements of Income. The following table discloses Level 2 fair value of derivative contracts on a gross-contract basis as opposed to the net-contract basis presentation on the Condensed Consolidated Balance Sheets. The fair value of these derivative contracts is based on market prices posted on the NYMEX on the last trading day of the reporting period.

| Level 2                                           | March 31,<br>2009<br>(in millions) |
|---------------------------------------------------|------------------------------------|
| <b><i>Assets</i></b>                              |                                    |
| Fixed-price swaps                                 | <b>\$513.9</b>                     |
| Basis-only swaps                                  | <b>12.8</b>                        |
| Fair value of derivative instruments - short term | <b>\$526.7</b>                     |
| Fixed-price swaps                                 | <b>\$139.1</b>                     |
| Basis-only swaps                                  | <b>1.3</b>                         |
| Fair value of derivative instruments - long term  | <b>\$140.4</b>                     |
| <b><i>Liabilities</i></b>                         |                                    |
| Fixed-price swaps                                 | <b>\$ 7.0</b>                      |
| Basis-only swaps                                  | <b>55.4</b>                        |
| Fair value of derivative instruments - short term | <b>\$ 62.4</b>                     |

|                                                  |                |
|--------------------------------------------------|----------------|
| Fixed-price swaps                                | <b>\$ 12.8</b> |
| Basis-only swaps                                 | <b>169.1</b>   |
| Fair value of derivative instruments - long term | <b>\$181.9</b> |

Market Resources derivative contracts as of March 31, 2009, are summarized below:

***Questar E&P Equity Production***

| Year                        | Time Periods | Quantity | Average price per Mcf,       |
|-----------------------------|--------------|----------|------------------------------|
|                             |              |          | net to the well<br>Estimated |
| Gas (Bcf) Fixed-price Swaps |              |          |                              |
| 2009                        | 9 months     | 97.2     | \$7.65                       |
| 2010                        | 12 months    | 86.6     | 6.71                         |
| 2011                        | 12 months    | 6.7      | 4.63                         |

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| <b>Gas (Bcf) Basis-only Swaps</b> |           |      |      |
|-----------------------------------|-----------|------|------|
| <b>2009</b>                       | 9 months  | 19.2 | 2.49 |
| <b>2010</b>                       | 12 months | 54.0 | 2.92 |
| <b>2011</b>                       | 12 months | 98.5 | 2.10 |

| <b>Oil (Mbbbl) Fixed-price Swaps,</b> |          |     |                        |
|---------------------------------------|----------|-----|------------------------|
|                                       |          |     | Average price per Bbl, |
|                                       |          |     | net to the well        |
| <b>2009</b>                           | 9 months | 550 | \$62.95                |

***Energy Trading Marketing Transactions***

| Year                                           | Time Periods | Quantity | Average price per MMBtu |
|------------------------------------------------|--------------|----------|-------------------------|
| <b>Gas Sales (MMBtu) Fixed-price Swaps</b>     |              |          |                         |
| <b>2009</b>                                    | 9 months     | 4,917    | \$4.96                  |
| <b>2010</b>                                    | 12 months    | 610      | 5.69                    |
| <b>Gas Purchases (MMBtu) Fixed-price Swaps</b> |              |          |                         |
| <b>2009</b>                                    | 9 months     | 2,877    | \$4.50                  |
| <b>2010</b>                                    | 12 months    | 610      | 5.60                    |

**Note 9 Employee Benefits**

Questar has defined-benefit pension and postretirement medical and life insurance plans covering the majority of its employees. Questar is subject to and complies with minimum-required and maximum-allowed annual contribution levels for its qualified retirement plan as determined by the Employee Retirement Income Security Act and Internal Revenue Code. Subject to these limitations, Questar seeks to fund the qualified retirement plan approximately equal to the yearly expense, which is estimated to be \$18.4 million for 2009. Pension expense increased year-over-year because returns on plan assets were lower than expected.

The Company also has a nonqualified pension plan for eligible employees, which provides a benefit in addition to the benefit limit defined by the Internal Revenue Service for qualified pension plans. The nonqualified pension plan is unfunded. Claims are paid from the Company general funds. The 2009 expense is estimated to be \$3.2 million.

Components of the qualified and nonqualified pension expense included in the determination of net income are listed below:

|                                | 3 Months Ended March 31, |        |
|--------------------------------|--------------------------|--------|
|                                | 2009                     | 2008   |
|                                | (in millions)            |        |
| Service cost                   | \$ 2.5                   | \$ 2.4 |
| Interest cost                  | 7.2                      | 6.6    |
| Expected return on plan assets | (6.4)                    | (6.8)  |
| Prior service and other costs  | 0.3                      | 0.3    |
| Recognized net-actuarial loss  | 1.5                      | 0.8    |
| Settlement costs               | 0.3                      |        |
| Pension expense                | \$ 5.4                   | \$ 3.3 |

The Company currently estimates a \$6.3 million expense for postretirement benefits other than pensions in 2009 before \$0.8 million for accretion of a regulatory liability. Expense components are listed below:

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|                                       | 3 Months Ended March 31, |        |
|---------------------------------------|--------------------------|--------|
|                                       | 2009                     | 2008   |
|                                       | (in millions)            |        |
| Service cost                          | \$ 0.2                   | \$ 0.2 |
| Interest cost                         | 1.2                      | 1.2    |
| Expected return on plan assets        | (0.5)                    | (0.9)  |
| Amortization of transition obligation | 0.5                      | 0.5    |
| Amortization of losses                | 0.3                      |        |
| Accretion of regulatory liability     | 0.2                      | 0.2    |
| Postretirement benefits expense       | \$ 1.9                   | \$ 1.2 |

#### Note 10 Change in Ownership Interest

Gas Management constructed a gathering pipeline for \$201.3 million and contributed the asset to Rendezvous Gas Services LLC (Rendezvous). Gas Management's ownership interest increased from 50% to 78%. As a result common stock was reduced by \$31.1 million and noncontrolling interest increased by \$28.1 million. Rendezvous operates gas-gathering facilities for Pinedale Anticline and Jonah field producers for delivery to various interstate pipelines. Beginning in 2008, Gas Management consolidated the operations of Rendezvous for financial reporting purposes.

#### Note 11 Operations by Line of Business

Questar's major lines of business include gas and oil exploration and production (Questar E&P and Wexpro), midstream field services (Gas Management), energy marketing (Energy Trading), interstate gas transportation (Questar Pipeline), and retail gas distribution (Questar Gas). Line-of-business information is presented according to senior management's basis for evaluating performance including differences in the nature of products, services and regulation. Following is a summary of operations by line of business:

|                                                    | 3 Months Ended March 31, |          |
|----------------------------------------------------|--------------------------|----------|
|                                                    | 2009                     | 2008     |
|                                                    | (in millions)            |          |
| <b><i>Revenues from Unaffiliated Customers</i></b> |                          |          |
| Questar E&P                                        | \$307.4                  | \$ 299.7 |
| Wexpro                                             | 2.4                      | 8.3      |
| Gas Management                                     | 48.3                     | 63.1     |
| Energy Trading and other                           | 114.6                    | 194.5    |

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|                  |                |           |
|------------------|----------------|-----------|
| Market Resources | <b>472.7</b>   | 565.6     |
| Questar Pipeline | <b>40.7</b>    | 44.7      |
| Questar Gas      | <b>405.7</b>   | 390.2     |
| Total            | <b>\$919.1</b> | \$1,000.5 |

