

QUESTAR GAS CO  
Form 10-Q  
October 31, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from \_\_\_ to \_\_\_

Exact name of registrant as specified in its charter	State or other jurisdiction of incorporation or organization	Commission File Number	(I.R.S. Employer Identification No.)
Questar Corporation	Utah	001-08796	87-0407509
Questar Gas Company	Utah	333-69210	87-0155877
Questar Pipeline Company	Utah	000-14147	87-0307414

333 South State Street, P.O. Box 45433, Salt Lake City, Utah 84145-0433

(Address of principal executive offices)

Registrants' telephone number, including area code (801) 324-5000

Web site <http://www.questar.com>

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.

Questar Corporation	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Questar Gas Company	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Questar Pipeline Company	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

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).

Questar Corporation	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Questar Gas Company	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Questar Pipeline Company	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

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. Do not check non-accelerated filer if a smaller reporting company (Check one):

Questar Corporation	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Questar Gas Company	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Questar Pipeline Company	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

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Questar Corporation	Yes [ ] No [X]
Questar Gas Company	Yes [ ] No [X]
Questar Pipeline Company	Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of September 30, 2012:

Questar Corporation	without par value	175,083,790
Questar Gas Company	\$2.50 per share par value	9,189,626
Questar Pipeline Company	\$1.00 per share par value	6,550,843

Questar Gas Company and Questar Pipeline Company, as wholly-owned subsidiaries of a reporting company, meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this form with the reduced disclosure format.

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QUESTAR CORPORATION  
 QUESTAR GAS COMPANY  
 QUESTAR PIPELINE COMPANY  
 FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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FILING FORMAT

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This Quarterly Report on Form 10-Q is a combined report being filed by three separate registrants: Questar Corporation, Questar Gas Company and Questar Pipeline Company. Questar Gas Company and Questar Pipeline Company are wholly-owned subsidiaries of Questar Corporation. Separate financial statements for Wexpro Company have not been included since Wexpro is not a registrant. See Note 9 to the Accompanying Financial Statements for a summary of operations by line of business.

Part I - Financial information in this Quarterly Report on Form 10-Q includes separate financial statements (i.e. statements of income, statements of comprehensive income, balance sheets and statements of cash flows, as applicable) for Questar Corporation, Questar Gas Company and Questar Pipeline Company. The Notes Accompanying the Financial Statements are presented on a combined basis for all three registrants. Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 2 is presented by line of business.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

QUESTAR CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	3 Months Ended September 30, 2012		9 Months Ended September 30, 2012		12 Months Ended September 30, 2012	
	2011	2011	2011	2011	2011	2011
	(in millions, except per-share amounts)					
<b>REVENUES</b>						
Questar Gas	\$82.5	\$89.8	\$578.7	\$667.7	\$876.5	\$970.4
Wexpro	9.8	6.9	27.1	23.1	35.5	31.1
Questar Pipeline	49.5	50.0	150.1	148.8	198.7	200.8
Total Revenues	141.8	146.7	755.9	839.6	1,110.7	1,202.3
<b>OPERATING EXPENSES</b>						
Cost of sales (excluding operating expenses shown separately)	(42.1 )	(30.0 )	99.1	211.1	209.5	338.5
Operating and maintenance	36.8	35.4	133.2	126.6	182.5	174.5
General and administrative	29.0	24.1	88.0	83.3	122.6	113.4
Production and other taxes	11.1	13.5	38.0	40.2	50.3	51.1
Depreciation, depletion and amortization	45.9	40.1	135.6	118.4	177.1	157.3
Total Operating Expenses	80.7	83.1	493.9	579.6	742.0	834.8
Net gain from asset sales	2.5	0.2	5.1	0.3	5.0	0.6
<b>OPERATING INCOME</b>	63.6	63.8	267.1	260.3	373.7	368.1
Interest and other income	1.7	3.7	5.7	8.9	7.2	12.3
Income from unconsolidated affiliate	1.0	1.0	2.8	2.9	3.7	3.9
Interest expense	(14.5 )	(13.3 )	(44.3 )	(44.1 )	(57.0 )	(58.8 )
<b>INCOME BEFORE INCOME TAXES</b>	51.8	55.2	231.3	228.0	327.6	325.5
Income taxes	(18.0 )	(19.1 )	(83.1 )	(81.7 )	(117.8 )	(115.5 )
<b>NET INCOME</b>	\$33.8	\$36.1	\$148.2	\$146.3	\$209.8	\$210.0
<b>Earnings Per Common Share</b>						
Basic	\$0.20	\$0.21	\$0.84	\$0.83	\$1.18	\$1.19
Diluted	0.19	0.20	0.83	0.82	1.18	1.17
<b>Weighted-average common shares outstanding</b>						
Used in basic calculation	175.4	177.5	177.0	177.3	177.2	177.1
Used in diluted calculation	176.5	178.9	178.1	178.7	178.3	178.8
Dividends per common share	\$0.17	\$0.1525	\$0.495	\$0.4575	\$0.6575	\$0.5975

See notes accompanying the financial statements

QUESTAR CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	3 Months Ended September 30, 2012		2011		9 Months Ended September 30, 2012		2011		12 Months Ended September 30, 2012		2011	
	(in millions)											
Net income	\$33.8	\$36.1	\$148.2	\$146.3	\$209.8	\$210.0						
Other comprehensive income (loss):												
Pension and other postretirement benefits	—	—	—	—	(159.9	) 34.0						
Interest rate cash flow hedges	0.2	(37.0	) 0.4	(36.2	) (0.6	) (36.2	)					
Long-term investment	0.1	—	0.1	—	0.1	—						
Income taxes	(0.2	) 13.7	(0.3	) 13.4	61.3	0.3						
Net other comprehensive income (loss)	0.1	(23.3	) 0.2	(22.8	) (99.1	) (1.9	)					
COMPREHENSIVE INCOME	\$33.9	\$12.8	\$148.4	\$123.5	\$110.7	\$208.1						

See notes accompanying the financial statements

QUESTAR CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	Sept. 30, 2012 (in millions)	Sept. 30, 2011	Dec. 31, 2011
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$—	\$—	\$11.6
Accounts receivable, net	60.0	74.8	123.9
Unbilled gas accounts receivable	10.6	12.6	75.4
Gas stored underground	62.1	49.6	40.3
Materials and supplies	25.7	24.4	25.7
Current regulatory assets	56.8	38.3	31.7
Prepaid expenses and other	6.5	6.1	10.7
Deferred income taxes - current	6.5	14.4	16.1
Total Current Assets	228.2	220.2	335.4
Property, Plant and Equipment	5,244.4	4,869.4	4,984.1
Accumulated depreciation, depletion and amortization	(1,983.2	) (1,858.4	) (1,885.7
Net Property, Plant and Equipment	3,261.2	3,011.0	3,098.4
Investment in unconsolidated affiliate	26.8	27.6	27.3
Noncurrent regulatory assets	21.7	21.9	21.0
Other noncurrent assets	44.5	47.7	50.7
<b>TOTAL ASSETS</b>	<b>\$3,582.4</b>	<b>\$3,328.4</b>	<b>\$3,532.8</b>
<b>LIABILITIES AND COMMON SHAREHOLDERS' EQUITY</b>			
Current Liabilities			
Checks outstanding in excess of cash balances	\$5.4	\$9.6	\$—
Short-term debt	263.0	278.0	219.0
Accounts payable and accrued expenses	215.6	206.8	242.9
Current regulatory liabilities	4.3	3.2	15.4
Current portion of long-term debt and capital lease obligation	109.2	25.0	91.5
Total Current Liabilities	597.5	522.6	568.8
Long-term debt and capital lease obligation, less current portion	988.9	881.4	993.0
Deferred income taxes	555.9	548.5	500.2
Asset retirement obligations	66.3	64.5	63.8
Defined benefit pension plan and other postretirement benefits	266.7	148.2	309.7
Customer contributions-in-aid-of-construction	30.4	33.8	26.6
Regulatory and other noncurrent liabilities	39.3	35.4	37.2
<b>COMMON SHAREHOLDERS' EQUITY</b>			
Common stock	457.8	508.6	514.7
Retained earnings	805.5	712.2	744.9
Accumulated other comprehensive (loss)	(225.9	) (126.8	) (226.1
Total Common Shareholders' Equity	1,037.4	1,094.0	1,033.5
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDERS' EQUITY</b>	<b>\$3,582.4</b>	<b>\$3,328.4</b>	<b>\$3,532.8</b>
See notes accompanying the financial statements			





