

QUESTAR CORP  
Form 10-Q  
August 05, 2008

**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 quarter ended June 30, 2008**

**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

**001-08796**  
Commission File No.

**87-0407509**  
(I.R.S. Employer

incorporation or organization)

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 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 July 31, 2008, 173,383,893 shares of the registrant's common stock, without par value, were outstanding.

**Questar Corporation**  
**Form 10-Q for the Quarter Ended June 30, 2008**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS.

#### QUESTAR CORPORATION

#### CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,	
	<b>2008</b>	2007	<b>2008</b>	2007
	(in millions, except per share amounts)			
<b>REVENUES</b>				
Market Resources	<b>\$ 654.4</b>	\$ 384.6	<b>\$1,264.6</b>	\$818.5
Questar Pipeline	<b>43.3</b>	30.4	<b>88.0</b>	62.1
Questar Gas	<b>159.5</b>	141.7	<b>549.7</b>	548.2
Total Revenues	<b>857.2</b>	556.7	<b>1,902.3</b>	1,428.8
<b>OPERATING EXPENSES</b>				
Cost of natural gas and other products sold				
(excluding operating expenses shown separately)	<b>258.0</b>	119.6	<b>706.6</b>	512.0
Operating and maintenance	<b>92.1</b>	72.7	<b>181.8</b>	150.4
General and administrative	<b>43.5</b>	42.1	<b>84.0</b>	79.3
Production and other taxes	<b>49.3</b>	27.2	<b>90.1</b>	57.0
Depreciation, depletion and amortization	<b>115.2</b>	92.6	<b>225.9</b>	183.7
Exploration	<b>3.8</b>	3.1	<b>7.3</b>	5.1
Abandonment and impairment	<b>14.2</b>	2.1	<b>16.8</b>	4.1
Total Operating Expenses	<b>576.1</b>	359.4	<b>1,312.5</b>	991.6
Net gain from asset sales	<b>3.5</b>	0.1	<b>3.4</b>	0.5

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Operating Income	<b>284.6</b>	197.4	<b>593.2</b>	437.7
Interest and other income	<b>8.3</b>	2.9	<b>10.3</b>	5.9
Minority interest	<b>(2.1)</b>		<b>(4.5)</b>	
Income from unconsolidated affiliates	<b>0.2</b>	2.2	<b>0.4</b>	4.4
Net mark-to-market gain (loss) on basis-only swaps	<b>16.3</b>	(6.6)	<b>30.0</b>	5.2
Interest expense	<b>(32.5)</b>	(17.7)	<b>(58.1)</b>	(35.7)
Income Before Income Taxes	<b>274.8</b>	178.2	<b>571.3</b>	417.5
Income taxes	<b>102.2</b>	66.0	<b>212.9</b>	154.2
Net Income	<b>\$ 172.6</b>	\$ 112.2	<b>\$ 358.4</b>	\$ 263.3

EARNINGS PER COMMON SHARE

Basic	<b>\$ 1.00</b>	\$ 0.65	<b>\$ 2.08</b>	\$ 1.53
Diluted	<b>0.98</b>	0.64	<b>2.03</b>	1.50
Weighted-Average Common Shares Outstanding				
Basic	<b>172.7</b>	172.0	<b>172.6</b>	171.8
Diluted	<b>176.3</b>	175.9	<b>176.3</b>	175.7
Dividends Per Common Share	<b>\$0.1225</b>	\$0.1225	<b>\$0.245</b>	\$ 0.24

See notes accompanying the consolidated financial statements

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## QUESTAR CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

	<b>June 30,</b>	
	<b>2008</b>	December 31,
	<b>(Unaudited)</b>	2007
	(in millions)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents		\$ 14.2
Accounts receivable, net	\$ 409.5	339.6
Unbilled-gas accounts receivable	12.2	78.2
Fair value of derivative contracts	4.2	78.1
Gas storage	44.1	66.1
Materials and supplies	71.6	48.9
Prepaid expenses and other	42.9	33.8
Purchased-gas adjustment	12.0	
Deferred income taxes - current	194.5	
Total Current Assets	791.0	658.9
Property, plant and equipment	9,172.2	7,741.9
Accumulated depreciation, depletion and amortization	(2,847.7)	(2,643.3)
Net Property, Plant and Equipment	6,324.5	5,098.6
Investment in unconsolidated affiliates	27.3	52.8
Goodwill	70.7	70.7
Regulatory assets	26.8	28.4
Fair value of derivative contracts		7.8
Other noncurrent assets, net	51.7	27.0
Total Assets	\$7,292.0	\$5,944.2
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Checks outstanding in excess of cash balances	\$ 14.4	
Short-term debt	151.1	\$ 260.6
Accounts payable and accrued expenses	545.8	564.5
Fair value of derivative contracts	457.6	9.3



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Purchased-gas adjustment		58.1
Deferred income taxes - current		4.9
Current portion of long-term debt	<b>58.3</b>	101.3
Total Current Liabilities	<b>1,227.2</b>	998.7
Long-term debt, less current portion	<b>1,920.9</b>	1,021.2
Deferred income taxes	<b>998.6</b>	942.4
Asset retirement obligations	<b>162.4</b>	149.1
Pension and postretirement benefits	<b>105.3</b>	103.5
Fair value of derivative contracts	<b>275.2</b>	22.1
Other long-term liabilities	<b>174.0</b>	129.3
Minority interest	<b>29.4</b>	
<b>COMMON SHAREHOLDERS' EQUITY</b>		
Common stock	<b>439.0</b>	429.3
Retained earnings	<b>2,489.9</b>	2,173.9
Accumulated other comprehensive loss	<b>(529.9)</b>	(25.3)
Total Common Shareholders' Equity	<b>2,399.0</b>	2,577.9
Total Liabilities and Common Shareholders' Equity	<b>\$7,292.0</b>	\$5,944.2

See notes accompanying the consolidated financial statements

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## QUESTAR CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	6 Months Ended June 30,	
	2008	2007
	(in millions)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 358.4	\$ 263.3
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation, depletion and amortization	229.7	187.0
Deferred income taxes	152.2	88.6
Share-based compensation	8.5	6.2
Abandonment and impairment	16.8	4.1
Net (gain) from asset sales	(3.4)	(0.5)
Minority interest	4.5	
(Income) from unconsolidated affiliates	(0.4)	(4.4)
Distributions from unconsolidated affiliates	0.2	3.2
Net mark-to-market (gain) on basis-only swaps	(30.0)	(5.2)
Changes in operating assets and liabilities	(56.4)	9.8
Net Cash Provided From Operating Activities	680.1	552.1
<b>INVESTING ACTIVITIES</b>		
Capital expenditures		
Property, plant and equipment	(1,424.2)	(587.0)
Other investments	(9.0)	(6.5)
Total Capital Expenditures	(1,433.2)	(593.5)
Cash used in disposition of assets	(3.0)	(0.8)
Proceeds from disposition of assets	33.3	5.8
Net Cash Used In Investing Activities	(1,402.9)	(588.5)
<b>FINANCING ACTIVITIES</b>		
Common stock issued	3.0	5.5

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Common stock repurchased	<b>(14.0)</b>	(7.9)
Long-term debt issued, net of issuance costs	<b>1,491.7</b>	
Long-term debt repaid	<b>(643.0)</b>	
Change in short-term debt	<b>(109.5)</b>	22.5
Checks outstanding in excess of cash balances	<b>14.4</b>	23.5
Distribution to minority interest	<b>(4.8)</b>	
Excess tax benefits from share-based compensation	<b>12.2</b>	9.6
Dividends paid	<b>(42.4)</b>	(41.4)
Other	<b>1.0</b>	
Net Cash Provided From Financing Activities	<b>708.6</b>	11.8
Change in cash and cash equivalents	<b>(14.2)</b>	(24.6)
Beginning cash and cash equivalents	<b>14.2</b>	24.6
Ending Cash and Cash Equivalents	<b>\$ -</b>	<b>\$ -</b>

See notes accompanying the consolidated financial statements

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QUESTAR CORPORATION

NOTES ACCOMPANYING THE 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 Company. 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 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 consolidated financial statements contain the accounts of Questar and its majority-owned or controlled subsidiaries. The 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.