***Revenues from Affiliated Companies***

|                          |                |         |
|--------------------------|----------------|---------|
| Wexpro                   | <b>\$ 59.5</b> | \$ 46.4 |
| Gas Management           | <b>6.7</b>     | 5.8     |
| Energy Trading and other | <b>93.2</b>    | 226.3   |
| Market Resources         | <b>159.4</b>   | 278.5   |
| Questar Pipeline         | <b>19.1</b>    | 19.5    |
| Questar Gas              |                | 2.0     |
| Total                    | <b>\$178.5</b> | \$300.0 |

***Operating Income***

|                |                |         |
|----------------|----------------|---------|
| Questar E&P    | <b>\$123.8</b> | \$152.0 |
| Wexpro         | <b>28.9</b>    | 25.4    |
| Gas Management | <b>19.6</b>    | 33.1    |

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|                          |                |         |
|--------------------------|----------------|---------|
| Energy Trading and other | <b>8.3</b>     | 12.2    |
| Market Resources         | <b>180.6</b>   | 222.7   |
| Questar Pipeline         | <b>29.3</b>    | 32.5    |
| Questar Gas              | <b>57.2</b>    | 53.4    |
| Total                    | <b>\$267.1</b> | \$308.6 |

***Net Income (Loss) Attributable to Questar***

|                          |                 |         |
|--------------------------|-----------------|---------|
| Questar E&P              | <b>(\$14.9)</b> | \$ 96.5 |
| Wexpro                   | <b>18.8</b>     | 16.2    |
| Gas Management           | <b>11.4</b>     | 18.5    |
| Energy Trading and other | <b>5.4</b>      | 8.1     |
| Market Resources         | <b>20.7</b>     | 139.3   |
| Questar Pipeline         | <b>14.7</b>     | 15.9    |
| Questar Gas              | <b>31.8</b>     | 30.6    |
| Total                    | <b>\$67.2</b>   | \$185.8 |

**Note 12 Comprehensive Income**

Comprehensive income is the sum of net income attributable to Questar as reported in the Consolidated Statements of Income and other comprehensive income (loss). Other comprehensive income (loss) includes changes in the market value of gas- and oil-price derivatives and recognition of the under-funded position of pension and other postretirement benefit plans. Comprehensive income (loss) attributable to Questar is shown below:

|                                                           | 3 Months Ended March 31, |          |
|-----------------------------------------------------------|--------------------------|----------|
|                                                           | <b>2009</b>              | 2008     |
|                                                           | (in millions)            |          |
| Net income                                                | <b>\$ 67.7</b>           | \$188.2  |
| Other comprehensive income (loss)                         |                          |          |
| Net unrealized income (loss) on derivatives               | <b>89.6</b>              | (310.9)  |
| Income taxes                                              | <b>(33.4)</b>            | 117.8    |
| Net other comprehensive income (loss)                     | <b>56.2</b>              | (193.1)  |
| Comprehensive income (loss)                               | <b>123.9</b>             | (4.9)    |
| Net income attributable to noncontrolling interest        | <b>(0.5)</b>             | (2.4)    |
| Total comprehensive income (loss) attributable to Questar | <b>\$123.4</b>           | (\$ 7.3) |

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The components of accumulated other comprehensive income, net of income taxes, shown on the condensed Consolidated Balance Sheets are as follows:

|                                        | <b>March 31,<br/>2009</b> | December 31,<br>2008<br>(in millions) | Change |
|----------------------------------------|---------------------------|---------------------------------------|--------|
| Net unrealized income on derivatives   | <b>\$ 397.8</b>           | \$ 341.6                              | \$56.2 |
| Pension liability                      | <b>(129.5)</b>            | (129.5)                               |        |
| Postretirement benefits liability      | <b>(17.4)</b>             | (17.4)                                |        |
| Accumulated other comprehensive income | <b>\$ 250.9</b>           | \$ 194.7                              | \$56.2 |

### **Note 13   Recent Accounting Development**

In April 2009, the FASB issued FSP SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, which provides additional guidance for estimating fair value when the level of activity for the asset or liability has significantly decreased. This FSP clarifies and includes additional factors to consider in determining whether there has been a significant decrease in market activity for an asset or liability and estimating fair value when the market activity for an asset or liability has declined significantly. The scope of

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this FSP does not include assets and liabilities measured under Level 1 inputs. FSP SFAS 157-4 is applied prospectively to all fair value measurements where appropriate and will be effective for interim and annual periods ending after June 15, 2009. The adoption of FSP SFAS 157-4 is not expected to have a material impact on financial position or results of operations.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following information updates the discussion of Questar's financial condition provided in its 2008 Form 10-K filing, and analyzes the changes in the results of operations between the three-month periods ended March 31, 2009 and 2008. For definitions of commonly used gas and oil terms found in this report on Form 10-Q, please refer to the Glossary of Commonly Used Terms provided in Questar's 2008 Form 10-K.

### RESULTS OF OPERATIONS

Following are comparisons of net income (loss) attributable to Questar by line of business:

|                                                  | 3 Months Ended March 31,                |         |           |
|--------------------------------------------------|-----------------------------------------|---------|-----------|
|                                                  | 2009                                    | 2008    | Change    |
|                                                  | (in millions, except per share amounts) |         |           |
| Exploration and Production                       |                                         |         |           |
| Questar E&P                                      | <b>(\$14.9)</b>                         | \$ 96.5 | (\$111.4) |
| Wexpro                                           | <b>18.8</b>                             | 16.2    | 2.6       |
| Midstream Field Services – Gas Management        | <b>11.4</b>                             | 18.5    | (7.1)     |
| Energy Marketing – Energy Trading and other      | <b>5.4</b>                              | 8.1     | (2.7)     |
| Market Resources total                           | <b>20.7</b>                             | 139.3   | (118.6)   |
| Interstate Gas Transportation – Questar Pipeline | <b>14.7</b>                             | 15.9    | (1.2)     |
| Retail Gas Distribution – Questar Gas            | <b>31.8</b>                             | 30.6    | 1.2       |
| Net income attributable to Questar               | <b>\$67.2</b>                           | \$185.8 | (\$118.6) |
| Earnings per diluted share                       | <b>\$0.38</b>                           | \$ 1.05 | (\$ 0.67) |
| Average diluted shares                           | <b>175.9</b>                            | 176.2   | (0.3)     |

### EXPLORATION AND PRODUCTION

## Questar E&P

Following is a summary of Questar E&P financial and operating results:

|                                          | 2009           | 3 Months Ended March 31,<br>2008<br>(in millions) | Change |
|------------------------------------------|----------------|---------------------------------------------------|--------|
| <b><i>Operating Income</i></b>           |                |                                                   |        |
| Revenues                                 |                |                                                   |        |
| Natural gas sales                        | <b>\$275.0</b> | \$239.8                                           | \$35.2 |
| Oil and NGL sales                        | <b>31.1</b>    | 58.4                                              | (27.3) |
| Other                                    | <b>1.3</b>     | 1.5                                               | (0.2)  |
| Total Revenues                           | <b>307.4</b>   | 299.7                                             | 7.7    |
| Operating expenses                       |                |                                                   |        |
| Operating and maintenance                | <b>34.4</b>    | 28.0                                              | 6.4    |
| General and administrative               | <b>15.6</b>    | 14.2                                              | 1.4    |
| Production and other taxes               | <b>15.4</b>    | 27.0                                              | (11.6) |
| Depreciation, depletion and amortization | <b>113.3</b>   | 71.8                                              | 41.5   |
| Exploration                              | <b>3.1</b>     | 3.5                                               | (0.4)  |
| Abandonment and impairment               | <b>3.7</b>     | 2.6                                               | 1.1    |
| Natural gas purchases                    |                | 0.4                                               | (0.4)  |
| Total Operating Expenses                 | <b>185.5</b>   | 147.5                                             | 38.0   |