QUESTAR CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	9 Months Ended Sept. 30,	
	2012	2011
	(in millions)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$148.2	\$146.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	141.3	125.5
Deferred income taxes	65.1	84.6
Share-based compensation	7.5	8.0
Net (gain) from asset sales	(5.1	) (0.3
(Income) from unconsolidated affiliate	(2.8	) (2.9
Distributions from unconsolidated affiliate and other	3.7	3.2
Changes in operating assets and liabilities	28.1	81.5
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>386.0</b>	<b>445.9</b>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(276.1	) (255.2
Cash used in disposition of assets	(2.5	) (1.8
Proceeds from disposition of assets	4.5	0.3
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(274.1</b>	<b>) (256.7</b>
<b>FINANCING ACTIVITIES</b>		
Common stock issued	4.7	6.4
Common stock repurchased	(72.5	) (3.8
Change in short-term debt	44.0	36.0
Long-term debt and capital lease obligation repaid	(25.6	) (182.0
Long-term debt issuance costs	—	(1.3
Checks outstanding in excess of cash balances	5.4	9.6
Dividends paid	(87.6	) (81.2
Tax benefits from share-based compensation	8.1	5.3
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(123.5</b>	<b>) (211.0</b>
Change in cash and cash equivalents	(11.6	) (21.8
Beginning cash and cash equivalents	11.6	21.8
Ending cash and cash equivalents	\$—	\$—

Supplemental Disclosure of Noncash Investing and Financing Transaction:

During 2012, Questar incurred a capital lease obligation of \$40.8 million in connection with a lease agreement on a new headquarters building.

See notes accompanying the financial statements

QUESTAR GAS COMPANY  
STATEMENTS OF INCOME  
(Unaudited)

	3 Months Ended September 30, 2012		2011		9 Months Ended September 30, 2012		2011		12 Months Ended September 30, 2012		2011	
	(in millions)											
<b>REVENUES</b>												
From unaffiliated customers	\$82.5	\$89.8	\$578.7	\$667.7	\$876.5	\$970.4						
From affiliated company	0.5	0.4	2.3	2.2	3.4	2.7						
Total Revenues	83.0	90.2	581.0	669.9	879.9	973.1						
<b>OPERATING EXPENSES</b>												
Cost of natural gas sold (excluding operating expenses shown separately)	44.7	52.0	356.4	450.5	551.6	656.6						
Operating and maintenance	21.4	20.8	87.2	82.6	123.1	112.6						
General and administrative	12.1	10.1	36.5	34.9	52.6	49.5						
Depreciation and amortization	11.4	11.1	35.0	32.9	46.6	43.5						
Other taxes	4.1	4.1	13.3	12.4	15.9	15.1						
Total Operating Expenses	93.7	98.1	528.4	613.3	789.8	877.3						
OPERATING INCOME (LOSS)	(10.7 )	(7.9 )	52.6	56.6	90.1	95.8						
Interest and other income	1.4	1.4	3.8	4.3	4.9	6.1						
Interest expense	(5.8 )	(6.4 )	(19.1 )	(19.5 )	(25.5 )	(26.2 )						
INCOME (LOSS) BEFORE INCOME TAXES	(15.1 )	(12.9 )	37.3	41.4	69.5	75.7						
Income taxes	5.8	5.0	(14.0 )	(15.5 )	(26.0 )	(27.7 )						
NET INCOME (LOSS)	\$(9.3 )	\$(7.9 )	\$23.3	\$25.9	\$43.5	\$48.0						

See notes accompanying the financial statements

QUESTAR GAS COMPANY  
 CONDENSED BALANCE SHEETS  
 (Unaudited)

	Sept. 30, 2012 (in millions)	Sept. 30, 2011	Dec. 31, 2011
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$—	\$—	\$5.0
Accounts receivable, net	26.9	24.1	77.6
Unbilled gas accounts receivable	10.5	12.3	75.2
Accounts receivable from affiliates	22.2	2.4	1.8
Gas stored underground	58.4	49.6	40.3
Materials and supplies	13.5	12.2	12.2
Current regulatory assets	52.4	38.2	26.5
Prepaid expenses and other	2.8	2.5	3.1
Deferred income taxes - current	—	3.9	5.6
Total Current Assets	186.7	145.2	247.3
Property, Plant and Equipment	2,013.6	1,879.3	1,927.0
Accumulated depreciation and amortization	(758.6	) (742.2	) (749.6
Net Property, Plant and Equipment	1,255.0	1,137.1	1,177.4
Noncurrent regulatory assets	16.0	15.5	15.1
Goodwill	5.6	5.6	5.6
Other noncurrent assets	2.1	2.4	2.3
<b>TOTAL ASSETS</b>	<b>\$1,465.4</b>	<b>\$1,305.8</b>	<b>\$1,447.7</b>
<b>LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>			
Current Liabilities			
Checks outstanding in excess of cash balances	\$2.0	\$3.2	\$—
Notes payable to Questar Corporation	206.6	97.9	142.7
Accounts payable and accrued expenses	72.8	63.6	112.3
Accounts payable to affiliates	46.2	38.6	41.9
Customer advances	32.2	23.8	25.0
Current regulatory liabilities	1.8	1.3	14.2
Deferred income taxes - current	4.0	—	—
Current portion of long-term debt	108.5	25.0	91.5
Total Current Liabilities	474.1	253.4	427.6
Long-term debt, less current portion	234.5	343.0	276.5
Deferred income taxes	270.8	250.9	259.8
Customer contributions-in-aid-of-construction	30.4	33.8	26.6
Regulatory and other noncurrent liabilities	3.8	5.2	4.8
<b>COMMON SHAREHOLDER'S EQUITY</b>			
Common stock	23.0	23.0	23.0
Additional paid-in capital	172.2	151.1	171.4
Retained earnings	256.6	245.4	258.0
Total Common Shareholder's Equity	451.8	419.5	452.4
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$1,465.4</b>	<b>\$1,305.8</b>	<b>\$1,447.7</b>
See notes accompanying the financial statements			



QUESTAR GAS COMPANY  
 CONDENSED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	9 Months Ended Sept. 30,	
	2012	2011
	(in millions)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$23.3	\$25.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38.7	36.3
Deferred income taxes	20.6	18.0
Share-based compensation	0.9	0.8
Changes in operating assets and liabilities	17.6	73.2
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>101.1</b>	<b>154.2</b>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(120.8	) (80.4
Cash used in disposition of assets	(1.8	) (1.5
Proceeds from disposition of assets	0.3	0.2
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(122.3</b>	<b>) (81.7</b>
<b>FINANCING ACTIVITIES</b>		
Change in notes payable to Questar	63.9	(55.7
Checks outstanding in excess of cash balances	2.0	3.2
Long-term debt repaid	(25.0	) (2.0
Dividends paid	(24.7	) (22.7
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>16.2</b>	<b>(77.2</b>
Change in cash and cash equivalents	(5.0	) (4.7
Beginning cash and cash equivalents	5.0	4.7
Ending cash and cash equivalents	\$—	\$—