The 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 consolidated financial statements do not include all of the information and notes required by GAAP for audited annual consolidated financial statements. These 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, 2007. Certain reclassifications were made to prior-period financial statements to conform with the current presentation. Rendezvous Gas Services, an affiliate, was consolidated beginning in 2008 as a result of a step acquisition caused by disproportionate ownership.

The preparation of the 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 six months ended June 30, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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 available to common shareholders 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 plus an estimated number of nonvested restricted shares.

A reconciliation of the components of basic and diluted shares used in the EPS calculation follows:



	3 Months Ended June 30,		6 Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Weighted-average basic common shares outstanding	172.7	172.0	172.6	171.8
Potential shares issuable under the Long-term Stock Incentive Plan	3.6	3.9	3.7	3.9
Average Diluted Common Shares Outstanding	176.3	175.9	176.3	175.7

#### 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 Statement of Financial Accounting Standards (SFAS) 123R Share-Based Payment. First-half share-based compensation expense was \$8.5 million in 2008 compared with \$6.2 million in 2007. At June 30, 2008, deferred share-based compensation was \$27.3 million, of which \$25.2 million was attributed to nonvested restricted stock. First-half cash flow from income tax benefits in excess of recognized compensation expense was \$12.2 million in 2008 and \$9.6 million in 2007. There were 9,852,531 shares available for future grant at June 30, 2008. Nonvested stock options increased by 30,000 shares in the first six months of 2008. The Company uses the Black-Scholes-Merton model in determining the value of stock options for accounting purposes. Stock-option transactions under the terms of the LTSIP are summarized below:

	Outstanding		Weighted-average	
	Options	Price Range	Price	
Balance at January 1, 2008	4,628,601	\$7.50 - \$41.08	\$15.42	
Granted	30,000	53.83	53.83	
Exercised	(574,448)	7.50 - 17.55	10.33	
<b>Balance at June 30, 2008</b>	<b>4,084,153</b>	<b>\$7.50 - \$53.83</b>	<b>\$16.42</b>	

Options Outstanding

Options Exercisable

Nonvested Options

Number outstanding	Weighted-average remaining term in	Weighted-average exercise price	Number exercisable	Weighted-average exercise price	Number nonvested	Weighted-average
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Range of exercise prices	at June 30, 2008	years	at June 30, 2008	at June 30, 2008	exercise price		
\$ 7.50 - \$ 8.50	521,372	1.4	\$ 7.75	521,372	\$ 7.75		
11.48 - 11.98	907,278	3.7	11.57	907,278	11.57		
13.56 - 14.86	1,971,229	3.9	13.71	1,971,229	13.71		
17.55 - 24.33	114,274	6.5	23.48	89,274	23.25	25,000	\$24.33
38.57 - 53.83	570,000	5.0	39.99		570,000	39.99	
	<b>4,084,153</b>	<b>3.8</b>	<b>\$16.42</b>	<b>3,489,153</b>	<b>\$12.51</b>	<b>595,000</b>	<b>\$39.33</b>

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 nonvested restricted shares at June 30, 2008, was 22 months. Transactions involving restricted shares under the terms of the LTSIP are summarized below:

	Restricted Shares	Price Range	Weighted-average Price
Balance at January 1, 2008	828,924	\$13.56 - \$56.65	\$36.99
Granted	344,815	53.83 - 70.13	54.54
Distributed	(271,126)	13.56 - 55.42	30.44
Forfeited	(5,118)	25.50 - 62.50	45.78
<b>Balance at June 30, 2008</b>	<b>897,495</b>	<b>\$23.34 - \$70.13</b>	<b>\$45.66</b>

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**Note 5 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 June 30,		6 Months Ended June 30	
	2008	2007	2008	2007
	(in millions)			
<b><i>Revenues from Unaffiliated Customers</i></b>				
Questar E&P	\$349.4	\$239.0	\$ 649.1	\$ 468.8
Wexpro	8.5	4.9	16.8	11.4
Gas Management	72.2	49.4	135.3	93.4
Energy Trading and other	224.3	91.3	463.4	244.9
Market Resources Total	654.4	384.6	1,264.6	818.5
Questar Pipeline	43.3	30.4	88.0	62.1
Questar Gas	159.5	141.7	549.7	548.2
	\$857.2	\$556.7	\$1,902.3	\$1,428.8
<b><i>Revenues from Affiliated Companies</i></b>				
Wexpro	\$ 52.3	\$ 42.1	\$ 98.7	\$ 82.8
Gas Management	5.5	4.1	11.3	8.4
Energy Trading and other	226.4	133.3	408.1	289.3
Market Resources Total	284.2	179.5	518.1	380.5
Questar Pipeline	18.7	19.3	38.2	39.9
Questar Gas	2.3	2.1	4.3	3.2
	\$305.2	\$200.9	\$560.6	\$423.6
<b><i>Operating Income</i></b>				
Questar E&P	\$186.8	\$119.9	\$338.8	\$237.0

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Wexpro	<b>28.2</b>	22.5	<b>53.6</b>	43.9
Gas Management	<b>37.8</b>	22.8	<b>70.9</b>	41.6
Energy Trading and other	<b>7.1</b>	7.9	<b>19.3</b>	16.1
Market Resources Total	<b>259.9</b>	173.1	<b>482.6</b>	338.6
Questar Pipeline	<b>23.6</b>	21.4	<b>56.1</b>	45.2
Questar Gas	<b>1.1</b>	1.9	<b>54.5</b>	52.8
Corporate		1.0		1.1
	<b>\$284.6</b>	\$197.4	<b>\$593.2</b>	\$437.7
 <i>Net Income (Loss)</i>				
Questar E&P	<b>\$116.8</b>	\$ 66.7	<b>\$213.3</b>	\$143.9
Wexpro	<b>18.8</b>	14.7	<b>35.0</b>	28.6
Gas Management	<b>21.7</b>	14.9	<b>40.2</b>	27.3
Energy Trading and other	<b>4.8</b>	5.8	<b>12.9</b>	11.8
Market Resources Total	<b>162.1</b>	102.1	<b>301.4</b>	211.6
Questar Pipeline	<b>12.7</b>	10.0	<b>28.6</b>	21.2
Questar Gas	<b>(2.0)</b>	(1.1)	<b>28.6</b>	28.0
Corporate	<b>(0.2)</b>	1.2	<b>(0.2)</b>	2.5
	<b>\$172.6</b>	\$112.2	<b>\$358.4</b>	\$263.3

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	June 30, <b>2008</b>	December 31, 2007
	(in millions)	
<b><i>Identifiable Assets</i></b>		
Questar E&P	<b>\$3,639.2</b>	\$2,526.4
Wexpro	<b>526.6</b>	459.8
Gas Management	<b>675.0</b>	487.1
Energy Trading and other	<b>252.2</b>	207.7
Market Resources Total	<b>5,093.0</b>	3,681.0
Questar Pipeline	<b>1,072.0</b>	1,092.8
Questar Gas	<b>1,118.5</b>	1,163.0
Corporate	<b>8.5</b>	7.4
	<b>\$7,292.0</b>	\$5,944.2

**Note 6 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. The Company ARO applies primarily to abandonment costs associated with gas and oil wells and certain other properties. The fair value of abandonment costs are estimated and depreciated over the life of the related assets. Revisions to estimates of the ARO result from changes in expected cash flows. 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:

	2008	2007
	(in millions)	
ARO liability at January 1,	<b>\$149.1</b>	\$132.4
Accretion	<b>4.7</b>	4.1
Liabilities incurred	<b>7.9</b>	4.1
Revisions	<b>1.5</b>	1.3
Liabilities settled	<b>(0.8)</b>	(1.0)
ARO Liability at June 30,	<b>\$162.4</b>	\$140.9

**Note 7 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 \$11.8 million for 2008.

The Company also has a nonqualified pension plan for eligible employees that 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 2008 expense is estimated to be \$1.6 million.