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|                                  |                |         |          |
|----------------------------------|----------------|---------|----------|
| Net gain (loss) from asset sales | <b>1.9</b>     | (0.2)   | 2.1      |
| Operating Income                 | <b>\$123.8</b> | \$152.0 | (\$28.2) |

### *Operating Statistics*

#### Questar E&P production volumes

|                                  |              |       |      |
|----------------------------------|--------------|-------|------|
| Natural gas (Bcf)                | <b>41.4</b>  | 34.8  | 6.6  |
| Oil and NGL (MMbbl)              | <b>0.9</b>   | 0.8   | 0.1  |
| Total production (Bcfe)          | <b>46.9</b>  | 39.5  | 7.4  |
| Average daily production (MMcfe) | <b>521.3</b> | 433.8 | 87.5 |

#### Questar E&P average realized price, net to the well (including hedges)

|                       |                |         |           |
|-----------------------|----------------|---------|-----------|
| Natural gas (per Mcf) | <b>\$ 6.64</b> | \$ 6.90 | (\$ 0.26) |
| Oil and NGL (per bbl) | <b>34.09</b>   | 74.18   | (40.09)   |

Questar E&P reported a net loss of \$14.9 million in the first quarter, down 115% from net income of \$96.5 million in the 2008 quarter. The company reported production of 46.9 Bcfe in the first quarter of 2009 compared to 39.5 Bcfe in the 2008 quarter, a 19% increase. The growth in production offset lower realized natural gas, crude oil and NGL prices but net mark-to-market losses on natural gas basis-only swaps and an 8% increase in per unit production costs resulted in reduced net income compared to the prior year period. Net mark-to-market losses on natural gas basis-only swaps decreased first-quarter 2009 net income \$84.7 million, compared to an \$8.6 million after-tax gain in the 2008 period.

Natural gas is Questar E&P's primary focus. On an energy-equivalent basis, natural gas comprised approximately 88% of Questar E&P 2009 production. A comparison of natural gas-equivalent production by major operating area is shown in the following table:

|                      | 3 Months Ended March 31, |      |        |
|----------------------|--------------------------|------|--------|
|                      | 2009                     | 2008 | Change |
|                      | (in Bcfe)                |      |        |
| Pinedale Anticline   | <b>14.6</b>              | 13.3 | 1.3    |
| Uinta Basin          | <b>6.3</b>               | 6.7  | (0.4)  |
| Rockies Legacy       | <b>5.0</b>               | 4.9  | 0.1    |
| Total Rocky Mountain | <b>25.9</b>              | 24.9 | 1.0    |
| Midcontinent         | <b>21.0</b>              | 14.6 | 6.4    |
| Total Questar E&P    | <b>46.9</b>              | 39.5 | 7.4    |

Total production increased 19% in the first quarter of 2009 compared to a year earlier. Questar E&P production from the Pinedale Anticline in western Wyoming grew 10% to 14.6 Bcfe in the first quarter of 2009 as a result of ongoing development drilling. In the Uinta Basin, production decreased 6% to 6.3 Bcfe in 2009 due to decreased drilling

activity. Questar E&P Rockies Legacy properties include all of the company's Rocky Mountain region properties except the Pinedale Anticline and the Uinta Basin. Rockies Legacy 2009 production of 5.0 Bcfe was 0.1 Bcfe higher than a year ago; primarily as a result of increased production in the Wamsutter Arch and Williston Basin areas.

In the Midcontinent, production grew 44% to 21.0 Bcfe in 2009 and included 5.1 Bcfe of production from development properties in northwest Louisiana acquired on February 29, 2008. Ongoing development drilling in the Elm Grove and Woodardville fields in northwestern Louisiana and continued development of the company's Texas Panhandle Granite Wash play were the main contributors to the production increase.

Realized prices for natural gas, oil and NGL at Questar E&P were lower when compared to the prior year. In 2009, the weighted-average realized natural gas price for Questar E&P (including the impact of hedging) was \$6.64 per Mcf compared to \$6.90 per Mcf for the same period in 2008, a 4% decrease. Realized oil and NGL prices in 2009 averaged \$34.09 per bbl, compared with \$74.18 per bbl during the prior year period, a 54% decrease. A regional comparison of average realized prices, including hedges, is shown in the following table:

\*

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|                              | 3 Months Ended March 31, |         |           |
|------------------------------|--------------------------|---------|-----------|
|                              | 2009                     | 2008    | Change    |
| <i>Natural gas (per Mcf)</i> |                          |         |           |
| Rocky Mountains              | \$ 5.87                  | \$ 6.37 | (\$0.50)  |
| Midcontinent                 | 7.57                     | 7.84    | (0.27)    |
| Volume-weighted average      | 6.64                     | 6.90    | (0.26)    |
| <i>Oil and NGL (per bbl)</i> |                          |         |           |
| Rocky Mountains              | \$32.01                  | \$74.47 | (\$42.46) |
| Midcontinent                 | 36.90                    | 73.79   | (36.89)   |
| Volume-weighted average      | 34.09                    | 74.18   | (40.09)   |

Questar E&P hedged or pre-sold approximately 77% of gas production in the first three months of 2009 and 2008. Hedging increased Questar E&P 2009 gas revenues by \$136.4 million and 2008 gas revenues by \$6.9 million. Approximately 25% of 2009 and 53% of 2008 Questar E&P oil production was hedged or pre-sold. Oil hedges increased revenues \$4.6 million in 2009 and decreased revenues \$7.4 million in 2008.

Questar may hedge up to 100% of forecasted production from proved reserves to lock in acceptable returns on invested capital and to protect cash flow and net income from a decline in commodity prices. During the first quarter of 2009, Questar E&P hedged additional production through 2011. The company uses basis-only swaps to protect cash flows and net income from widening natural gas-price basis differentials that may result from capacity constraints on regional gas pipelines. However, natural gas basis-only swaps expose the company to losses from narrowing natural gas-price basis differentials.