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	3 Months Ended September 30, 2012		9 Months Ended September 30, 2012		12 Months Ended September 30, 2012	
	2011	2011	2011	2011	2011	2011
	(in millions)					
<b>REVENUES</b>						
From unaffiliated customers	\$49.5	\$50.0	\$150.1	\$148.8	\$198.7	\$200.8
From affiliated companies	18.4	18.5	55.2	55.8	73.8	74.3
Total Revenues	67.9	68.5	205.3	204.6	272.5	275.1
<b>OPERATING EXPENSES</b>						
Operating and maintenance	9.1	9.2	26.4	28.1	33.6	40.2
General and administrative	12.0	9.5	36.5	33.7	49.3	43.8
Depreciation and amortization	13.6	12.8	40.6	37.9	53.9	49.9
Other taxes	2.4	2.6	7.3	8.0	9.4	10.0
Cost of goods sold (excluding operating expenses shown separately)	0.7	0.7	1.9	2.3	2.7	3.1
Total Operating Expenses	37.8	34.8	112.7	110.0	148.9	147.0
Net gain from asset sales	2.5	0.2	2.6	0.3	2.6	0.9
OPERATING INCOME	32.6	33.9	95.2	94.9	126.2	129.0
Interest and other income	—	0.2	0.3	1.2	—	1.3
Income from unconsolidated affiliate	1.0	1.0	2.8	2.9	3.7	3.9
Interest expense	(6.6 )	(5.6 )	(19.8 )	(19.5 )	(24.8 )	(26.5 )
INCOME BEFORE INCOME TAXES	27.0	29.5	78.5	79.5	105.1	107.7
Income taxes	(9.9 )	(10.7 )	(28.7 )	(28.8 )	(38.1 )	(39.0 )
NET INCOME	\$17.1	\$18.8	\$49.8	\$50.7	\$67.0	\$68.7

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	3 Months Ended September 30, 2012		2011		9 Months Ended September 30, 2012		2011		12 Months Ended September 30, 2012		2011	
	(in millions)											
Net income	\$17.1	\$18.8	\$49.8	\$50.7	\$67.0	\$68.7						
Other comprehensive income (loss):												
Interest rate cash flow hedges	0.2	(37.0)	) 0.4	(36.2)	) (0.6)	(36.2)	)					
Income taxes	(0.1)	) 13.7	(0.2)	) 13.4	0.2	13.4						
Net other comprehensive income (loss)	0.1	(23.3)	) 0.2	(22.8)	) (0.4)	(22.8)	)					
COMPREHENSIVE INCOME (LOSS)	\$17.2	\$(4.5)	) \$50.0	\$27.9	\$66.6	\$45.9						

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	Sept. 30, 2012 (in millions)	Sept. 30, 2011	Dec. 31, 2011
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$0.4	\$0.4	\$3.4
Notes receivable from Questar Corporation	42.0	—	8.8
Accounts receivable, net	19.8	18.8	19.1
Accounts receivable from affiliates	28.2	19.8	20.2
Gas stored underground	3.7	—	—
Materials and supplies	7.0	7.2	7.4
Current regulatory assets	4.4	0.1	5.2
Prepaid expenses and other	1.9	1.9	4.4
Deferred income taxes - current	1.8	1.1	1.8
Total Current Assets	109.2	49.3	70.3
Property, Plant and Equipment	1,821.9	1,780.1	1,790.4
Accumulated depreciation and amortization	(618.7	) (579.5	) (586.7
Net Property, Plant and Equipment	1,203.2	1,200.6	1,203.7
Investment in unconsolidated affiliate	26.8	27.6	27.3
Goodwill	4.2	4.2	4.2
Regulatory and other noncurrent assets	9.5	9.0	10.1
<b>TOTAL ASSETS</b>	<b>\$1,352.9</b>	<b>\$1,290.7</b>	<b>\$1,315.6</b>
<b>LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>			
Current Liabilities			
Notes payable to Questar	\$—	\$130.3	\$—
Accounts payable and accrued expenses	66.5	70.0	31.7
Accounts payable to affiliates	3.2	3.0	5.5
Current regulatory liabilities	2.5	1.9	1.2
Total Current Liabilities	72.2	205.2	38.4
Long-term debt, less current portion	458.9	280.9	459.0
Deferred income taxes	201.8	195.9	201.4
Regulatory and other noncurrent liabilities	13.8	15.9	14.7
<b>COMMON SHAREHOLDER'S EQUITY</b>			
Common stock	6.6	6.6	6.6
Additional paid-in capital	347.1	345.3	345.7
Retained earnings	275.7	263.7	273.2
Accumulated other comprehensive (loss)	(23.2	) (22.8	) (23.4
Total Common Shareholder's Equity	606.2	592.8	602.1
<b>TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY</b>	<b>\$1,352.9</b>	<b>\$1,290.7</b>	<b>\$1,315.6</b>

See notes accompanying the financial statements





QUESTAR PIPELINE COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	9 Months Ended Sept. 30,	
	2012	2011
	(in millions)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$49.8	\$50.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42.5	40.0
Deferred income taxes	5.0	29.3
Share-based compensation	1.5	1.4
Net (gain) from asset sales	(2.6)	(0.3)
(Income) from unconsolidated affiliate	(2.8)	(2.9)
Distributions from unconsolidated affiliate and other	3.7	3.2
Changes in operating assets and liabilities	18.5	0.1
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>115.6</b>	<b>121.5</b>
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment	(41.6)	(83.6)
Cash used in disposition of assets	(0.7)	(0.3)
Proceeds from disposition of assets	4.2	0.1
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(38.1)</b>	<b>(83.8)</b>
<b>FINANCING ACTIVITIES</b>		
Change in notes receivable from Questar	(33.2)	30.3
Change in notes payable to Questar	—	130.3
Long-term debt repaid	—	(180.0)
Dividends paid	(47.3)	(23.2)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(80.5)</b>	<b>(42.6)</b>
Change in cash and cash equivalents	(3.0)	(4.9)
Beginning cash and cash equivalents	3.4	5.3
Ending cash and cash equivalents	\$0.4	\$0.4

See notes accompanying the financial statements

QUESTAR CORPORATION  
QUESTAR GAS COMPANY  
QUESTAR PIPELINE COMPANY  
NOTES ACCOMPANYING THE FINANCIAL STATEMENTS

The Notes Accompanying the Financial Statements apply to Questar Corporation, Questar Gas Company and Questar Pipeline Company unless otherwise noted.

Note 1 - Nature of Business

Questar Corporation (Questar or the Company) is a Rockies-based integrated natural gas company with three complementary and wholly-owned lines of business:

- Questar Gas Company (Questar Gas) provides retail natural gas distribution in Utah, Wyoming and Idaho.
- Wexpro Company (Wexpro) develops and produces natural gas from cost-of-service reserves for Questar Gas.
- Questar Pipeline Company (Questar Pipeline) operates interstate natural gas pipelines and storage facilities in the western United States and provides other energy services.

Questar is headquartered in Salt Lake City, Utah. Shares of Questar common stock trade on the New York Stock Exchange (NYSE:STR).

Note 2 - Basis of Presentation of Interim Financial Statements

The interim financial statements contain the accounts of Questar and its wholly-owned subsidiaries. The 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 SEC Regulations S-X and S-K. All significant intercompany accounts and transactions have been eliminated in consolidation.

The 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 financial statements do not include all of the information and notes required by GAAP for audited annual financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of 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, nine and 12 months ended September 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Questar uses the equity method to account for its investment in an unconsolidated affiliate where it does not have control, but has significant influence. White River Hub, LLC is a limited liability company and FERC-regulated transporter of natural gas. Questar Pipeline owns 50% of White River Hub, LLC and is the operator. Generally, the investment in White River Hub, LLC on the Company's balance sheets equals the Company's proportionate share of equity reported by White River Hub, LLC. The investment is assessed for possible impairment when events indicate that the fair value of the investment may be below the Company's carrying value. When such a condition is deemed to be other than temporary, the carrying value of the investment is written down to its fair value, and the amount of the write-down is included in the determination of net income.

Note 3 - Comprehensive Income

Beginning in 2012, the Company and its subsidiaries adopted accounting guidance issued in June 2011 that resulted in the addition of statements of comprehensive income to the primary financial statements.