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

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	3 Months Ended June 30,		6 Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost	\$ 2.4	\$ 2.6	\$ 4.8	\$ 5.3
Interest cost	6.6	5.9	13.2	11.9
Expected return on plan assets	(6.8)	(6.0)	(13.6)	(12.1)
Prior service and other costs	0.3	0.3	0.6	0.6
Recognized net-actuarial loss	0.8	1.5	1.6	3.0
Settlement costs		0.2		0.3
Pension Expense	\$ 3.3	\$ 4.5	\$ 6.6	\$ 9.0

The Company currently estimates a \$4.8 million expense for postretirement benefits other than pensions in 2008. Expense components are listed below:

	3 Months Ended June 30,		6 Months Ended June 30,	
	2008	2007	2008	2007
	(in millions)			
Service cost	\$ 0.2	\$ 0.3	\$ 0.4	\$ 0.5
Interest cost	1.2	1.1	2.4	2.3
Expected return on plan assets	(0.9)	(0.7)	(1.7)	(1.5)
Amortization of transition obligation	0.5	0.4	0.9	0.9
Amortization of losses				0.1
Accretion of regulatory liability	0.2	0.2	0.4	0.4
Postretirement Benefits Expense	\$ 1.2	\$ 1.3	\$ 2.4	\$ 2.7

## Note 8 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. In February 2008, the Financial Accounting

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Standards Board (FASB) issued FASB Staff Position Financial Accounting Standard 157-2 Partial Deferral of the Effective Date of Statement 157, which delays the effective date for nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 did not have a significant effect on the Company's financial position or results of operations.

The following table discloses the Level 2 fair value of derivative contracts at June 30, 2008. 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

June 30, 2008  
(in millions)

*Assets*

Fair value of derivative contracts - short term **\$ 4.2**

*Liabilities*

Fair value of derivative contracts - short term **457.6**

Fair value of derivative contracts - long term **275.2**

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## **Note 9 Questar E&P Property Acquisitions and Divestitures**

On February 29, 2008, Questar E&P acquired significant natural gas development properties in northwest Louisiana for an aggregate purchase price of \$659 million, subject to pending customary post-closing adjustments based on an effective date of January 1, 2008. The acquisition was accounted for as a purchase and, accordingly, the results of operations of the properties were included in net income from the closing date of the acquisition. The transaction was initially funded with short-term bank debt. In conjunction with the acquisition, the company identified certain outside-operated producing properties and leaseholds in the Gulf Coast region of South Texas for divestiture, representing 1,505 net acres. These properties contributed 2.75 Bcfe to Questar E&P first-half 2008 net production. For income tax purposes, the company structured a portion of the purchase of the Louisiana properties and the July 31, 2008, sale of the Texas properties as a reverse like-kind exchange of property under Section 1031 of the Internal Revenue Code of 1986, as amended. In the third quarter of 2008, the company expects to recognize a pre-tax gain on the sale of the Texas properties of approximately \$54.6 million.

## **Note 10 Financings**

In March 2008, Market Resources filed a shelf registration with the Securities and Exchange Commission (SEC) to sell up to \$700 million of debt securities and to use the net proceeds to repay bank borrowings and to finance certain capital expenditures as well as for general corporate purposes, including working capital. Also in March 2008, Market Resources entered into a new \$800 million five-year revolving-credit facility. At June 30, 2008, there was \$250 million outstanding under the credit facility. In April 2008, Market Resources sold \$450 million of 10-year notes with a 6.8% interest rate. The funds borrowed under the credit facility and the net proceeds from the sale of the notes were used to reduce short-term bank debt described in Note 9.

In November 2007, Questar Pipeline filed a shelf registration with the SEC to sell up to \$200 million of debt securities with intent to use the net proceeds from the sale of the securities to repay intercompany demand notes as well as for general corporate purposes, including working capital and capital expenditures. In January 2008, Questar Pipeline sold \$200 million of 10-year notes with a 5.83% interest rate.

In February 2008, Questar Gas filed a shelf registration with the SEC to sell up to \$150 million of debt securities and to use the net proceeds to repay intercompany demand notes, to repay debt maturing in early 2008 and to finance certain capital expenditures as well as for general corporate purposes, including working capital. In March 2008, Questar Gas sold \$50 million of 10-year notes with a 6.3% interest rate and \$100 million of 30-year notes with a 7.2% interest rate.

**Note 11 Comprehensive Income**

Comprehensive income is the sum of net income 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) is shown below:

	3 Months Ended June 30,		6 Months Ended June 30,	
	<b>2008</b>	2007	<b>2008</b>	2007
	(in millions)			
Net income	<b>\$172.6</b>	\$112.2	<b>\$358.4</b>	\$263.3
Other comprehensive (loss)				
Net unrealized gain (loss) on derivatives	<b>(501.6)</b>	7.1	<b>(812.5)</b>	(115.5)
Income taxes	<b>190.1</b>	(2.7)	<b>307.9</b>	43.6
Net Other Comprehensive Income (Loss)	<b>(311.5)</b>	4.4	<b>(504.6)</b>	(71.9)
Total Comprehensive Income (Loss)	<b>(\$138.9)</b>	\$116.6	<b>(\$146.2)</b>	\$191.4

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

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	<b>June 30, 2008</b>	December 31, 2007 (in millions)	Change
Net unrealized gain (loss) on derivatives	<b>(\$473.6)</b>	\$ 31.0	(\$504.6)
Pension liability	<b>(47.5)</b>	(47.5)	
Postretirement benefits liability	<b>(8.8)</b>	(8.8)	
Accumulated Other Comprehensive (Loss)	<b>(\$529.9)</b>	(\$25.3)	(\$504.6)

## Note 12 Recent Accounting Pronouncement

In March 2008, the FASB issued SFAS 161, Disclosure about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161 amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, of SFAS 161.

## 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 2007 Form 10-K filing, and analyzes the changes in the results of operations between the three- and six-month periods ended June 30, 2008 and 2007. 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 2007 Form 10-K.

### RESULTS OF OPERATIONS

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

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	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(in millions, except per share amounts)					
Exploration and Production						
Questar E&P	<b>\$116.8</b>	\$ 66.7	\$50.1	<b>\$213.3</b>	\$143.9	\$69.4
Wexpro	<b>18.8</b>	14.7	4.1	<b>35.0</b>	28.6	6.4
Midstream Field Services - Gas Management	<b>21.7</b>	14.9	6.8	<b>40.2</b>	27.3	12.9
Energy Marketing Energy Trading and other	<b>4.8</b>	5.8	(1.0)	<b>12.9</b>	11.8	1.1
Market Resources Total	<b>162.1</b>	102.1	60.0	<b>301.4</b>	211.6	89.8
Interstate Gas Transportation Questar Pipeline	<b>12.7</b>	10.0	2.7	<b>28.6</b>	21.2	7.4
Retail Gas Distribution Questar Gas	<b>(2.0)</b>	(1.1)	(0.9)	<b>28.6</b>	28.0	0.6
Corporate	<b>(0.2)</b>	1.2	(1.4)	<b>(0.2)</b>	2.5	(2.7)
Net Income	<b>\$172.6</b>	\$112.2	\$60.4	<b>\$358.4</b>	\$263.3	\$95.1
Earnings per diluted share	<b>\$ 0.98</b>	\$ 0.64	\$0.34	<b>\$ 2.03</b>	\$ 1.50	\$0.53
Average diluted shares	<b>176.3</b>	175.9	0.4	<b>176.3</b>	175.7	0.6

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**EXPLORATION AND PRODUCTION****Questar E&P**