Questar E&P production costs (the sum of depreciation, depletion and amortization expense, lease operating expense, general and administrative expense, allocated interest expense and production taxes) per Mcfe of production increased 8% to \$4.12 per Mcfe in 2009 versus \$3.83 per Mcfe in 2008. Questar E&P production costs are summarized in the following table:

|                                          | 3 Months Ended March 31, |            |        |
|------------------------------------------|--------------------------|------------|--------|
|                                          | 2009                     | 2008       | Change |
|                                          |                          | (per Mcfe) |        |
| Depreciation, depletion and amortization | \$2.42                   | \$1.82     | \$0.60 |
| Lease operating expense                  | 0.73                     | 0.71       | 0.02   |
| General and administrative expense       | 0.33                     | 0.36       | (0.03) |
| Allocated interest expense               | 0.31                     | 0.26       | 0.05   |
| Production taxes                         | 0.33                     | 0.68       | (0.35) |
| Total Production Costs                   | \$4.12                   | \$3.83     | \$0.29 |

Production volume-weighted average depreciation, depletion and amortization (DD&A) expense per Mcfe increased in 2009 due to third and fourth quarter 2008 price-related negative reserve revisions, the ongoing depletion of older, lower-cost reserves and the increasing share of Questar E&P production derived from properties that are being developed in a higher-cost environment. The DD&A rate also increased due to higher costs for drilling, completion and related services, higher cost of steel casing, other tubulars and wellhead equipment during the peak of industry activity in 2008. Lease operating expense per Mcfe was higher due to increased costs of materials and consumables, increased produced-water disposal costs and increased well-workover activity. General and administrative expense per Mcfe decreased due primarily to increased production. Allocated interest expense per unit of production increased in the 2009 period primarily due to financing costs related to the 2008 acquisition of properties in northwest Louisiana. Production taxes per Mcfe decreased in the first quarter of 2009 as a result of lower natural gas and oil sales prices. The company pays production taxes based on sales prices before the impact of hedges.

## **Major Questar E&P Operating Areas**

### ***Pinedale Anticline***

As of March 31, 2009, Market Resources (including both Questar E&P and Wexpro) operated and had working interests in 337 producing wells on the Pinedale Anticline compared to 250 at the end of the first quarter of 2008. Of the 337 producing wells, Questar E&P has working interests in 315 wells, overriding royalty interests in an additional 21 Wexpro-operated wells, and no interest in one well operated by Wexpro. Wexpro has working interests in 107 of the 337 producing wells.

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In 2005, the Wyoming Oil and Gas Conservation Commission (WOGCC) approved 10-acre-density drilling for Lance Pool wells on about 12,700 acres of Market Resources 17,872-acre (gross) Pinedale leasehold. The area approved for increased density corresponds to the currently estimated productive limits of Market Resources core acreage in the field. The Company continues to evaluate development on five-acre density at Pinedale. In January 2008, the WOGCC approved five-acre-density drilling for Lance Pool wells on about 4,200 gross acres of Market Resources Pinedale leasehold. If five-acre-density development is appropriate for a majority of its leasehold, the Company currently estimates up to 1,400 additional wells will be required to fully develop the Lance Pool on its acreage.

### ***Uinta Basin***

As of March 31, 2009, Questar E&P had an operating interest in 888 producing wells in the Uinta Basin of eastern Utah, compared to 872 at March 31, 2008. Uinta Basin proved reserves are found in a series of vertically stacked, laterally discontinuous reservoirs at depths of 5,000 feet to deeper than 18,000 feet. Questar E&P owns interests in over 250,000 gross leasehold acres in the Uinta Basin.

### ***Rockies Legacy***

The remainder of Questar E&P Rocky Mountain region leasehold interests, productive wells and proved reserves are distributed over a number of fields and properties managed as the company Rockies Legacy division. Most of the properties are located in the Greater Green River Basin of western Wyoming. Planned exploration and development activity for 2009 includes wells in the San Juan, Paradox, Powder River, Green River, Vermillion and Williston Basins.

### ***Midcontinent***

Questar E&P Midcontinent properties are distributed over a large area, including the Anadarko Basin of Oklahoma and the Texas Panhandle, the Arkoma Basin of Oklahoma and western Arkansas, and the Ark-La-Tex region of Arkansas, Louisiana, and Texas. With the exception of northwest Louisiana, the Granite Wash play in the Texas Panhandle and the emerging Woodford Shale play in western Oklahoma, Questar E&P Midcontinent leasehold interests are fragmented, with no significant concentration of property interests.

Questar E&P has approximately 31,000 net acres of Haynesville Shale lease rights in northwest Louisiana. The depth of the top of the Haynesville Shale ranges from approximately 10,500 feet to 12,500 feet across Questar E&P's leasehold and is below the Hosston and Cotton Valley formations that Questar E&P has been developing in northwest Louisiana for over a decade. Questar E&P continues infill-development drilling in the Cotton Valley and Hosston formations in northwest Louisiana and intends to drill or participate in up to 35 horizontal Haynesville Shale wells in 2009. As of March 31, 2009, Questar E&P had seven operated rigs drilling in the project area and operated or had working interests in 554 producing wells in northwest Louisiana compared to 463 at March 31, 2008.

### ***Wexpro***

Wexpro reported net income of \$18.8 million in the first quarter of 2009 compared to \$16.2 million in 2008, a 16% increase. Wexpro 2009 results benefited from a higher average investment base compared to the prior-year period. Pursuant to the Wexpro Agreement, Wexpro recovers its costs and receives an unlevered after-tax return of approximately 19-20% on its investment base. Wexpro's investment base is its investment in commercial wells and related facilities adjusted for working capital and reduced for deferred income taxes and depreciation. Wexpro's investment base totaled \$400.1 million at March 31, 2009, an increase of \$85.6 million or 27% since March 31, 2008. Wexpro produced 13.2 Bcf of cost-of-service gas in the 2009 quarter.

## MIDSTREAM FIELD SERVICES Questar Gas Management

Following is a summary of Gas Management financial and operating results:

|                                | 3 Months Ended March 31, |        |        |
|--------------------------------|--------------------------|--------|--------|
|                                | 2009                     | 2008   | Change |
|                                | (in millions)            |        |        |
| <b><i>Operating Income</i></b> |                          |        |        |
| Revenues                       |                          |        |        |
| Gathering                      | \$36.6                   | \$35.3 | \$ 1.3 |
| Processing                     | 18.4                     | 33.6   | (15.2) |
| Total Revenues                 | 55.0                     | 68.9   | (13.9) |
| Operating expenses             |                          |        |        |
| Operating and maintenance      | 19.6                     | 24.1   | (4.5)  |
| General and administrative     | 3.8                      | 5.1    | (1.3)  |
| Production and other taxes     | 0.9                      | 0.3    | 0.6    |

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|                                                      |               |        |          |
|------------------------------------------------------|---------------|--------|----------|
| Depreciation, depletion and amortization             | <b>10.9</b>   | 6.3    | 4.6      |
| Total Operating Expenses                             | <b>35.2</b>   | 35.8   | (0.6)    |
| Net loss from asset sales                            | <b>(0.2)</b>  |        | (0.2)    |
| Operating Income                                     | <b>\$19.6</b> | \$33.1 | (\$13.5) |
| <b><i>Operating Statistics</i></b>                   |               |        |          |
| Natural gas processing volumes                       |               |        |          |
| NGL sales (MMgal)                                    | <b>21.4</b>   | 21.4   |          |
| NGL sales price (per gal)                            | <b>\$0.47</b> | \$1.21 | (\$0.74) |
| Fee-based processing volumes (in millions of MMBtu)  |               |        |          |
| For unaffiliated customers                           | <b>24.8</b>   | 24.7   | 0.1      |
| For affiliated customers                             | <b>27.7</b>   | 25.5   | 2.2      |
| Total Fee-Based Processing Volumes                   | <b>52.5</b>   | 50.2   | 2.3      |
| Fee-based processing (per MMBtu)                     | <b>\$0.16</b> | \$0.14 | \$0.02   |
| Natural gas gathering volumes (in millions of MMBtu) |               |        |          |
| For unaffiliated customers                           | <b>65.1</b>   | 51.3   | 13.8     |
| For affiliated customers                             | <b>44.9</b>   | 37.3   | 7.6      |
| Total Gas Gathering Volumes                          | <b>110.0</b>  | 88.6   | 21.4     |
| Gas gathering revenue (per MMBtu)                    | <b>\$0.29</b> | \$0.32 | (\$0.03) |

Gas Management, which provides gas-gathering and processing-services, reported net income of \$11.4 million in the first three months of 2009 compared to \$18.5 million in the same period of 2008. The decrease in net income was driven by lower gathering and processing margins and increased depreciation expense. Depreciation expense grew \$4.6 million or 73% as the result of investment additions in 2008.