Comprehensive income attributable to Questar, as reported in Questar's Condensed Consolidated Statements of Comprehensive Income, is the sum of net income as reported in the Questar Consolidated Statements of Income and other comprehensive income (loss) (OCI). OCI includes recognition of the under-funded position of pension and other postretirement benefit plans, interest rate cash flow hedges, changes in the fair value of long-term investment and income taxes. These transactions are not the culmination of the earnings process but result from periodically adjusting historical balances to fair value. Income or loss is recognized when the pension or other postretirement benefit costs are accrued, as the Company records interest expense for hedged interest payments and when the long-term investment is sold or otherwise realized. The components of consolidated

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accumulated other comprehensive income (loss) (AOCI), net of income taxes, as reported in Questar's Condensed Consolidated Balance Sheets, are shown below:

	Sept. 30, 2012 (in millions)	Sept. 30, 2011	Dec. 31, 2011
Pension and other postretirement benefits	\$ (202.8 )	\$ (104.1 )	\$ (202.8 )
Interest rate cash flow hedges	(23.2 )	(22.8 )	(23.4 )
Long-term investment	0.1	0.1	0.1
Accumulated other comprehensive (loss)	\$ (225.9 )	\$ (126.8 )	\$ (226.1 )

Comprehensive income (loss), as reported in Questar Pipeline's Condensed Consolidated Statements of Comprehensive Income, is the sum of net income as reported in the Questar Pipeline Consolidated Statements of Income and OCI. OCI includes interest rate cash flow hedges and income taxes. These transactions are not the culmination of the earnings process but result from periodically adjusting historical balances to fair value. Income or loss is recognized as the company records interest expense for hedged interest payments. The component of consolidated AOCI, net of income taxes, as reported in Questar Pipeline's Condensed Consolidated Balance Sheets, is shown below:

	Sept. 30, 2012 (in millions)	Sept. 30, 2011	Dec. 31, 2011
Interest rate cash flow hedges	\$ (23.2 )	\$ (22.8 )	\$ (23.4 )
Accumulated other comprehensive (loss)	\$ (23.2 )	\$ (22.8 )	\$ (23.4 )

Note 4 - Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income 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 and the distribution of restricted stock units and performance shares that are part of the Company's Long-Term Stock Incentive Plan (LTSIP), less shares repurchased under the treasury stock method. Restricted stock and vested restricted stock units are participating securities for the computation of earnings per share. The application of the two-class method had an insignificant impact on the calculation of both basic and diluted EPS. A reconciliation of the components of basic and diluted shares used in the EPS calculation follows:

	3 Months Ended September 30, 2012		9 Months Ended September 30, 2012		12 Months Ended September 30, 2012	
	2012	2011	2012	2011	2012	2011
	(in millions)					
Weighted-average basic common shares outstanding	175.4	177.5	177.0	177.3	177.2	177.1
Potential number of shares issuable under the Company's LTSIP	1.1	1.4	1.1	1.4	1.1	1.7
Weighted-average diluted common shares outstanding	176.5	178.9	178.1	178.7	178.3	178.8

Note 5 - Asset Retirement Obligations

Questar records an asset retirement obligation (ARO) when there is a legal obligation associated with the retirement of a tangible long-lived asset. At Questar, AROs apply primarily to abandonment costs associated with gas and oil wells,

production facilities and certain other properties. The Company has not capitalized future abandonment costs on a majority of its long-lived transportation and distribution assets because the Company does not have a legal obligation to restore the area surrounding abandoned assets. The fair value of retirement costs is estimated by Company personnel based on abandonment costs of similar properties available to field operations and depreciated over the life of the related assets. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. Income or expense resulting from the settlement of ARO liabilities is included in net gain (loss) from asset sales in 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 Questar's AROs from the Consolidated Balance Sheets were as follows:

	9 Months Ended	
	September 30,	
	2012	2011
	(in millions)	
ARO at beginning of year	\$63.8	\$60.9
Accretion	2.3	2.3
Liabilities incurred	2.2	0.9
Revisions in estimated cash flows	(1.2	) 2.4
Liabilities settled	(0.8	) (2.0
ARO at September 30,	\$66.3	\$64.5

Wexpro collects from Questar Gas and deposits in trust certain funds related to AROs. The funds are recorded as other noncurrent assets and used to satisfy retirement obligations as the properties are abandoned. The accounting treatment of reclamation activities associated with AROs for properties administered under the Wexpro Agreement is defined in a guideline letter between Wexpro and the Utah Division of Public Utilities and the Staff of the Public Service Commission of Wyoming (PSCW).

#### Note 6 - Fair Value Measurements

Questar complies with the provisions of the accounting standards for fair value measurements and disclosures. The standards establish a fair value hierarchy. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets 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 Company had no assets or liabilities measured using Level 3 inputs at September 30, 2012, September 30, 2011 or December 31, 2011.

Beginning in 2012, Questar adopted fair value accounting guidance issued in May 2011. The guidance did not result in any changes to the reported amounts of assets or liabilities, but did result in disclosure of the fair value hierarchy levels associated with fair value estimates for financial assets and liabilities not carried at fair value.

#### Questar

The following table discloses the carrying amount, estimated fair value, and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to Questar's financial statements in this Quarterly Report on Form 10-Q:

	Hierarchy Level of Fair Value Estimates	Carrying	Estimated	Carrying	Estimated	Carrying	Estimated
		Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
		Sept. 30, 2012		Sept. 30, 2011		Dec. 31, 2011	
		(in millions)					
Financial assets							
Cash and cash equivalents	1	\$—	\$—	\$—	\$—	\$11.6	\$11.6
Long-term investment	1	15.0	15.0	14.1	14.1	14.4	14.4
Financial liabilities							
Checks outstanding in excess of cash balances	1	5.4	5.4	9.6	9.6	—	—
Short-term debt	1	263.0	263.0	278.0	278.0	219.0	219.0

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Long-term debt, including current portion	2	1,057.9	1,237.5	906.4	1,013.9	1,084.5	1,223.4
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The carrying amounts of cash and cash equivalents, checks outstanding in excess of cash balances and short-term debt

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approximate fair value. The long-term investment is recorded at fair value and consists of money market and short-term bond index mutual funds held in Wexpro's trust (see Note 5). The fair value of the long-term investment is based on quoted prices for the underlying funds. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using the Company's current credit-risk adjusted borrowing rates.

The fair values of the Company's derivative instruments are the same as their carrying amounts, and are disclosed in Note 7. The fair values of derivative instruments, which consist entirely of spot and forward starting interest rate swaps, are estimated using a standard discounted cash flow model using observable market-based forward interest rates obtained from third-party financial institutions, and are considered Level 2 fair value measurements.

#### Questar Gas

The following table discloses the carrying amount, estimated fair value, and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to Questar Gas's financial statements in this Quarterly Report on Form 10-Q:

	Hierarchy Level of Fair Value Estimates	Carrying	Estimated	Carrying	Estimated	Carrying	Estimated
		Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
		Sept. 30, 2012		Sept. 30, 2011		Dec. 31, 2011	
		(in millions)					
Financial assets							
Cash and cash equivalents	1	\$—	\$—	\$—	\$—	\$5.0	\$5.0
Financial liabilities							
Checks outstanding in excess of cash balances	1	2.0	2.0	3.2	3.2	—	—
Notes payable to Questar	1	206.6	206.6	97.9	97.9	142.7	142.7
Long-term debt, including current portion	2	343.0	426.3	368.0	431.7	368.0	445.4

The carrying amounts of cash and cash equivalents, checks outstanding in excess of cash balances and notes payable to Questar approximate fair value. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using Questar Gas's current credit-risk adjusted borrowing rates.

#### Questar Pipeline

The following table discloses the carrying amount, estimated fair value, and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to Questar Pipeline's financial statements in this Quarterly Report on Form 10-Q:

	Hierarchy Level of Fair Value Estimates	Carrying	Estimated	Carrying	Estimated	Carrying	Estimated
		Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
		Sept. 30, 2012		Sept. 30, 2011		Dec. 31, 2011	
		(in millions)					
Financial assets							
Cash and cash equivalents	1	\$0.4	\$0.4	\$0.4	\$0.4	\$3.4	\$3.4
Notes receivable from Questar	1	42.0	42.0	—	—	8.8	8.8
Financial liabilities							
Notes payable to Questar	1	—	—	130.3	130.3	—	—
Long-term debt	2	458.9	547.8	280.9	329.1	459.0	519.4

The carrying amounts of cash and cash equivalents, notes receivable from Questar and notes payable to Questar approximate fair value. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using Questar Pipeline's current credit-risk adjusted borrowing rates.

The fair values of the company's derivative instruments are the same as their carrying amounts, and are disclosed in Note 7. The fair values of derivative instruments, which consist entirely of forward starting interest rate swaps, are estimated using a standard discounted cash flow model using observable market-based forward interest rates obtained from third-party financial institutions, and are considered Level 2 fair value measurements.