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

	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(in millions)					
<b><i>Operating Income</i></b>						
<b>REVENUES</b>						
Natural gas sales	<b>\$284.6</b>	\$199.6	\$85.0	<b>\$524.4</b>	\$395.0	\$129.4
Oil and NGL sales	<b>63.4</b>	38.0	25.4	<b>121.8</b>	71.1	50.7
Other	<b>1.4</b>	1.4		<b>2.9</b>	2.7	0.2
Total Revenues	<b>349.4</b>	239.0	110.4	<b>649.1</b>	468.8	180.3
<b>OPERATING EXPENSES</b>						
Operating and maintenance	<b>30.2</b>	22.0	8.2	<b>58.2</b>	42.7	15.5
General and administrative	<b>16.1</b>	15.8	0.3	<b>30.3</b>	28.0	2.3
Production and other taxes	<b>32.0</b>	14.6	17.4	<b>59.0</b>	30.8	28.2
Depreciation, depletion and amortization	<b>76.4</b>	60.7	15.7	<b>148.2</b>	119.7	28.5
Exploration	<b>3.8</b>	3.1	0.7	<b>7.3</b>	5.1	2.2
Abandonment and impairment	<b>3.6</b>	2.1	1.5	<b>6.2</b>	4.1	2.1
Natural gas purchases	<b>0.1</b>	0.7	(0.6)	<b>0.5</b>	1.4	(0.9)
Total Operating Expenses	<b>162.2</b>	119.0	43.2	<b>309.7</b>	231.8	77.9
Net (loss) from asset sales	<b>(0.4)</b>	(0.1)	(0.3)	<b>(0.6)</b>		(0.6)
Operating Income	<b>\$186.8</b>	\$119.9	\$66.9	<b>\$338.8</b>	\$237.0	\$101.8
<b><i>Operating Statistics</i></b>						
<b>Production volumes</b>						
Natural gas (Bcf)	<b>35.8</b>	30.9	4.9	<b>70.6</b>	61.8	8.8
Oil and NGL (MMbbl)	<b>0.8</b>	0.7	0.1	<b>1.6</b>	1.4	0.2
Total production (Bcfe)	<b>40.6</b>	35.5	5.1	<b>80.1</b>	70.4	9.7
Average daily production (MMcfe)	<b>446.4</b>	389.9	56.5	<b>440.1</b>	389.1	51.0
<b>Average realized price, net to the well (including hedges)</b>						
Natural gas (per Mcf)	<b>\$7.94</b>	\$6.45	\$1.49	<b>\$7.43</b>	\$6.39	\$1.04
Oil and NGL (per bbl)	<b>\$79.48</b>	\$50.55	\$28.93	<b>\$76.85</b>	\$49.63	\$27.22

Questar E&P reported net income of \$116.8 million in the second quarter of 2008, up 75% from \$66.7 million in the 2007 quarter. Net income for the first half of 2008 rose 48% to \$213.3 million compared to \$143.9 million a year earlier. Higher realized natural gas, crude oil and NGL prices and growing production more than offset a 21% increase in first-half average production costs.

Questar E&P production volumes totaled 40.6 Bcfe in the second quarter of 2008, a 14% increase compared to the year-earlier period. For the first six months of 2008 production volumes increased to 80.1 Bcfe, a 14% increase compared to the year-earlier period. Natural gas is Questar E&P's primary focus and comprised approximately 88% of 2008 production on an energy-equivalent basis. A comparison of natural gas-equivalent production by major operating area is shown in the following table:

	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(in Bcfe)					
Pinedale Anticline	<b>12.5</b>	11.5	1.0	<b>25.8</b>	23.6	2.2
Uinta Basin	<b>6.1</b>	6.6	(0.5)	<b>12.8</b>	12.6	0.2

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Rockies Legacy	<b>5.0</b>	4.9	0.1	<b>9.9</b>	9.4	0.5
Rocky Mountain Total	<b>23.6</b>	23.0	0.6	<b>48.5</b>	45.6	2.9
Midcontinent	<b>17.0</b>	12.5	4.5	<b>31.6</b>	24.8	6.8
Total Questar E&P	<b>40.6</b>	35.5	5.1	<b>80.1</b>	70.4	9.7

Questar E&P production from the Pinedale Anticline in western Wyoming grew 9% to 25.8 Bcfe in the first six months of 2008 as a result of ongoing development drilling. Pinedale seasonal access restrictions imposed by the Bureau of Land Management limit the ability to drill and complete wells during the mid-November to early May period.

In the Uinta Basin, first-half production grew 2% to 12.8 Bcfe in 2008 as the Company completed and turned 19 new wells to sales in 2008. Second quarter production volumes were adversely impacted by connection of new, deep, high-pressure wells to the existing gathering infrastructure. Connection of the new deep wells resulted in high gathering-system pressure that negatively impacted production from existing shallower and lower producing-pressure Wasatch/Mesaverde wells. Gathering infrastructure improvements are underway to address the situation, but permitting could delay installation until early 2009.

First-half 2008 Rockies Legacy production was 9.9 Bcfe, 0.5 Bcfe higher than the year-ago period. Increased production volumes were driven by new wells and the acquisition of additional interests in the Wamsutter area and a new well in the Williston Basin. Questar E&P Rockies Legacy properties include all Rocky Mountain region properties except the Pinedale Anticline and the Uinta Basin.

First-half 2008 Midcontinent production was 31.6 Bcfe, a 27% increase over first-half 2007 volumes. Midcontinent production growth was driven by leasehold acquisitions and ongoing infill-development drilling in northwest Louisiana, and the continued development of the Granite Wash/Atoka/Morrow play in the Texas Panhandle.

Realized prices for natural gas, oil and NGL at Questar E&P were higher when compared to the prior year. In 2008, the weighted-average realized natural gas price for Questar E&P (including the impact of hedging) was \$7.43 per Mcf compared to \$6.39 per Mcf for the same period in 2007, a 16% increase. Realized oil and NGL prices in 2008 averaged \$76.85 per bbl, compared with \$49.63 per bbl during the prior year period, a 55% increase. A regional comparison of average realized prices, including hedges, is shown in the following table:

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	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
<i>Natural gas (per Mcf)</i>						
Rocky Mountains	\$ 7.36	\$ 5.83	\$ 1.53	\$ 6.85	\$ 5.85	\$ 1.00
Midcontinent	8.76	7.58	1.18	8.34	7.37	0.97
Volume-weighted average	7.94	6.45	1.49	7.43	6.39	1.04
<i>Oil and NGL (per bbl)</i>						
Rocky Mountains	\$82.39	\$51.81	\$30.58	\$78.44	\$50.01	\$28.43
Midcontinent	75.69	48.21	27.48	74.75	48.88	25.87
Volume-weighted average	79.48	50.55	28.93	76.85	49.63	27.22

Questar E&P hedged or pre-sold approximately 83% of gas production in the first half of 2008 and hedged or pre-sold 70% of gas production in the comparable 2007 period. Hedging decreased Questar E&P gas revenues by \$37.1 million in 2008 and increased revenues \$90.1 million in 2007. Approximately 53% of 2008 and 64% of 2007 Questar E&P oil production was hedged or pre-sold. Oil hedges reduced oil revenues by \$23.1 million in 2008 and \$0.7 million in 2007.

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 second quarter of 2008, Questar E&P hedged additional Rocky Mountain natural gas basis 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. Derivative positions as of June 30, 2008, are summarized in Item 3 of Part I in this Quarterly Report on Form 10-Q.

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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 25% to \$4.21 per Mcfe in the second quarter of 2008 versus \$3.36 per Mcfe in 2007. First half 2008 production costs per Mcfe increased \$0.70 or 21% compared to the 2007 period. Questar E&P production costs are summarized in the following table:

	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(per Mcfe)					
Depreciation, depletion and amortization	<b>\$1.88</b>	\$1.71	\$0.17	<b>\$1.85</b>	\$1.70	\$0.15
Lease operating expense	<b>0.74</b>	0.62	0.12	<b>0.73</b>	0.61	0.12
General and administrative expense	<b>0.40</b>	0.44	(0.04)	<b>0.38</b>	0.40	(0.02)
Allocated interest expense	<b>0.40</b>	0.18	0.22	<b>0.33</b>	0.18	0.15
Production taxes	<b>0.79</b>	0.41	0.38	<b>0.73</b>	0.43	0.30
Total Production Costs	<b>\$4.21</b>	\$3.36	\$0.85	<b>\$4.02</b>	\$3.32	\$0.70

Production volume-weighted average depreciation, depletion and amortization per Mcfe (DD&A rate) increased due to higher costs for drilling, completion and related services, increased cost of steel casing, other tubulars and wellhead equipment. The DD&A rate also increased due to the ongoing depletion of older, lower-cost reserves and the increasing component of Questar E&P production derived from recently acquired, higher-cost fields in the Midcontinent. Lease operating expense per Mcfe increased due to higher costs of materials and consumables, increased produced-water disposal costs and increased well-workover activity. General and administrative expense per Mcfe decreased as production growth outstripped increases in expenses. Allocated interest expense per Mcfe of production increased primarily due to financing costs related to the first-quarter acquisition of significant natural gas development properties in northwest Louisiana. Production taxes per Mcfe were higher due to higher natural gas and oil sales prices in the 2008 periods. Production taxes are based on a percentage of sales prices before the impact of hedges.