Total gathering margins (revenues minus direct gathering expenses) in 2009 decreased 3% to \$26.2 million compared to \$27.0 million in 2008. Expanding Pinedale production, new projects serving third parties in the Uinta Basin and the consolidation of Rendezvous contributed to a 27% increase in third-party volumes in 2009. Gathering volumes increased 21.4 million MMBtu, or 24% to 110.0 million MMBtu in 2009. Rendezvous, formerly an unconsolidated affiliate, was consolidated with Gas Management beginning in 2008. Rendezvous provides gas gathering services for the Pinedale and Jonah producing areas of Wyoming.

Total processing margins (revenues minus direct plant expenses and processing plant-shrink) in 2009 decreased 48% to \$9.3 million compared to \$17.8 million in 2008. Fee-based gas processing volumes were 52.5 million MMBtu in 2009, a 5% increase compared to 2008. In 2009, fee-based gas processing revenues increased 17% or \$1.2 million, while the frac spread from keep-whole processing decreased 72% or \$8.8 million. Approximately 93% of Gas Management's net operating revenue (revenue minus processing plant-shrink) in 2009 was derived from fee-based contracts, up from 78% in 2008.

Gas Management may use forward sales contracts to reduce processing-margin volatility associated with keep-whole contracts. Forward sales contracts reduced NGL revenues by \$1.4 million in 2008.

#### **ENERGY MARKETING    Questar Energy Trading**

Energy Trading net income was \$5.4 million in 2009, a decrease of 33% compared to \$8.1 million in 2008 as a result of lower marketing margin. Revenues from unaffiliated customers were \$114.6 million in 2009 compared to \$194.5 million in 2008, a 41% decrease, primarily the result of lower natural gas prices. The weighted-average natural gas sales price decreased 46% in 2009 to \$3.78 per MMBtu, compared to \$7.04 per MMBtu in 2008.

#### **INTERSTATE GAS TRANSPORTATION    Questar Pipeline**

Questar Pipeline, which provides interstate natural gas-transportation and storage services, reported first quarter 2009 net income of \$14.7 million compared with \$15.9 million in 2008, an 8% decrease. Operating income decreased \$3.2 million, or 10%, in the first quarter 2009-to-2008 comparison due primarily to lower NGL revenues. Following is a summary of Questar Pipeline financial and operating results:

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|                                                          | 3 Months Ended March 31, |        |          |
|----------------------------------------------------------|--------------------------|--------|----------|
|                                                          | 2009                     | 2008   | Change   |
|                                                          | (in millions)            |        |          |
| <b><i>Operating Income</i></b>                           |                          |        |          |
| Revenues                                                 |                          |        |          |
| Transportation                                           | \$42.7                   | \$44.2 | (\$1.5)  |
| Storage                                                  | 9.6                      | 9.6    |          |
| NGL sales                                                | 1.8                      | 4.0    | (2.2)    |
| Energy services                                          | 4.0                      | 3.5    | 0.5      |
| Gas processing                                           | 0.9                      | 1.7    | (0.8)    |
| Other                                                    | 0.8                      | 1.2    | (0.4)    |
| Total Revenues                                           | 59.8                     | 64.2   | (4.4)    |
| Operating expenses                                       |                          |        |          |
| Operating and maintenance                                | 8.1                      | 9.2    | (1.1)    |
| General and administrative                               | 8.6                      | 9.4    | (0.8)    |
| Depreciation and amortization                            | 10.8                     | 10.8   |          |
| Other taxes                                              | 2.3                      | 2.2    | 0.1      |
| Cost of goods sold                                       | 0.8                      | 0.2    | 0.6      |
| Total Operating Expenses                                 | 30.6                     | 31.8   | (1.2)    |
| Net gain from asset sales                                | 0.1                      | 0.1    |          |
| Operating Income                                         | \$29.3                   | \$32.5 | (\$3.2)  |
| <b><i>Operating Statistics</i></b>                       |                          |        |          |
| Natural gas-transportation volumes (MMdth)               |                          |        |          |
| For unaffiliated customers                               | 153.9                    | 129.8  | 24.1     |
| For Questar Gas                                          | 44.4                     | 43.2   | 1.2      |
| For other affiliated customers                           | 1.2                      | 0.9    | 0.3      |
| Total Transportation                                     | 199.5                    | 173.9  | 25.6     |
| Transportation revenue (per dth)                         | \$0.21                   | \$0.25 | (\$0.04) |
| Firm daily transportation demand at March 31, (including |                          |        |          |
| White River Hub of 1,005 in 2009 in Mdth)                | 4,219                    | 3,169  | 1,050    |
| Natural gas processing                                   |                          |        |          |
| NGL sales (MMgal)                                        | 3.0                      | 2.5    | 0.5      |
| NGL sales price (per gal)                                | \$0.59                   | \$1.61 | (\$1.02) |

***Revenues***

As of March 31, 2009, Questar Pipeline had firm-transportation contracts of 4,219 Mdth per day, including 1,005 Mdth per day from Questar Pipeline's 50% ownership of White River Hub, compared with 3,169 Mdth per day as of March 31, 2008. The White River Hub was placed in service in December 2008. Questar Pipeline has expanded its

transportation system in response to growing regional natural gas production and transportation demand.

Questar Gas is Questar Pipeline's largest transportation customer with contracts for 901 Mdth per day. The majority of the Questar Gas transportation contracts extend through mid 2017.

Transportation revenues decreased \$1.5 million in the first quarter of 2009 compared to the first quarter of 2008, primarily because of an adjustment to an accrual for sharing of interruptible transportation revenues that was recorded in the first quarter of 2008.

Questar Pipeline owns and operates the Clay Basin underground storage complex in eastern Utah. This facility is 100% subscribed under long-term contracts. In addition to Clay Basin, Questar Pipeline also owns and operates three smaller aquifer gas storage facilities. Questar Gas has contracted for 26% of firm-storage capacity at Clay Basin for terms extending from one to 12 years and 100% of the firm-storage capacity at the aquifer facilities for terms extending for 11 years.

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Questar Pipeline charges FERC-approved transportation and storage rates that are based on straight-fixed-variable rate design. Under this rate design, all fixed costs of providing service including depreciation and return on investment are recovered through the demand charge. About 95% of Questar Pipeline costs are fixed and recovered through these demand charges. Questar Pipeline's earnings are driven primarily by demand revenues from firm shippers. Since only about 5% of operating costs are recovered through volumetric charges, changes in transportation volumes do not have a significant impact on earnings.