#### Note 7 - Derivative Instruments and Hedging Activities

Questar and its subsidiaries may enter into derivative instruments to manage exposure to changes in current and future market interest rates. In order to mitigate its exposure to changes in the fair value of its fixed-rate corporate debt resulting from changes in benchmark interest rates, in the second quarter of 2011 Questar executed a fixed-to-floating interest rate swap transaction with a counterparty and converted \$125.0 million of its 2.75% fixed rate long-term debt to floating rate debt. The 2.75% rate was swapped for a London Interbank Offered Rate (LIBOR)-based floating rate. Questar terminated and settled this hedge transaction in March 2012, for a deferred gain of \$7.2 million, which is being amortized to interest expense through the maturity of the notes in 2016. Prior to its termination, this swap was accounted for as a fair value hedge under the accounting standards for derivatives and hedging.

Questar Pipeline entered into forward starting swaps totaling \$150.0 million in the second and third quarters of 2011 in anticipation of issuing \$180.0 million of notes in December 2011. Settlement of these swaps required payments of \$37.3 million because of declines in interest rates. These swaps qualified as cash flow hedges and the settlement payments are being amortized to interest expense over the 30-year life of the debt.

All derivative instruments are required to be recorded on the balance sheet as either assets or liabilities measured at fair value. The designation of a derivative instrument as a hedge and its ability to meet hedge accounting criteria determines how the changes in fair value of the derivative instrument are reflected in the consolidated financial statements. A derivative instrument qualifies for fair value hedge accounting if, at inception and throughout its life, the derivative is expected to be highly effective in offsetting the changes in fair value of the hedged debt attributable to the hedged interest rate. Changes in the fair value of a derivative instrument qualifying and designated as a fair value hedge as well as the offsetting changes in the fair value of the hedged debt attributable to the hedged interest rate are recorded currently in the Consolidated Statements of Income. A derivative instrument qualifies for cash flow hedge accounting if, at inception and throughout its life, the derivative is expected to be highly effective in offsetting the changes in expected cash flows of the hedged interest payments. Changes in the effective portion of the fair value of a derivative instrument qualifying and designated as a cash flow hedge are initially recorded as a component of OCI in the period and remain in AOCI on the Consolidated Balance Sheets until they are reclassified into earnings as the Company records interest expense for the hedged interest payments. Ineffective portions of a qualifying and designated cash flow hedge are recorded immediately in earnings. Questar reports derivative instruments on the Consolidated Balance Sheets at their fair values on a gross basis and derivative positions with the same counterparty are not netted.

Interest rate swaps and forward starting interest rate swaps are settled in cash on periodic payment dates with one party paying the other for the net difference between the fixed and floating interest rate for the payment period as specified in the swap agreement, multiplied by the notional amount. Forward starting interest rate swaps used as cash flow hedges of forecasted fixed-rate debt issuances are terminated and settled in cash when the forecasted debt is issued or as the swaps expire, with one party paying the other for the swap's net fair value at the time of settlement. Questar reports cash flows related to derivative instruments qualifying and designated as hedges in the Consolidated Statements of Cash Flows based upon the nature of the hedged items.

The following table presents the pre-tax effects of the derivative instruments designated as a fair value hedge (including the hedged item) and cash flow hedges on the Consolidated Statements of Income as well as the pre-tax effects of the derivative instruments designated as cash flow hedges on OCI:



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Instrument and Activity	Financial Statement Location of Gain (Loss)	3 Months Ended		9 Months Ended		12 Months Ended	
		September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(in millions)							
Fair Value Hedge							
Questar Corporation							
Interest rate derivative instrument							
Realized gain	Interest expense	\$—	\$5.2	\$—	\$9.1	\$0.7	\$9.1
2.75% Notes due 2016							
Unrealized loss	Interest expense	—	(5.2 )	—	(9.1 )	(0.7 )	(9.1 )
Cash Flow Hedges							
Questar Pipeline							
Interest rate derivative instruments							
Deferrals of effective portions	OCI	—	(37.0 )	—	(36.2 )	(1.1 )	(36.2 )
Losses reclassified from AOCI into earnings for effective portions	Interest expense	(0.2 )	—	(0.4 )	—	(0.5 )	—

There was no ineffectiveness recognized on the fair value hedge for the three, nine and 12 months ended September 30, 2012 and 2011. There was no ineffectiveness recognized on the cash flow hedges for the three and nine months ended September 30, 2012. Ineffectiveness recognized on the cash flow hedges was de minimis in the 12 months ended September 30, 2012 and the three, nine and 12 months ended September 30, 2011. Reclassifications into earnings of amounts reported in AOCI will continue as interest expense is recorded for the hedged interest payments through maturity in 2041. Pre-tax net losses of \$0.4 million are expected to be reclassified from AOCI to the Consolidated Statements of Income in the next 12 months. As of September 30, 2012, the Company is not hedging any exposure to variability in future cash flows of forecasted transactions.

The following table discloses the Level 2 fair values of the asset and liability derivative instruments designated as hedges in the Condensed Consolidated Balance Sheets:

Instrument	Balance Sheet Location	Sept. 30, 2012	Sept. 30, 2011	Dec. 31, 2011
(in millions)				
Assets				
Questar Corporation				
Interest rate derivative instrument				
	Prepaid expenses and other	\$—	\$0.5	\$1.1
	Other noncurrent assets	—	7.7	7.8
Consolidated total - derivative assets		\$—	\$8.2	\$8.9
Liabilities				
Questar Pipeline				
Interest rate derivative instruments				
	Accounts payable and accrued expenses	\$—	\$36.2	\$—
Consolidated total - derivative liabilities		\$—	\$36.2	\$—

Note 8 - Share-Based Compensation

Questar may issue stock options, restricted shares, restricted stock units and performance shares to certain officers, employees and non-employee directors under its LTSIP. Questar recognizes expense over time as the stock options, restricted shares, restricted stock units and performance shares vest. Total share-based compensation expense amounted to \$7.5 million for the first nine months of 2012 compared to \$8.0 million in 2011. Deferred share-based compensation, representing the unvested value of restricted share awards and restricted stock unit awards, amounted to \$4.3 million at September 30, 2012. Deferred share-based compensation is included in common stock on the Condensed Consolidated Balance Sheets. For the first nine months, cash flow from income tax benefits in excess of recognized compensation expense amounted to \$8.1 million in 2012

compared to \$5.3 million in 2011. There were 6,750,294 shares available for future grants at September 30, 2012.

Unvested stock options decreased by 88,396 shares to 29,398 shares in the first nine months of 2012. Questar did not grant any stock options in the first nine months of 2012. Stock-option transactions under the terms of the LTSIP are summarized below:

	Options Outstanding	Price Range	Weighted-average Price
Balance at December 31, 2011	1,773,635	\$3.70 - \$17.35	\$ 8.54
Exercised	(466,040)	) 3.70 - 13.10	5.34
Balance at September 30, 2012	1,307,595	\$4.37 - \$17.35	\$ 9.68

Options Outstanding		Options Exercisable		Unvested Options	
Range of exercise prices	Number outstanding at Sept. 30, 2012	Weighted-average remaining term in years	Weighted-average exercisable exercise price at Sept. 30, 2012	Number exercisable at Sept. 30, 2012	Weighted-average unvested at Sept. 30, 2012
\$4.37 - \$7.84	489,888	0.7	\$ 5.07	489,888	\$—
11.40 - 12.43	489,174	2.4	11.72	489,174	—
13.10 - 17.35	328,533	3.8	13.52	299,135	29,398
	1,307,595	2.1	\$ 9.68	1,278,197	\$13.10

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 remaining vesting period of unvested restricted shares at September 30, 2012, was 15 months. Transactions involving restricted shares under the terms of the LTSIP are summarized below:

	Restricted Shares Outstanding	Price Range	Weighted-average Price
Balance at December 31, 2011	771,550	\$11.40 - \$17.97	\$ 16.22
Granted	358,078	19.39 - 20.90	19.39
Distributed	(325,567)	) 11.40 - 19.39	16.03
Forfeited	(9,321)	) 13.10 - 19.39	17.76
Balance at September 30, 2012	794,740	\$13.10 - \$20.90	\$ 17.71

Restricted stock unit grants typically vest in equal installments over a three-year period from the grant date. At September 30, 2012, Questar's outstanding restricted stock units totaled 70,824 with a weighted-average price of \$15.46 per share and a weighted-average remaining vesting period of nine months.