Questar E&P exploration expense increased \$0.7 million or 23% in the second quarter of 2008 compared to 2007. Abandonment and impairment expense increased \$1.5 million, or 71% in 2008 compared to 2007. For the first half of 2008, Questar E&P exploration expense increased \$2.2 million or 43% compared to 2007. Abandonment and impairment expense increased \$2.1 million, or 51% in 2008 compared to 2007.

### Major Questar E&P Operating Areas

***Pinedale Anticline***

As of June 30, 2008, Market Resources (including both Questar E&P and Wexpro) operated and had working interests in 276 producing wells on the Pinedale Anticline compared to 213 at the end of the second quarter of 2007. Of the 276 producing wells, Questar E&P has working interests in 254 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 81 of the 276 producing wells.

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 18,208-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. At December 31, 2007, Questar E&P had booked 355 proved undeveloped locations on a combination of 10- and 20-acre density and reported estimated net proved reserves at Pinedale of 1,033.9 Bcfe, or 55% of Questar E&P total proved reserves. The Company is evaluating the economic potential of 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 1,500 additional wells will be required to fully develop the Lance Pool on its acreage.

On June 27, 2008, the United States Bureau of Land Management issued a Final Supplemental Environmental Impact Statement (FSEIS) for proposed long-term development of natural gas resources in the Pinedale Anticline Project Area (PAPA). Under the FSEIS, Questar E&P and Wexpro would be allowed to operate and drill and complete wells year-round in one of the three Concentrated Development Areas in the PAPA. The final Record of Decision, which will contain the detailed regulations governing ongoing development of the PAPA, is expected during the third quarter of 2008.

***Uinta Basin***

As of June 30, 2008, Questar E&P had an operating interest in 885 producing wells in the Uinta Basin of eastern Utah, compared to 861 at June 30, 2007. At December 31, 2007, Questar E&P had booked 123 proved undeveloped locations and reported

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estimated net proved reserves in the Uinta Basin of 301.2 Bcfe or 16% of Questar E&P total proved reserves. 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. In aggregate, Rockies Legacy properties comprised 158.6 Bcfe or 9% of Questar E&P total proved reserves at December 31, 2007. Exploration and development activity is planned for 2008 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 and the Granite Wash play in the Texas Panhandle, Questar E&P Midcontinent leasehold interests are highly fragmented, with no significant concentration of property interests. In aggregate, Midcontinent properties comprised 373.9 Bcfe or 20% of Questar E&P total proved reserves at December 31, 2007.

Questar E&P continues infill-development drilling in northwest Louisiana and as of June 30, 2008, had 9 operated rigs drilling in the project area. As of June 30, 2008, Questar E&P operated or had working interests in 386 producing wells in northwest Louisiana compared to 263 at June 30, 2007.

### ***Wexpro***

Wexpro reported net income of \$18.8 million in the second quarter of 2008 compared to \$14.7 million in the 2007 quarter, a 28% increase. For the first half of 2008, net income was \$35.0 million compared to \$28.6 million a year earlier. Wexpro 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% to 20% on its investment in commercial wells and related facilities adjusted for working capital and reduced for deferred income taxes and depreciation (investment base). The Wexpro investment base at June 30, 2008, was \$346.4 million, an increase of \$79.2 million or 30% since June 30, 2007.

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

	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(in millions)					
<b><i>Operating Income</i></b>						
<b>REVENUES</b>						
Gathering	<b>\$35.6</b>	\$28.8	\$ 6.8	<b>\$70.8</b>	\$56.4	\$14.4
Processing	<b>42.1</b>	24.7	17.4	<b>75.8</b>	45.4	30.4
Total Revenues	<b>77.7</b>	53.5	24.2	<b>146.6</b>	101.8	44.8
<b>OPERATING EXPENSES</b>						
Operating and maintenance	<b>27.2</b>	21.4	5.8	<b>51.3</b>	43.2	8.1
General and administrative	<b>5.6</b>	4.1	1.5	<b>10.7</b>	7.2	3.5
Production and other taxes	<b>0.5</b>	0.4	0.1	<b>0.8</b>	0.7	0.1
Depreciation, depletion and amortization	<b>6.6</b>	4.8	1.8	<b>12.9</b>	9.1	3.8
Total Operating Expenses	<b>39.9</b>	30.7	9.2	<b>75.7</b>	60.2	15.5
Operating Income	<b>\$37.8</b>	\$22.8	\$15.0	<b>\$70.9</b>	\$41.6	\$29.3
<b><i>Operating Statistics</i></b>						
Natural gas gathering volumes (in millions of MMBtu)						
For unaffiliated customers	<b>54.7</b>	44.3	10.4	<b>106.0</b>	83.9	22.1
For affiliated customers	<b>38.0</b>	31.4	6.6	<b>75.3</b>	68.9	6.4
Total Gas Gathering Volumes	<b>92.7</b>	75.7	17.0	<b>181.3</b>	152.8	28.5
Gas gathering revenue (per MMBtu)	<b>\$0.31</b>	\$0.32	(\$0.01)	<b>\$0.31</b>	\$0.31	

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Natural gas processing volumes						
NGL sales (MMgal)	<b>24.8</b>	20.2	4.6	<b>46.2</b>	38.0	8.2
NGL sales price (per gal)	<b>\$1.41</b>	\$0.95	\$0.46	<b>\$1.32</b>	\$0.92	\$0.40
Fee-based processing volumes (in millions of MMBtu)						
For unaffiliated customers	<b>17.7</b>	12.1	5.6	<b>42.4</b>	20.7	21.7
For affiliated customers	<b>25.5</b>	21.3	4.2	<b>51.0</b>	43.3	7.7
Total Fee-Based Processing Volumes	<b>43.2</b>	33.4	9.8	<b>93.4</b>	64.0	29.4
Fee-based processing (per MMBtu)	\$0.15	\$0.15		<b>\$0.14</b>	\$0.15	(\$0.01)

Gas Management, which provides gas-gathering and processing-services, grew net income 46% to \$21.7 million in the second quarter of 2008 compared to \$14.9 million in the same period of 2007. Net income was \$40.2 million in the first half of 2008 compared to \$27.3 million in the 2007 period. Net income growth was driven by higher gathering and processing margins.

Total gathering margins (revenues minus direct gathering expenses) for the second quarter of 2008 increased 66% to \$28.8 million compared to \$17.3 million in 2007 and for the first six months of 2008 increased 64% to \$55.8 million compared to \$34.1 million in 2007. Gathering volumes increased 17.0 million MMBtu, or 22% to 92.7 million MMBtu in the second quarter of 2008 and 28.5 million MMBtu, or 19% to 181.3 million MMBtu in the first half of 2008 compared to the 2007 periods. Operations of Rendezvous Gas Services, formerly an unconsolidated affiliate, were consolidated with Gas Management beginning in 2008 and contributed 10.9 million MMBtu in the second quarter and 20.0 million MMBtu in the first half to the increased volumes. Rendezvous Gas Services provides gas gathering services for the Pinedale and Jonah producing areas. Expanding Pinedale production, new projects serving third parties in the Uinta Basin and the consolidation of Rendezvous Gas Services contributed to a 26% increase in third-party volumes in the first half of 2008.

Total processing margins (revenues minus direct plant expenses and processing plant-shrink) for the second quarter of 2008 increased 48% to \$21.7 million compared to \$14.7 million in 2007 and increased 62% to \$39.5 million compared to \$24.4 million in the first half of 2008 compared with the 2007 period. Fee-based gas processing volumes were 43.2 million MMBtu in the second quarter of 2008, a 29% increase compared to the 2007 quarter and 93.4 million MMBtu in the first half of 2008, a 46% increase compared to the first half of 2007. For the second quarter of 2008, fee-based gas processing revenues increased 31% or \$1.5 million, while frac spread from keep-whole processing increased 44% or \$5.2 million. Fee-based gas processing revenues increased 41% or \$3.9 million in the first-half comparison, while frac spread from keep-whole processing increased 58% or \$10.7 million. Approximately 75% of Gas Management first half 2008 net operating revenue (revenue minus processing plant-shrink) was derived from fee-based contracts, down from 78% in the 2007 period.