NGL sales were 55% lower in 2009 over 2008 due primarily to a 63% decrease in NGL prices and a 20% increase in sales volume.

### *Expenses*

Operating and maintenance expenses decreased by 12% to \$8.1 million in the first quarter of 2009 compared to \$9.2 million in the first quarter of 2008. The decrease was due to lower maintenance costs. General and administrative expenses decreased by 9% to \$8.6 million in the first quarter of 2009. Operating, maintenance, general and administrative expenses per dth transported declined to \$0.08 in the first quarter of 2009 compared with \$0.11 in the first quarter of 2008 because transportation volumes increased 15% and costs decreased 10%. Operating, maintenance, general and administrative expenses include processing and storage costs.

Depreciation expense was flat in the first quarter of 2009 compared to the first quarter of 2008.

### **RETAIL GAS DISTRIBUTION    Questar Gas**

Questar Gas, which provides retail natural gas distribution services in Utah, Wyoming and Idaho, reported net income of \$31.8 million in the first quarter of 2009 compared with \$30.6 million in the first quarter of 2008, a 4% increase. Operating income increased \$3.8 million, or 7%, in the 2009-to-2008 first-quarter comparison due to higher revenues from a general rate case and customer growth. Following is a summary of Questar Gas financial and operating results:

|                                         | 3 Months Ended March 31, |         |        |
|-----------------------------------------|--------------------------|---------|--------|
|                                         | 2009                     | 2008    | Change |
|                                         | (in millions)            |         |        |
| <b><i>Operating Income</i></b>          |                          |         |        |
| Revenues                                |                          |         |        |
| Residential and commercial sales        | <b>\$392.0</b>           | \$376.0 | \$16.0 |
| Industrial sales                        | <b>2.3</b>               | 2.9     | (0.6)  |
| Transportation for industrial customers | <b>2.5</b>               | 2.3     | 0.2    |
| Service                                 | <b>1.7</b>               | 1.6     | 0.1    |
| Other                                   | <b>7.2</b>               | 9.4     | (2.2)  |

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|                                         |                |         |        |
|-----------------------------------------|----------------|---------|--------|
| Total revenues                          | <b>405.7</b>   | 392.2   | 13.5   |
| Cost of natural gas sold                | <b>293.1</b>   | 292.8   | 0.3    |
| Margin                                  | <b>112.6</b>   | 99.4    | 13.2   |
| Other operating expenses                |                |         |        |
| Operating and maintenance               | <b>31.0</b>    | 21.8    | 9.2    |
| General and administrative              | <b>9.8</b>     | 10.5    | (0.7)  |
| Depreciation and amortization           | <b>10.8</b>    | 10.2    | 0.6    |
| Other taxes                             | <b>3.8</b>     | 3.5     | 0.3    |
| Total other operating expenses          | <b>55.4</b>    | 46.0    | 9.4    |
| Operating income                        | <b>\$ 57.2</b> | \$ 53.4 | \$ 3.8 |
| <b><i>Operating Statistics</i></b>      |                |         |        |
| Natural gas volumes (MMdth)             |                |         |        |
| Residential and commercial sales        | <b>44.5</b>    | 49.9    | (5.4)  |
| Industrial sales                        | <b>0.3</b>     | 0.4     | (0.1)  |
| Transportation for industrial customers | <b>16.5</b>    | 16.0    | 0.5    |
| Total industrial                        | <b>16.8</b>    | 16.4    | 0.4    |
| Total deliveries                        | <b>61.3</b>    | 66.3    | (5.0)  |
| Natural gas revenue (per dth)           |                |         |        |
| Residential and commercial sales        | <b>\$8.81</b>  | \$7.53  | \$1.28 |

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|                                               |               |        |        |
|-----------------------------------------------|---------------|--------|--------|
| Industrial sales                              | <b>7.57</b>   | 6.57   | 1.00   |
| Transportation for industrial customers       | <b>\$0.15</b> | \$0.14 | \$0.01 |
| Colder (warmer) than normal temperatures      | <b>(1%)</b>   | 12%    | (13%)  |
| Temperature-adjusted usage per customer (dth) | <b>47.4</b>   | 49.2   | (1.8)  |
| Customers at March 31 (thousands)             | <b>892.8</b>  | 881.9  | 10.9   |

### *Margin Analysis*

Questar Gas margin (revenues minus gas costs) increased \$13.2 million in the first quarter of 2009 compared to the first quarter of 2008. Following is a summary of major changes in Questar Gas margin:

|                                                | Change<br>2008 to 2009<br>(in millions) |
|------------------------------------------------|-----------------------------------------|
| Customer growth                                | \$ 1.2                                  |
| General rate case                              | 4.5                                     |
| Conservation-enabling tariff                   | 2.3                                     |
| Change in usage per customer                   | (3.0)                                   |
| Demand-side management cost recovery           | 5.6                                     |
| Recovery of gas-cost portion of bad-debt costs | 1.4                                     |
| Other                                          | 1.2                                     |
| Increase                                       | \$13.2                                  |

At March 31, 2009, Questar Gas served 892,829 customers, up from 881,874 at March 31, 2008. Customer growth increased the margin by \$1.2 million in the first quarter of 2009.

In December 2007, Questar Gas filed a general rate case in Utah requesting an increase in rates of \$27.0 million, including an authorized return on equity of 11.25%. The company subsequently modified its request to \$22.2 million to reflect a change in test year ordered by the PSCU and the impact of tax law changes on rate base. In the second quarter of 2008, Questar Gas received an order from the PSCU increasing rates by \$12.0 million. The PSCU reduced Questar Gas's allowed return on equity from 11.2% to 10%. The new rates went into effect in mid-August 2008 and increased the margin by \$4.5 million in the first quarter of 2009.

Temperature-adjusted usage per customer decreased 4% in the first quarter of 2009 compared to the first quarter of 2008. The impact on the company margin from changes in usage per customer has been mitigated by a pilot

conservation-enabling tariff that was approved by the PSCU beginning 2006. The CET resulted in a margin increase of \$2.3 million in 2009, largely offsetting the \$3.0 million decrease in margin resulting from usage per customer.

Weather, as measured in degree days, was 1% warmer than normal in the first quarter of 2009 and 12% colder than normal in the first quarter of 2008. A weather-normalization adjustment on customer bills generally offsets financial impacts of moderate temperature variations.

### ***Expenses***

Cost of natural gas sold was flat in the first quarter of 2009 compared to the first quarter of 2008 due to higher gas purchase expenses per dth offsetting an 11% decrease in volumes sold. Questar Gas accounts for purchased-gas costs in accordance with procedures authorized by the PSCU and the PSCW. Purchased-gas costs that are different from those provided for in present rates are accumulated and recovered or credited through future rate changes. As of March 31, 2009, Questar Gas had a \$98.6 million over-collected balance in the purchased-gas adjustment account representing costs recovered from customers in excess of costs incurred. Questar Gas reduced its rates for gas costs by an annualized \$165 million effective March 1, 2009. In addition, Questar Gas has received permission from the PSCU and PSCW to rebate \$51 million in the over-collected balance in the purchased-gas adjustment account to customers in May 2009 business.