In the first quarter of 2012, Questar granted to certain Company executive officers a total of 136,846 performance shares under the terms of the LTSIP. The awards were designed to motivate and reward these executives for long-term Company performance and provide an incentive for them to remain with the Company. The target number of performance shares for each executive officer is subject to adjustment upward or downward based on the Company's performance over the three-year performance period ending December 31, 2014 with respect to specified performance criteria relative to a specified peer group of companies. The actual performance shares awarded, if any, will be distributed in the first quarter of 2015 so long as such executive officer was employed by the Company or its affiliates as of December 31, 2014. Half of any award will be distributed in shares of Company common stock and half in cash. The Monte Carlo simulation method was used to estimate the grant-date fair value of the performance share awards at

\$25.42 per share. Equity- and liability-based performance share compensation expense amounted to \$1.4 million in the first nine months of 2012 and \$0.6 million in the first nine months of 2011.

Note 9 - Operations by Line of Business

Questar's three complementary lines of business include Questar Gas, which provides retail natural gas distribution in Utah,



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Wyoming and Idaho; Wexpro, which develops and produces natural gas from cost-of-service reserves for Questar Gas; and Questar Pipeline, which operates interstate natural gas pipelines and storage facilities. Line-of-business information is presented according to senior management's basis for evaluating performance and considering differences in the nature of products, services and regulation, among other factors. Following is a summary of operations by line of business:

	3 Months Ended		9 Months Ended		12 Months Ended	
	September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011
	(in millions)					
<b>Revenues from Unaffiliated Customers</b>						
Questar Gas	\$82.5	\$89.8	\$578.7	\$667.7	\$876.5	\$970.4
Wexpro	9.8	6.9	27.1	23.1	35.5	31.1
Questar Pipeline	49.5	50.0	150.1	148.8	198.7	200.8
Total	\$141.8	\$146.7	\$755.9	\$839.6	\$1,110.7	\$1,202.3
<b>Revenues from Affiliated Companies</b>						
Questar Gas	\$0.5	\$0.4	\$2.3	\$2.2	\$3.4	\$2.7
Wexpro	69.3	64.4	204.6	186.4	271.8	247.5
Questar Pipeline	18.4	18.5	55.2	55.8	73.8	74.3
Total	\$88.2	\$83.3	\$262.1	\$244.4	\$349.0	\$324.5
<b>Operating Income (Loss)</b>						
Questar Gas	\$(10.7 )	\$(7.9 )	\$52.6	\$56.6	\$90.1	\$95.8
Wexpro	41.0	37.7	117.9	108.3	155.3	143.1
Questar Pipeline	32.6	33.9	95.2	94.9	126.2	129.0
Corporate and other	0.7	0.1	1.4	0.5	2.1	0.2
Total	\$63.6	\$63.8	\$267.1	\$260.3	\$373.7	\$368.1
<b>Net Income (Loss)</b>						
Questar Gas	\$(9.3 )	\$(7.9 )	\$23.3	\$25.9	\$43.5	\$48.0
Wexpro	26.4	25.6	76.5	71.6	100.1	94.3
Questar Pipeline	17.1	18.8	49.8	50.7	67.0	68.7
Corporate and other	(0.4 )	(0.4 )	(1.4 )	(1.9 )	(0.8 )	(1.0 )
Total	\$33.8	\$36.1	\$148.2	\$146.3	\$209.8	\$210.0

Note 10 - Employee Benefits

Questar has defined-benefit pension and life insurance plans covering a majority of its employees. On July 1, 2010, Questar closed its defined-benefit pension plan to new hires or rehires. The Company previously closed its postretirement medical coverage and life insurance plan to employees hired or rehired after January 1, 1997, and established maximum amounts paid by the Company.

Questar is subject to and complies with minimum-required and maximum-allowed annual contribution levels for its qualified pension plan as determined by the Employee Retirement Income Security Act and Internal Revenue Code. The 2012 estimated qualified pension expense is \$34.6 million. The projected 2012 qualified pension plan funding is \$78.6 million.

The Company also has a nonqualified pension plan for eligible employees who participate in the qualified pension plan, which provides a "make-up" benefit due to the limits on compensation that can be taken into account in determining benefits under the qualified pension plan. The nonqualified pension plan is unfunded; claims are paid from the Company's general funds. The 2012 nonqualified pension plan expense is estimated to be \$3.9 million. Components of the qualified and nonqualified pension expense included in the determination of net income are listed in the table below:

	3 Months Ended September 30,		9 Months Ended September 30,		12 Months Ended September 30,	
	2012	2011	2012	2011	2012	2011
	(in millions)					
Service cost	\$3.2	\$2.2	\$9.7	\$6.6	\$12.4	\$8.7
Interest cost	7.8	7.1	23.3	21.3	30.5	27.7
Expected return on plan assets	(8.0 )	(6.3 )	(23.7 )	(18.9 )	(30.8 )	(24.9 )
Prior service and other costs	0.3	0.3	0.8	0.9	1.0	1.1
Recognized net actuarial loss	5.4	2.6	16.2	7.8	20.5	9.7
Curtailment costs	0.1	—	0.3	—	1.1	1.0
Pension expense	\$8.8	\$5.9	\$26.6	\$17.7	\$34.7	\$23.3

The Company currently estimates a \$6.0 million expense for postretirement benefits other than pensions in 2012 before \$0.8 million for accretion of a regulatory liability. Postretirement benefit expense components are listed in the table below:

	3 Months Ended September 30,		9 Months Ended September 30,		12 Months Ended September 30,	
	2012	2011	2012	2011	2012	2011
	(in millions)					
Service cost	\$0.2	\$0.2	\$0.5	\$0.5	\$0.5	\$0.6
Interest cost	1.0	1.1	2.8	3.3	3.7	4.3
Expected return on plan assets	(0.6 )	(0.7 )	(1.7 )	(2.0 )	(2.3 )	(2.6 )
Amortization of transition obligation	0.4	0.4	1.2	1.3	1.8	1.8
Amortization of losses	0.5	0.2	1.6	0.5	1.4	0.6
Accretion of regulatory liability	0.2	0.2	0.6	0.6	0.8	0.8
Curtailment costs	—	—	—	—	—	0.3
Postretirement benefits expense	\$1.7	\$1.4	\$5.0	\$4.2	\$5.9	\$5.8

## 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 2011 Form 10-K and analyzes the changes in the results of operations between the three, nine and 12 months ended September 30, 2012, and September 30, 2011. For definitions of commonly used terms found in this Quarterly Report on Form 10-Q, please refer to the "Glossary of Commonly Used Terms" provided in Questar's 2011 Form 10-K.

### RESULTS OF OPERATIONS

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

	3 Months Ended Sept. 30,			9 Months Ended Sept. 30,			12 Months Ended Sept. 30,		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
	(in millions, except per-share amounts)								
Questar Gas	\$(9.3 )	\$(7.9 )	\$(1.4 )	\$23.3	\$25.9	\$(2.6 )	\$43.5	\$48.0	\$(4.5 )
Wexpro	26.4	25.6	0.8	76.5	71.6	4.9	100.1	94.3	5.8
Questar Pipeline	17.1	18.8	(1.7 )	49.8	50.7	(0.9 )	67.0	68.7	(1.7 )
Corporate and other	(0.4 )	(0.4 )	—	(1.4 )	(1.9 )	0.5	(0.8 )	(1.0 )	0.2
Net income	\$33.8	\$36.1	\$(2.3 )	\$148.2	\$146.3	\$1.9	\$209.8	\$210.0	\$(0.2 )
Earnings per share - diluted	\$0.19	\$0.20	\$(0.01 )	\$0.83	\$0.82	\$0.01	\$1.18	\$1.17	\$0.01
Average diluted shares	176.5	178.9	(2.4 )	178.1	178.7	(0.6 )	178.3	178.8	(0.5 )