Gas Management uses forward sales contracts to further reduce margin volatility associated with keep-whole contracts. Forward sales contracts reduced first-half NGL sales by \$1.4 million in 2008 and by \$0.1 million in 2007.

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

Energy Trading net income was \$4.8 million in the second quarter of 2008, a decrease of 17% compared to the year-earlier period. Lower natural gas-price volatility combined with lower transportation and storage margins led to the decrease from the 2007 quarter. For the first half of 2008, net income was \$12.9 million, a 9% increase compared to the first half of 2007. Higher trading and storage margins related to gas-price volatility in the Rockies during the first quarter of 2008 drove the increase in net income in the first half of 2008. Gross marketing margin (gross revenues less costs for gas and oil purchases, transportation and gas storage), for the first six months totaled \$19.1 million for 2008 compared to \$18.2 million for the 2007 period, a 5% increase. Gross marketing margin for the second quarter of 2008 was \$7.1 million a 24% decrease from the 2007 period. Revenues from unaffiliated customers were \$463.4 million in the first half of 2008 compared to \$244.9 million in the 2007 period, an 89% increase, primarily the result of higher natural gas prices. The weighted-average natural gas sales price increased 60% in 2008 to \$7.74 per MMBtu, compared to \$4.85 per MMBtu for the 2007 period.

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

Questar Pipeline, which provides interstate natural gas-transportation and storage services, reported second quarter 2008 net income of \$12.7 million compared with \$10.0 million in 2007. For the first half of 2008, net income was \$28.6 million, compared with \$21.2 million in 2007. Operating income increased \$2.2 million, or 10%, in the second quarter 2008 compared to the year-earlier quarter. For the first half of 2008, operating income was 24% higher compared to the year-earlier period, due primarily to transportation-system expansions that were placed in service in late 2007. Following is a summary of Questar Pipeline financial and operating results:

Questar 2008 Form 10-Q

	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(in millions)					
<b><i>Operating Income</i></b>						
<b>REVENUES</b>						
Transportation	<b>\$43.2</b>	\$31.3	\$11.9	<b>\$87.4</b>	\$62.2	\$25.2
Storage	<b>9.3</b>	9.4	(0.1)	<b>18.9</b>	19.0	(0.1)
Gas processing	<b>1.0</b>	2.1	(1.1)	<b>2.7</b>	4.1	(1.4)
NGL sales	<b>3.4</b>	1.6	1.8	<b>7.4</b>	4.1	3.3
Energy services	<b>4.3</b>	3.6	0.7	<b>7.8</b>	8.3	(0.5)
Other	<b>0.8</b>	1.7	(0.9)	<b>2.0</b>	4.3	(2.3)
Total Revenues	<b>62.0</b>	49.7	12.3	<b>126.2</b>	102.0	24.2
<b>OPERATING EXPENSES</b>						
Operating and maintenance	<b>9.9</b>	9.5	0.4	<b>20.9</b>	18.8	2.1
General and administrative	<b>8.6</b>	7.8	0.8	<b>16.2</b>	14.9	1.3
Depreciation and amortization	<b>10.5</b>	8.6	1.9	<b>21.3</b>	17.2	4.1
Asset impairment	<b>10.6</b>		10.6	<b>10.6</b>		10.6
Other taxes	<b>2.1</b>	1.9	0.2	<b>4.3</b>	4.1	0.2
Cost of goods sold	<b>0.6</b>	0.7	(0.1)	<b>0.8</b>	2.3	(1.5)
Operating Expenses	<b>42.3</b>	28.5	13.8	<b>74.1</b>	57.3	16.8
Net gain from asset sales	<b>3.9</b>	0.2	3.7	<b>4.0</b>	0.5	3.5
Operating Income	<b>\$23.6</b>	\$21.4	\$2.2	<b>\$56.1</b>	\$45.2	\$10.9
<b><i>Operating Statistics</i></b>						
Natural gas-transportation volumes (MMdth)						
For unaffiliated customers	<b>157.7</b>	84.0	73.7	<b>287.5</b>	160.9	126.6
For Questar Gas	<b>30.1</b>	25.4	4.7	<b>73.3</b>	67.5	5.8
For other affiliated customers	<b>1.5</b>	3.9	(2.4)	<b>2.4</b>	8.6	(6.2)
Total Transportation	<b>189.3</b>	113.3	76.0	<b>363.2</b>	237.0	126.2
Transportation revenue (per dth)	<b>\$0.23</b>	\$0.28	(\$0.05)	<b>\$0.24</b>	\$0.26	(\$0.02)
Firm daily transportation demand at June 30 (Mdth)						
	<b>3,124</b>	2,240	884			
Natural gas processing						
NGL sales (MMgal)	<b>1.5</b>	1.4	0.1	<b>4.0</b>	3.9	0.1
NGL sales price (per gal)	<b>\$2.24</b>	\$1.20	\$1.04	<b>\$1.85</b>	\$1.05	\$0.80

***Revenues***

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Following is a summary of major changes in Questar Pipeline revenues for the second quarter and first half of 2008 compared with the same periods in 2007:

	Change in Revenues	
	<b>3 Months Ended June 30, 2008</b>	<b>6 Months Ended June 30, 2008</b>
	<b>(in millions)</b>	
Transportation		
New capacity lease	<b>\$ 7.3</b>	<b>\$ 14.6</b>
New transportation contracts	<b>5.3</b>	<b>11.1</b>
Expired transportation contracts	<b>(1.0)</b>	<b>(2.2)</b>
Other	<b>0.3</b>	<b>1.7</b>

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Gas processing	<b>(1.1)</b>	<b>(1.4)</b>
NGL sales	<b>1.8</b>	<b>3.3</b>
Energy services	<b>0.7</b>	<b>(0.5)</b>
Other	<b>(1.0)</b>	<b>(2.4)</b>
Increase	<b>\$12.3</b>	<b>\$24.2</b>

As of June 30, 2008, Questar Pipeline had firm-transportation contracts of 3,124 Mdth per day compared with 2,240 Mdth per day as of June 30, 2007. Questar Pipeline has expanded its transportation system in response to growing regional natural gas production and transportation demand. In November 2007, Questar Pipeline placed an expansion of its southern system in service. The southern system expansion increased Questar Pipeline first-half 2008 firm-transport demand by 175 Mdth per day and first-half 2008 revenues by \$8.3 million compared to the year-earlier period. In December 2007, Questar Overthrust Pipeline placed the Wamsutter expansion project into service. The Wamsutter expansion increased Questar Overthrust Pipeline first-half 2008 firm-transport demand by 750 Mdth per day and first-half 2008 revenues by \$15.8 million compared to the year-earlier period.

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.

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.

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 more than doubled in the second quarter of 2008 and were 80% higher in the first half of 2008 over the same periods in 2007 due primarily to higher NGL prices.

***Expenses***

Operating and maintenance expenses increased by 4% in the second quarter of 2008 and 11% in the first half of 2008 compared to the same periods in 2007. The increase was a result of system expansions and higher labor and service costs. General and administrative expenses increased by 10% to \$8.6 million in the second quarter and 9% to \$16.2 million in the first half of 2008. Operating, maintenance, general and administrative expenses per dth transported declined to \$0.10 in the first half of 2008 compared with \$0.14 in the first half of 2007 because transportation volumes increased 53%. Operating, maintenance, general and administrative expenses include processing and storage costs.

Depreciation expense increased 22% in the second quarter of 2008 and 24% in the first half of 2008 compared to the 2007 periods due to investment in pipeline expansions.