Operating and maintenance expenses increased 42% in the first quarter of 2009 compared to the first quarter of 2008 due primarily to higher demand-side management costs and bad-debt costs. The demand-side management costs increased \$5.6 million in the first quarter of 2009 over the first quarter of 2008. These costs are for the company's energy efficiency program and are recovered from customers through periodic rate changes. General and administrative expenses decreased 7% in the 2009 first quarter. Operating, maintenance, general and administrative expenses per customer were \$46 in the first quarter of 2009 compared to \$37 in the first quarter of 2008.

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Depreciation expense increased 6% in the first quarter of 2009 compared to the first quarter of 2008 primarily as a result of plant additions from customer growth and system expansion.

## **Consolidated Results below Operating Income**

### ***Interest expense***

Interest expense rose 24% in the first three months of 2009 compared to a year ago due primarily to 2008 financing activities associated with the purchase of two natural gas development properties in northwest Louisiana and pipeline expansions.

### ***Net mark-to-market gain (loss) on basis-only swaps***

The Company uses basis-only swaps to protect cash flows and net income from widening natural gas-price basis differentials that may result from capacity constraints on regional gas pipelines. However, natural gas basis-only swaps expose the company to losses from narrowing natural gas-price basis differentials. The Company recognized a pre-tax net mark-to-market loss of \$134.9 million on natural gas basis-only swaps in the first quarter of 2009 compared to a \$13.7 million gain in the first quarter of 2008.

### ***Income taxes***

The effective combined federal and state income tax rate was 36.4% in the first three months of 2009 compared with 37.0% in the 2008 period.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Operating Activities***

Net cash provided from operating activities increased 55% in the first quarter of 2009 compared to the 2008 quarter due to higher noncash adjustments to net income. Noncash adjustments to net income consist primarily of depreciation, depletion and amortization, a noncash net mark-to-market loss on basis-only swaps and changes in operating assets and liabilities. Cash sources from operating assets and liabilities were higher in 2009 primarily due to over-collection in the purchase-gas adjustment account. Net cash provided from operating activities is presented below:

3 Months Ended March 31,

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|                                                           | <b>2009</b>    | 2008<br>(in millions) | Change    |
|-----------------------------------------------------------|----------------|-----------------------|-----------|
| Net income                                                | <b>\$ 67.7</b> | \$188.2               | (\$120.5) |
| Noncash adjustments to net income attributable to Questar | <b>311.2</b>   | 174.8                 | 136.4     |
| Changes in operating assets and liabilities               | <b>101.9</b>   | (53.3)                | 155.2     |
| Net cash provided from operating activities               | <b>\$480.8</b> | \$309.7               | \$171.1   |

***Investing Activities***

A comparison of capital expenditures for the first three months of 2009 and 2008 plus a forecast for calendar year 2009 are presented below:

|                  | 3 Months Ended March 31,<br><b>2009</b> | 2008<br>(in millions) | Forecast<br>12 Months Ended December<br>31,<br>2009 |
|------------------|-----------------------------------------|-----------------------|-----------------------------------------------------|
| Questar E&P      | <b>\$283.6</b>                          | \$897.6               | \$841.2                                             |
| Wexpro           | <b>26.5</b>                             | 27.1                  | 117.6                                               |
| Gas Management   | <b>39.7</b>                             | 27.9                  | 134.0                                               |
| Questar Pipeline | <b>25.5</b>                             | 11.8                  | 100.9                                               |
| Questar Gas      | <b>15.0</b>                             | 30.8                  | 83.6                                                |
| Other            | <b>0.2</b>                              | 0.2                   | 1.3                                                 |
| Total            | <b>\$390.5</b>                          | \$995.4               | \$1,278.6                                           |

Property acquisitions and expanded drilling programs represented the majority of the higher capital expenditures for the first quarter of 2008 compared to the 2009 period.

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### ***Financing Activities***

In the first quarter of 2009, net cash provided from operating activities of \$480.8 million exceeded net cash used in investing activities of \$383.6 million by \$97.2 million. Long-term debt increased by a net change of \$50.0 million and short-term debt decreased by a net change of \$165.6 million in the first quarter of 2009.

Questar sells commercial paper, rated A2 by Standard & Poor's and P2 by Moody's, to meet short-term financing requirements. The Company maintains committed credit lines with banks to provide liquidity when commercial-paper markets are illiquid. Credit commitments under the bank lines totaled \$365.0 million at March 31, 2009, with \$40.0 million borrowed. In addition, there was \$25.5 million of commercial paper debt outstanding. In June 2009, the Company expects to renew maturing bank lines representing \$245.0 million of committed borrowing capacity.

Combined short-term and long-term debt was 39% and common equity was 61% of total capital at March 31, 2009. Market Resources had unused capacity of \$300.0 million on a long-term revolving-credit facility with banks at March 31, 2009.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Questar's primary market-risk exposure arises from changes in the market price for natural gas, oil and NGL, and volatility in interest rates. Energy Trading has long-term contracts for pipeline capacity and is obligated to pay for transportation services with no guarantee that it will be able to recover the full cost of these transportation commitments.

#### **Commodity-Price Risk Management**

Market Resources uses gas- and oil-price-derivatives in the normal course of business to reduce, or hedge, the risk of adverse commodity-price movements. However, these same arrangements typically limit future gains from favorable price movements. Derivative contracts are currently in place for a significant share of Questar E&P-owned gas and oil production, a portion of Energy Trading gas- and oil-marketing transactions and some of Gas Management NGL sales.

As of March 31, 2009, Market Resources held commodity-price hedging contracts covering about 252.4 million MMBtu of natural gas and 0.6 million barrels of oil and basis-only swaps on an additional 171.7 Bcf of natural gas. A year earlier the Market Resources hedging contracts covered 353.7 million MMBtu of natural gas, 1.7 million barrels of oil and natural gas basis-only swaps on an additional 17.8 Bcf. Changes in the fair value of derivative contracts from December 31, 2008 to March 31, 2009 are presented below:

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|                                                            | Fixed-price<br>Swaps | Basis-only<br>Swaps<br>(in millions) | Total          |
|------------------------------------------------------------|----------------------|--------------------------------------|----------------|
| Net fair value of gas- and oil-derivative contracts        |                      |                                      |                |
| outstanding at December 31, 2008                           | \$543.6              | (\$75.5)                             | \$468.1        |
| Contracts realized or otherwise settled                    | (112.7)              | 4.8                                  | (107.9)        |
| Change in gas and oil prices on futures markets            | 182.8                | (128.8)                              | 54.0           |
| Contracts added                                            | 8.6                  |                                      | 8.6            |
| Contracts re-designated as fixed-price swaps               | 10.9                 | (10.9)                               |                |
| <b>Net fair value of gas- and oil-derivative contracts</b> |                      |                                      |                |
| <b>outstanding at March 31, 2009</b>                       | <b>\$633.2</b>       | <b>(\$210.4)</b>                     | <b>\$422.8</b> |

A table of the net fair value of gas- and oil-derivative contracts as of March 31, 2009, is shown below. About 82% of the fixed-priced swaps will settle in the next 12 months and the fair value of cash-flow hedges will be reclassified from other comprehensive income:

|                                                             | Fixed-price<br>Swaps | Basis-only<br>Swaps<br>(in millions) | Total          |
|-------------------------------------------------------------|----------------------|--------------------------------------|----------------|
| Contracts maturing by March 31, 2010                        | \$522.3              | (\$58.0)                             | \$464.3        |
| Contracts maturing between April 1, 2010 and March 31, 2011 | 113.4                | (88.1)                               | 25.3           |
| Contracts maturing between April 1, 2011 and March 31, 2012 | (2.5)                | (64.3)                               | (66.8)         |
| <b>Net fair value of gas- and oil-derivative contracts</b>  |                      |                                      |                |
| <b>outstanding at March 31, 2009</b>                        | <b>\$633.2</b>       | <b>(\$210.4)</b>                     | <b>\$422.8</b> |