#### QUESTAR GAS

Questar Gas reported a seasonal net loss of \$9.3 million in the third quarter of 2012 compared to a net loss of \$7.9 million in the third quarter of 2011. Questar Gas net income was \$23.3 million in the first nine months of 2012 compared to \$25.9 million in the first nine months of 2011. Net income was \$43.5 million in the 12 months ended September 30, 2012, compared to \$48.0 million in the year-earlier period. Questar Gas, because of the seasonal nature of its business, typically reports income in the first and fourth quarters of the year and losses in the second and third quarters of the year. Following is a summary of Questar Gas financial and operating results:

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	3 Months Ended Sept. 30, 2012			9 Months Ended Sept. 30, 2012			12 Months Ended Sept. 30, 2012		
	2011	Change	2011	2011	Change	2011	2011	Change	
	(in millions)								
Net Income									
Revenues									
Residential and commercial sales	\$67.0	\$70.9	\$(3.9 )	\$528.4	\$613.8	\$(85.4 )	\$807.6	\$900.8	\$(93.2 )
Industrial sales	5.8	7.4	(1.6 )	18.6	21.9	(3.3 )	26.4	29.6	(3.2 )
Transportation for industrial customers	3.2	3.1	0.1	8.7	8.4	0.3	11.6	9.9	1.7
Service	0.9	1.1	(0.2 )	3.6	4.1	(0.5 )	4.6	4.7	(0.1 )
Other	6.1	7.7	(1.6 )	21.7	21.7	—	29.7	28.1	1.6
Total revenues	83.0	90.2	(7.2 )	581.0	669.9	(88.9 )	879.9	973.1	(93.2 )
Cost of natural gas sold	44.7	52.0	(7.3 )	356.4	450.5	(94.1 )	551.6	656.6	(105.0 )
Margin	38.3	38.2	0.1	224.6	219.4	5.2	328.3	316.5	11.8
Other Operating Expenses									
Operating and maintenance	21.4	20.8	0.6	87.2	82.6	4.6	123.1	112.6	10.5
General and administrative	12.1	10.1	2.0	36.5	34.9	1.6	52.6	49.5	3.1
Depreciation and amortization	11.4	11.1	0.3	35.0	32.9	2.1	46.6	43.5	3.1
Other taxes	4.1	4.1	—	13.3	12.4	0.9	15.9	15.1	0.8
Total Other Operating Expenses	49.0	46.1	2.9	172.0	162.8	9.2	238.2	220.7	17.5
OPERATING INCOME (LOSS)	(10.7 )	(7.9 )	(2.8 )	52.6	56.6	(4.0 )	90.1	95.8	(5.7 )
Interest and other income	1.4	1.4	—	3.8	4.3	(0.5 )	4.9	6.1	(1.2 )
Interest expense	(5.8 )	(6.4 )	0.6	(19.1 )	(19.5 )	0.4	(25.5 )	(26.2 )	0.7
Income taxes	5.8	5.0	0.8	(14.0 )	(15.5 )	1.5	(26.0 )	(27.7 )	1.7
NET INCOME (LOSS)	\$(9.3 )	\$(7.9 )	\$(1.4 )	\$23.3	\$25.9	\$(2.6 )	\$43.5	\$48.0	\$(4.5 )
Operating Statistics									
Natural gas volumes (MMdth)									
Residential and commercial sales	7.3	7.7	(0.4 )	64.3	75.9	(11.6 )	101.7	110.6	(8.9 )
Industrial sales	1.2	1.4	(0.2 )	3.6	3.7	(0.1 )	4.9	4.8	0.1
Transportation for industrial customers	15.4	13.0	2.4	45.8	38.3	7.5	60.0	53.2	6.8
Total industrial	16.6	14.4	2.2	49.4	42.0	7.4	64.9	58.0	6.9
Total deliveries	23.9	22.1	1.8	113.7	117.9	(4.2 )	166.6	168.6	(2.0 )
Natural gas revenue (per dth)									
Residential and commercial sales	\$9.27	\$9.19	\$0.08	\$8.22	\$8.09	\$0.13	\$7.94	\$8.15	\$(0.21 )
Industrial sales	4.93	5.89	(0.96 )	5.16	6.02	(0.86 )	5.40	6.14	(0.74 )
Transportation for industrial customers	0.21	0.24	(0.03 )	0.19	0.22	(0.03 )	0.19	0.19	—
Colder (warmer) than normal temperatures	(90%)	(98%)	8%	(16%)	11%	(27%)	(9%)	4%	(13%)
Temperature-adjusted usage per customer (dth)	7.1	7.6	(0.5 )	73.5	74.6	(1.1 )	110.0	110.7	(0.7 )
Customers at Sept. 30, (in thousands)	925	913	12						

Margin Analysis

Questar Gas margin (revenues minus gas costs) increased \$0.1 million in the third quarter of 2012 compared to the third quarter of 2011, increased \$5.2 million in the first nine months of 2012 compared to the first nine months of 2011 and increased \$11.8

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million in the 12 months ended September 30, 2012 compared to the 12 months ended September 30, 2011. Following is a summary of major changes in Questar Gas margin:

	3 Months 2012 vs. 2011	9 Months 2012 vs. 2011	12 Months 2012 vs. 2011
	(in millions)		
Customer growth	\$0.4	\$2.4	\$3.5
Feeder line cost recovery	0.5	3.5	5.7
Demand-side management cost recovery	(0.6	) 1.9	4.4
Recovery of gas-cost portion of bad-debt costs	0.3	(1.4	) (2.0
Other	(0.5	) (1.2	) 0.2
Increase	\$0.1	\$5.2	\$11.8

On September 30, 2012, Questar Gas served 925,386 customers, up 1.4% from 912,698 at September 30, 2011. Customer growth increased the margin by \$0.4 million in the third quarter of 2012, \$2.4 million in the first nine months of 2012 and \$3.5 million in the 12 months ended September 30, 2012.

Questar Gas has benefited from a conservation-enabling (revenue decoupling) tariff since 2006. Under this tariff, Questar Gas is allowed to earn a margin for each general-service customer. Differences between the margin and the amount billed to customers are recovered from customers or refunded to customers through future rate changes. Because of this tariff, changes in usage per customer do not impact the company's margin. In addition, a weather-normalization adjustment of customer bills offsets the revenue impact of temperature variations.

A 2010 rate case stipulation approved an infrastructure cost-tracking mechanism that allows the company to place into rate base and earn on capital expenditures associated with a multi-year high-pressure natural gas feeder-line replacement program, and do it immediately upon the completion of each project. Questar Gas recognized \$0.5 million of increased margin due to the infrastructure tracking mechanism in the third quarter of 2012, \$3.5 million in the first nine months of 2012 and \$5.7 million in the 12 months ended September 30, 2012.

Questar Gas margin increased during the nine- and 12-month periods ended September 30, 2012, due to higher recovery of demand-side management costs used to promote energy conservation by customers. Changes in the margin contribution from demand-side management recovery revenues are offset by equivalent changes in program expenses.

#### Expenses

Cost of natural gas sold decreased 14% in the third quarter of 2012, 21% in the first nine months of 2012 and 16% in the 12 months ended September 30, 2012, compared to the same periods of 2011 due to lower volumes and lower rates. 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 September 30, 2012, Questar Gas had a \$27.2 million under-collected balance in the purchased-gas adjustment account representing costs incurred in excess of costs recovered from customers. During the second quarter of 2012, Questar Gas credited \$43.0 million of its over-collected balance to customers.

Operating and maintenance expenses increased \$0.6 million in the third quarter of 2012, increased \$4.6 million in the first nine months of 2012 and increased \$10.5 million in the 12 months ended September 30, 2012, compared to the same periods of 2011. These increases included higher demand-side management costs of \$1.9 million and \$4.4 million for the nine- and 12-month periods, respectively. The demand-side management costs are for the company's energy efficiency program and are recovered from customers through periodic rate changes. General and

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administrative expenses increased \$2.0 million in the 2012 third quarter, increased \$1.6 million in the 2012 first nine months and increased \$3.1 million in the 12 months ended September 30, 2012, compared to the prior year periods. The increases were due to higher employee and corporate allocated costs. Operating, maintenance, general and administrative expenses per customer, exclusive of demand-side management costs, were \$145 in the 12 months ended September 30, 2012, compared to \$137 in the 12 months ended September 30, 2011.