***Sale of processing plant and gathering lines***

Questar Transportation Services, a subsidiary of Questar Pipeline, sold a carbon dioxide processing plant and some associated gathering facilities in the second quarter of 2008. The net investment in these facilities was \$20.0 million. The transaction closed in April 2008 and resulted in a pre-tax gain of \$3.9 million.

***Salt cavern storage project impairment***

Questar Pipeline impaired the entire \$10.6 million investment in a potential salt cavern storage project located in southwestern Wyoming in the second quarter of 2008 based on a technical and economic evaluation of the project.

**RETAIL GAS DISTRIBUTION Questar Gas**

Questar Gas, which provides retail natural gas distribution services in Utah, Wyoming and Idaho, reported a net loss of \$2.0 million in the second quarter of 2008 compared with a loss of \$1.1 million in the second quarter of 2007. Net income was \$28.6 million in the first half of 2008 compared with \$28.0 million in the first half of 2007. Operating income decreased \$0.8 million in the second quarter of 2008 compared to 2007. First-half 2008 operating income increased \$1.7 million due primarily to higher revenues from new-customer growth. Following is a summary of Questar Gas financial and operating results:

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	3 Months Ended June 30,			6 Months Ended June 30,		
	2008	2007	Change	2008	2007	Change
	(in millions)					
<b><i>Operating Income</i></b>						
<b>REVENUES</b>						
Residential and commercial sales	<b>\$142.0</b>	\$128.2	\$13.8	<b>\$518.0</b>	\$520.4	(\$2.4)
Industrial sales	<b>3.1</b>	2.3	0.8	<b>6.0</b>	5.1	0.9
Transportation for industrial customers	<b>2.1</b>	2.3	(0.2)	<b>4.4</b>	4.6	(0.2)
Service	<b>1.6</b>	1.6		<b>3.2</b>	3.4	(0.2)
Other	<b>13.0</b>	9.4	3.6	<b>22.4</b>	17.9	4.5
Total Revenues	<b>161.8</b>	143.8	18.0	<b>554.0</b>	551.4	2.6
Cost of natural gas sold	<b>116.8</b>	101.4	15.4	<b>409.6</b>	412.4	(2.8)
Margin	<b>45.0</b>	42.4	2.6	<b>144.4</b>	139.0	5.4
Other operating expenses						
Operating and maintenance	<b>19.5</b>	16.2	3.3	<b>41.3</b>	37.3	4.0
General and administrative	<b>10.5</b>	11.1	(0.6)	<b>21.0</b>	22.6	(1.6)
Depreciation and amortization	<b>10.3</b>	9.6	0.7	<b>20.5</b>	19.1	1.4
Other taxes	<b>3.6</b>	3.6		<b>7.1</b>	7.2	(0.1)
Total Other Operating Expenses	<b>43.9</b>	40.5	3.4	<b>89.9</b>	86.2	3.7
Operating Income	<b>\$ 1.1</b>	\$ 1.9	\$ (0.8)	<b>\$ 54.5</b>	\$ 52.8	\$ 1.7
<b><i>Operating Statistics</i></b>						
Natural gas volumes (MMdth)						
Residential and commercial sales	<b>19.2</b>	15.1	4.1	<b>69.1</b>	61.0	8.1
Industrial sales	<b>0.5</b>	0.4	0.1	<b>0.9</b>	0.8	0.1
Transportation for industrial customers	<b>13.4</b>	11.0	2.4	<b>29.4</b>	20.9	8.5
Total Industrial	<b>13.9</b>	11.4	2.5	<b>30.3</b>	21.7	8.6
Total Deliveries	<b>33.1</b>	26.5	6.6	<b>99.4</b>	82.7	16.7
Natural gas revenue (per dth)						
Residential and commercial sales	<b>\$7.41</b>	\$8.51	(\$1.10)	<b>\$7.50</b>	\$8.53	(\$1.03)
Industrial sales	<b>6.92</b>	5.88	1.04	<b>6.75</b>	6.39	0.36
Transportation for industrial customers	<b>\$0.16</b>	\$0.21	(\$0.05)	<b>\$0.15</b>	\$0.22	(\$0.07)
Colder (warmer) than normal temperatures	<b>31%</b>	(16%)	47%	<b>16%</b>	normal	16%
Temperature-adjusted usage per customer (dth)	<b>16.4</b>	16.8	(0.4)	<b>65.6</b>	65.4	0.2
Customers at June 30 (thousands)	<b>881.5</b>	862.1	19.4			

***Margin Analysis***

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Questar Gas margin (revenues less gas costs) increased \$2.6 million in the second quarter of 2008 compared to the second quarter of 2007 and \$5.4 million in the first half of 2008 compared to the first half of 2007. Following is a summary of major changes in Questar Gas margin:

	Change in Margin	
	<b>3 Months Ended</b>	<b>6 Months Ended</b>
	<b>June 30, 2008</b>	<b>June 30, 2008</b>
	<b>(in millions)</b>	
New customers	<b>\$0.9</b>	<b>\$2.9</b>
Conservation-enabling tariff	<b>(1.2)</b>	<b>(2.3)</b>
Change in usage per customer		<b>2.8</b>
Demand-side management cost recovery	<b>0.4</b>	<b>1.6</b>
Recovery of gas-cost portion of bad-debt costs	<b>1.5</b>	<b>0.6</b>

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Other	<b>1.0</b>	<b>(0.2)</b>
Increase	<b>\$2.6</b>	<b>\$5.4</b>

At June 30, 2008, Questar Gas served 881,505 customers, up from 862,053 at June 30, 2007. New-customer growth increased margin by \$2.9 million in the first half of 2008.

Temperature-adjusted usage per customer decreased 2% in the second quarter of 2008 and increased slightly in the first half of 2008 compared to the same periods of 2007. The impact on the company margin from changes in usage per customer has been mitigated by a pilot conservation-enabling tariff (CET) that was approved by the PSCU beginning 2006. The CET resulted in a margin decrease of \$2.3 million in the first half of 2008, partially offsetting the \$2.8 million increase in margin resulting from usage per customer.

Weather, as measured in degree days, was 31% colder than normal in the second quarter of 2008 and 16% colder than normal in the first half of 2008. A weather-normalization adjustment on customer bills generally offsets financial impacts of moderate temperature variations.

### *Expenses*

Cost of natural gas sold increased 15% in the second quarter of 2008 due to increased sales volumes. Cost of natural gas sold declined 1% in the first half of 2008 compared to 2007. Lower gas cost per dth more than offset a 13% increase in volumes sold in the first half of 2008. 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 June 30, 2008, Questar Gas had a \$12.0 million under-collected balance in the purchased-gas adjustment account representing costs incurred that exceeded costs recovered from customers.

Operating and maintenance expenses increased 20% in the second quarter of 2008 and 11% in the first half of 2008 compared to the same periods of 2007. Higher operating and maintenance expense was due primarily to higher bad-debt costs. General and administrative expenses decreased 7% in the 2008 first half. Operating, maintenance, general and administrative expenses per customer were \$71 in the first half of 2008 compared to \$69 in the first half of 2007.

Depreciation expense increased 7% in the second quarter of 2008 and the first half of 2008 compared to the 2007 periods. The increase in depreciation expense was primarily the result of plant additions from customer growth and system expansion.

### ***General Rate Case***

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 the Questar Gas's allowed return on equity from 11.2% to 10%. The new rates will be effective in mid-August 2008.

### **Consolidated Results after Operating Income**

#### ***Interest and other income***

In the second quarter of 2008, Questar Pipeline received the final cash payment on a note receivable resulting from the May 2005 sale of a business. Gain on collection of the note receivable and related interest amounted to \$3.7 million.

#### ***Interest expense***

Interest expense rose 84% in the second quarter of 2008 and 63% in the first half of 2008 compared to a year earlier periods due primarily to financing activities associated with the purchase of natural gas development properties in northwest Louisiana and pipeline expansions.

#### ***Net mark-to-market gain 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. The Company recognized a pre-tax net mark-to-market gain of \$30.0 million on natural gas basis-only swaps in the first half of 2008 compared to a pre-tax \$5.2 million gain in the first half of 2007.

#### ***Income taxes***

The effective combined federal and state income tax rate was 37.3% in the first half of 2008 compared with 36.9% in the 2007 period.