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The following table shows sensitivity of fair value of gas- and oil-derivative contracts and basis-only swaps to changes in the market price of gas and oil and basis differentials:

|                                                                                    | March 31,<br><b>2009</b> | 2008      |
|------------------------------------------------------------------------------------|--------------------------|-----------|
|                                                                                    | (in millions)            |           |
| Net fair value    asset (liability)                                                | <b>\$422.8</b>           | (\$243.5) |
| Fair value if market prices of gas and oil and basis differentials decline by 10%  | <b>539.9</b>             | 24.7      |
| Fair value if market prices of gas and oil and basis differentials increase by 10% | <b>305.8</b>             | (511.5)   |

### Interest-Rate Risk Management

As of March 31, 2009, Questar had \$1,672.2 million of fixed-rate long-term debt and \$500.0 million of variable-rate long-term debt.

### Forward-Looking Statements

This quarterly report may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe, and other words of similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, exploration efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining actual future results. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Among factors that could cause actual results to differ materially are:

- the risk factors discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2008;

- general economic conditions, including the performance of financial markets and interest rates;

- changes in industry trends;
- changes in laws or regulations; and
- other factors, most of which are beyond the Company's control.

Questar undertakes no obligation to publicly correct or update the forward-looking statements in this quarterly report, in other documents, or on the Web site to reflect future events or circumstances. All such statements are expressly qualified by this cautionary statement.

#### **ITEM 4. CONTROLS AND PROCEDURES.**

##### **Evaluation of Disclosure Controls and Procedures.**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of March 31, 2009. Based on such evaluation, such officers have concluded that, as of March 31, 2009, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company, including its consolidated subsidiaries, required to be included in the Company's reports filed or submitted under the Exchange Act. The Company's Chief Executive Officer and Chief Financial Officer also concluded that the controls and procedures were effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management including its principal executive and financial officers or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure.

##### **Changes in Internal Controls.**

There were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Questar is involved in various commercial and regulatory claims and litigation and other legal proceedings that arise in the ordinary course of its business. Management does not believe any of them will have a material adverse effect on the Company's financial position, results of operations or cash flows. A liability is recorded for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome. Disclosures are provided for contingencies reasonably likely to occur which would have a material adverse effect on the Company's financial position, results of operations or cash flows. Some of the claims involve highly complex issues relating to liability, damages and other matters subject to substantial uncertainties and, therefore, the probability of liability or an estimate of loss cannot be reasonably determined.

#### *Environmental Claims*

In *United States of America v. Questar Gas Management Co.*, Civil No. 208CV167, filed on February 29, 2008, in Utah Federal District Court, the Environmental Protection Agency (EPA) alleges that Gas Management violated the federal Clean Air Act (CAA) and seeks substantial penalties and a permanent injunction involving the manner of operation of five compressor stations located in the Uinta Basin of eastern Utah. EPA further alleges that the facilities are located within the original boundaries of the former Uncompahgre Indian Reservation and are therefore within Indian Country. EPA asserts primary CAA jurisdiction over "Indian Country" where state CAA programs do not apply. EPA contends that the potential to emit, on a hypothetically uncontrolled basis, for Gas Management's facilities render them major sources of emissions for criteria and hazardous air pollutants. Categorization of the facilities as major sources affects the particular regulatory program applicable to those facilities. EPA claims that Gas Management failed to obtain the necessary major source pre-construction or modification permits, and failed to comply with hazardous air-pollutant regulations for testing and reporting, among other things. Gas Management contends that its facilities have pollution controls installed that reduce their actual air emissions below major source thresholds, rendering them subject to different regulatory requirements. Gas Management intends to vigorously defend against the EPA's claims, and believes that the major source permitting and regulatory requirements at issue can be legally avoided by applying Utah's CAA program or EPA's prior practice for similar facilities elsewhere in Indian Country, among other defenses. Because of the complexities and uncertainties of this legal dispute, it is difficult to predict all reasonably possible outcomes; however, management believes the Company has accrued a reasonable loss contingency that is an immaterial amount, for the anticipated most likely outcome.

#### *Grynberg Case*

In *United States ex rel. Grynberg v. Questar Corp.*, Civil No. 99-MD-1604, consolidated as *In re Natural Gas Royalties Qui Tam Litigation*, Consolidated Case MDL No. 1293 (D. Wyo.), Jack Grynberg filed claims against Questar under the federal False Claims Act that were substantially similar to cases filed against other natural gas companies. The cases were consolidated for discovery and pre-trial motions in Wyoming's federal district court. The cases involve allegations of industry-wide mismeasurement of natural gas quantities on which royalty payments are due the federal government. By order dated October 20, 2006, the district court dismissed all of Grynberg's claims against all the defendants for lack of jurisdiction. The judge found that Grynberg was not the original source and therefore could not bring the action. Grynberg appealed the case to the U.S. Tenth Circuit Court of Appeals. On

March 17, 2009, the Court of Appeals affirmed the lower court decision to dismiss the case.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table sets forth the Company's purchases of common stock registered under Section 12 of the Exchange Act that occurred during the quarter ended March 31, 2009:

|              |                                |                            | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans | Maximum Number of<br>Shares that May Yet<br>Be Purchased Under<br>the Plans |
|--------------|--------------------------------|----------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
|              | Number of Shares<br>Purchased* | Average Price per<br>Share |                                                                               |                                                                             |
| 2009         |                                |                            |                                                                               |                                                                             |
| January      | 6,434                          | \$34.94                    | -                                                                             | -                                                                           |
| February     | 96,925                         | 33.93                      | -                                                                             | -                                                                           |
| March        | 49,450                         | 30.67                      | -                                                                             | -                                                                           |
| <b>Total</b> | <b>152,809</b>                 | <b>\$32.92</b>             | <b>-</b>                                                                      | <b>-</b>                                                                    |

\*The numbers include any shares purchased in conjunction with tax-payment elections under the Company Long-term Stock Incentive Plan and rollover shares used in exercising stock options. They exclude any fractional shares purchased from terminating participants in the Questar Dividend Reinvestment and Stock Purchase Plan and any shares of restricted stock forfeited when failing to satisfy vesting conditions.

**ITEM 6. EXHIBITS.**

The following exhibits are being filed as part of this report:

Exhibit No.

Exhibits

31.1.

Certification signed by Keith O. Rattie, Questar's Chairman, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2.

Certification signed by S. E. Parks, Questar's Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.

Certification signed by Keith O. Rattie and S. E. Parks, Questar's Chairman, President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, respectively, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUESTAR CORPORATION

(Registrant)

May 6, 2009

/s/Keith O. Rattie

Keith O. Rattie, Chairman of the Board,  
President and Chief Executive Officer

May 6, 2009

/s/S. E. Parks

S. E. Parks, Senior Vice President and  
Chief Financial Officer

Exhibits List

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