Other taxes were flat in the third quarter of 2012 compared to the third quarter of 2011. Other taxes increased 7% in the first nine months of 2012 and increased 5% in the 12 months ended September 30, 2012, compared to year-earlier periods due to increased property taxes.



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Depreciation and amortization expense increased 3% in the third quarter of 2012, increased 6% in the first nine months of 2012 and increased 7% in the 12 months ended September 30, 2012, compared to the 2011 periods. The higher depreciation was caused by plant additions driven by customer growth and feeder line replacements.

WEXPRO

Wexpro reported net income of \$26.4 million in the third quarter of 2012 compared to \$25.6 million in the third quarter of 2011, a 3% increase. Wexpro earned \$76.5 million in the first nine months of 2012 compared to \$71.6 million in the first nine months of 2011. Wexpro earned \$100.1 million for the 12 months ending September 30, 2012 compared to \$94.3 million for the year-earlier period. Following is a summary of Wexpro financial and operating results:

	3 Months Ended Sept. 30, 2012 2011 Change (in millions)			9 Months Ended Sept. 30, 2012 2011 Change			12 Months Ended Sept. 30, 2012 2011 Change		
Net Income									
Revenues									
Operator service fee	\$70.3	\$64.6	\$5.7	\$204.2	\$187.0	\$17.2	\$270.7	\$248.9	\$21.8
Oil and NGL sales	8.8	7.0	1.8	27.3	22.5	4.8	36.1	29.6	6.5
Other	—	(0.3 )	0.3	0.2	—	0.2	0.5	0.1	0.4
Total Revenues	79.1	71.3	7.8	231.7	209.5	22.2	307.3	278.6	28.7
Operating Expenses									
Operating and maintenance	6.3	5.4	0.9	19.7	16.0	3.7	26.0	21.9	4.1
General and administrative	7.1	5.3	1.8	20.0	17.1	2.9	27.1	22.4	4.7
Production and other taxes	4.2	6.4	(2.2 )	16.1	18.5	(2.4 )	23.2	24.5	(1.3 )
Depreciation, depletion and amortization	20.0	16.1	3.9	58.2	47.4	10.8	74.7	63.7	11.0
Oil income sharing	0.5	0.4	0.1	2.3	2.2	0.1	3.4	2.7	0.7
Total Operating Expenses	38.1	33.6	4.5	116.3	101.2	15.1	154.4	135.2	19.2
Net gain (loss) from asset sales	—	—	—	2.5	—	2.5	2.4	(0.3 )	2.7
OPERATING INCOME	41.0	37.7	3.3	117.9	108.3	9.6	155.3	143.1	12.2
Interest and other income	0.3	2.2	(1.9 )	1.8	3.4	(1.6 )	2.6	4.2	(1.6 )
Interest expense	—	—	—	—	—	—	—	(0.1 )	0.1
Income taxes	(14.9 )	(14.3 )	(0.6 )	(43.2 )	(40.1 )	(3.1 )	(57.8 )	(52.9 )	(4.9 )
NET INCOME	\$26.4	\$25.6	\$0.8	\$76.5	\$71.6	\$4.9	\$100.1	\$94.3	\$5.8
Operating Statistics									
Production volumes									
Natural gas (Bcf)	14.6	12.6	2.0	43.9	37.1	6.8	57.3	49.8	7.5
Oil and NGL (Mbbbl)	164	105	59	483	310	173	640	423	217
Oil and NGL average sales price (per bbl)	\$77.70	\$75.95	\$1.75	\$82.10	\$82.43	\$(0.33 )	\$81.90	\$79.48	\$2.42
Investment base at Sept. 30, (in millions)	\$530.0	\$464.2	\$65.8						

Revenues

Wexpro earned a 19.9% after-tax return on its average investment base for the 12 months ended September 30, 2012. Wexpro 2012 operating results benefited from a higher average investment base compared to the prior year period. Pursuant to the terms of a long-standing agreement referred to as the Wexpro Agreement, Wexpro recovers its costs and receives an after-tax return on its investment base. Wexpro's investment base includes its costs of commercial

wells and related facilities adjusted for working capital and reduced for deferred income taxes and accumulated depreciation, depletion and amortization. The investment base grew in the 12 months ended September 30, 2012, but the increase due to investment in commercial wells was partially offset by increased deferred taxes due to bonus depreciation allowed for income tax purposes. Following is a summary

of changes in the Wexpro investment base:

	12 Months Ended Sept. 30,	
	2012	2011
	(in millions)	
Beginning investment base	\$464.2	\$445.6
Successful development wells	171.4	97.1
Depreciation, depletion and amortization	(71.1	) (59.8
Deferred income taxes	(34.5	) (18.7
Ending investment base	\$530.0	\$464.2

Wexpro produced 14.6 Bcf of cost-of-service natural gas for Questar Gas during the third quarter of 2012, up 16% from the third quarter of 2011. Wexpro produced 43.9 Bcf in the first nine months of 2012 compared to 37.1 Bcf in the first nine months of 2011. Wexpro produced 57.3 Bcf of cost-of-service gas in the 12 months ending September 30, 2012, compared to 49.8 Bcf in the 12 months ended September 30, 2011. On an annual basis, Wexpro natural gas production provides more than half of Questar Gas's supply requirements.

Revenues from oil and NGL sales increased 26% in the third quarter of 2012 over the third quarter of 2011, were up 21% in the first nine months of 2012 over the first nine months of 2011 and were up 22% in the 12 months ended September 30, 2012 over the year-earlier period. The increases were due to higher production volumes. The increase in revenues was partially offset by higher oil-related operating and maintenance expenses. Increased oil and NGL sales caused an increase in the sharing of oil income with Questar Gas customers under the terms of the Wexpro Agreement in the three, nine and 12 months ended September 30, 2012 compared to the three, nine and 12 months ended September 30, 2011.

#### Expenses

Operating and maintenance expenses were up 17% in the third quarter of 2012, up 23% in the first nine months of 2012 and up 19% in 12-month period ended September 30, 2012 compared to prior year periods due to higher production and increased spending on repairs and field costs. Lease operating expense per Mcfe was \$0.42 in the first nine months of 2012 compared to \$0.41 in the first nine months of 2011. General and administrative expenses were higher in the three-, nine- and 12-month periods ended September 30, 2012, compared to prior year periods. These increases are due to higher employee expenses. Production and other taxes were lower in the third quarter of 2012, lower in the first nine months of 2012 and lower in the 12 months ended September 30, 2012 compared to the prior-year periods due to changes in the value of natural gas, oil and NGL production.

Depreciation, depletion and amortization expense increased 24% in the third quarter of 2012, increased 23% in the first nine months of 2012 and increased 17% in the 12 months ended September 30, 2012, over the 2011 periods due to increased production volumes and investment in natural gas wells and facilities.

#### QUESTAR PIPELINE

Questar Pipeline reported third quarter 2012 net income of \$17.1 million compared with \$18.8 million in 2011, a 9% decrease. Questar Pipeline earned \$49.8 million in the first nine months of 2012, down 2% from \$50.7 million in the first nine months of 2011. Questar Pipeline earned \$67.0 million in the 12 months ended September 30, 2012, compared to \$68.7 million in the 12 months ended September 30, 2011. Following is a summary of Questar Pipeline financial and operating results:

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	3 Months Ended Sept. 30, 2012			9 Months Ended Sept. 30, 2012			12 Months Ended Sept. 30, 2012		
	2011	Change		2011	Change		2011	Change	
Net Income									
Revenues									
Transportation	\$48.5	\$49.2	\$(0.7 )	\$145.7	\$146.0	\$(0.3 )	\$194.9	\$193.2	\$1.7
Storage	9.5	9.4	0.1	28.7	28.6	0.1	38.4	38.0	0.4
NGL sales - transportation	1.3	2.8	(1.5 )	5.3	7.6	(2.3 )	6.6	11.1	(4.5 )
NGL sales - field services	2.4	2.0	0.4	7.1	6.8	0.3	8.6		