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**LIQUIDITY AND CAPITAL RESOURCES****Operating Activities**

Net cash provided from operating activities increased 23% in the first half of 2008 compared to the first half of 2007 due to higher net income and noncash adjustments to net income. Noncash adjustments to net income consist primarily of depreciation, depletion and amortization, and deferred income taxes. Cash sources from operating assets and liabilities were lower in 2008 primarily due to changes in the purchase-gas adjustment account. Net cash provided from operating activities is presented below:

	6 Months Ended June 30,		
	2008	2007	Change
	(in millions)		
Net income	<b>\$358.4</b>	\$263.3	\$95.1
Noncash adjustments to net income	<b>378.1</b>	279.0	99.1
Changes in operating assets and liabilities	<b>(56.4)</b>	9.8	(66.2)
Net Cash Provided From Operating Activities	<b>\$680.1</b>	\$552.1	\$128.0

**Investing Activities**

A comparison of capital expenditures for the first half of 2008 and 2007 plus a forecast for calendar year 2008 are presented below:

	6 Months Ended June 30,			Forecast
	2008	2007	Change	12 Months Ended December 31, 2008
	(in millions)			
Questar E&P	<b>\$1,122.0</b>	\$316.2	\$805.8	\$1,837.0
Wexpro	<b>63.2</b>	35.4	27.8	130.8
Gas Management	<b>134.9</b>	59.1	75.8	400.0
Questar Pipeline	<b>29.6</b>	124.2	(94.6)	120.4
Questar Gas	<b>82.3</b>	57.5	24.8	136.4
Other	<b>1.2</b>	1.1	0.1	1.3
Total	<b>\$1,433.2</b>	\$593.5	\$839.7	\$2,625.9

Property acquisitions and associated expanded drilling increased Questar E&P capital expenditures for the first half of 2008 compared to the 2007 period.

### **Financing Activities**

In the first half of 2008, net cash used in investing activities of \$1,402.9 million exceeded net cash flow from operating activities of \$680.1 million. The \$722.8 million difference was primarily the result of the February 2008 \$659 million acquisition of natural gas development properties in northwest Louisiana. Long-term debt increased by a net change of \$848.7 million and short-term debt decreased by a net change of \$109.5 million in the first half of 2008.

In March 2008, Market Resources entered into a new \$800 million five-year revolving-credit facility and in April 2008, sold \$450 million of 10-year notes with a 6.8% coupon interest rate. Proceeds from the sale of the notes and funds available under the revolving-credit facility were used to repay short-term bank debt.

In January 2008, Questar Pipeline sold \$200 million of 10-year notes with a 5.83% coupon interest rate and used the proceeds to repay maturing long-term debt and short-term intercompany debt. In March 2008, Questar Gas sold \$50 million of 10-year notes with a 6.3% coupon interest rate and \$100 million of 30-year notes with a 7.2% coupon interest rate. Proceeds from the Questar Gas borrowings were used to repay maturing long-term debt and short-term intercompany debt.

Combined short-term and long-term debt was 47% of total capital at June 30, 2008. The Company had \$380 million of short-term lines of credit available to support Questar's commercial paper program. There was \$151.1 million of commercial paper outstanding on June 30, 2008. Market Resources had unused capacity of \$550 million on a long-term revolving-credit facility with banks at June 30, 2008.

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### **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 and a portion of Energy Trading gas- and oil-marketing transactions.

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 require collateral deposits. Counterparties include banks and energy-trading firms with investment-grade credit ratings. The amount of credit available may vary depending on the credit ratings assigned to Market Resources debt.

Generally, derivative instruments are matched to equity gas and oil production, thus qualifying as cash-flow hedges under the accounting provisions of SFAS 133 as amended and interpreted. 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.

Market Resources uses natural gas basis-only swaps to manage the risk of widening-basis differentials in the Rocky Mountains. These contracts are marked to market with any change in the valuation recognized in the determination of net income.

A summary of the Market Resources derivative positions for equity production as of June 30, 2008, is shown below:

Time Periods	Rocky			Rocky		
	Mountains	Midcontinent	Total	Mountains	Midcontinent	Total
	Gas (Bcf) fixed-price swaps			Estimated Average price per Mcf, net to the well		
<b>2008</b>						
Second half	40.2	26.3	66.5	\$7.06	\$8.32	\$7.56
<b>2009</b>						
First half	32.7	29.5	62.2	\$7.24	\$8.12	\$7.66
Second half	33.3	30.0	63.3	7.24	8.12	7.66
12 months	66.0	59.5	125.5	7.24	8.12	7.66

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<b>2010</b>						
First half	6.7	26.2	32.9	\$6.88	\$8.09	\$7.84
Second half	6.8	26.6	33.4	6.88	8.09	7.84
12 months	13.5	52.8	66.3	6.88	8.09	7.84
					Estimated	
	Gas (Bcf) basis-only swaps			Average basis per Mcf vs. NYMEX		
<b>2008</b>						
Second half	1.7		1.7	\$1.83		\$1.83
<b>2009</b>						
First half	11.0	1.7	12.7	\$2.68	\$1.08	\$2.47
Second half	11.2	1.7	12.9	2.68	1.08	2.47
12 months	22.2	3.4	25.6	2.68	1.08	2.47
<b>2010</b>						
First half	30.2	1.7	31.9	\$3.39	\$0.94	\$3.27
Second half	30.7	1.7	32.4	3.39	0.94	3.27
12 months	60.9	3.4	64.3	3.39	0.94	3.27
<b>2011</b>						
First half	45.3		45.3	\$2.29		\$2.29
Second half	46.1		46.1	2.29		2.29
12 months	91.4		91.4	2.29		2.29
					Estimated	
	Oil (Mbbbl) fixed-price swaps			Average price per bbl, net to the well		
<b>2008</b>						
Second half	423	221	644	\$67.39	\$70.77	\$68.55
<b>2009</b>						
First half	217	145	362	\$60.55	\$66.55	\$62.95
Second half	221	147	368	60.55	66.55	62.95
12 months	438	292	730	60.55	66.55	62.95

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As of June 30, 2008, Market Resources held commodity-price hedging contracts covering about 317.7 million MMBtu of natural gas, 1.4 million barrels of oil and basis-only swaps on an additional 183.0 Bcf of natural gas. A year earlier the Market Resources hedging contracts covered 310.6 million MMBtu of natural gas, 2.2 million barrels of oil, 16.4 million gallons of NGL and natural gas basis-only swaps on an additional 60.4 Bcf. Changes in the fair value of derivative contracts from December 31, 2007 to June 30, 2008 are presented below:

	Fixed-price Swaps	Basis-only Swaps (in millions)	Total
Net fair value of gas- and oil-derivative contracts			
outstanding at December 31, 2007	\$ 50.7	\$ 3.8	\$ 54.5
Contracts realized or otherwise settled	(20.9)	0.5	(20.4)

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Change in gas and oil prices on futures markets	(444.3)	22.8	(421.5)
Contracts added since December 31, 2007	(339.8)	(1.4)	(341.2)
Contracts redesignated as fixed-price swaps	(8.0)	8.0	
<b>Net Fair Value Of Gas- and Oil-Derivative Contracts</b>			
<b>Outstanding at June 30, 2008</b>	<b>(\$762.3)</b>	<b>\$33.7</b>	<b>(\$728.6)</b>

A table of the net fair value of gas- and oil-derivative contracts as of June 30, 2008, is shown below. About 62% of the contracts will settle in the next 12 months and the fair value of cash-flow hedges will be reclassified from other comprehensive income:

	Fixed-price Swaps	Basis-only Swaps (in millions)	Total
Contracts maturing by June 30, 2009	(\$473.6)	\$20.2	(\$453.4)
Contracts maturing between July 1, 2009 and June 30, 2010	(222.4)	29.7	(192.7)
Contracts maturing between July 1, 2010 and June 30, 2011	(66.3)	3.7	(62.6)
Contracts maturing between July 1, 2011 and June 30, 2012		(19.9)	(19.9)
<b>Net Fair Value Of Gas- and Oil-Derivative Contracts</b>			
<b>Outstanding at June 30, 2008</b>	<b>(\$762.3)</b>	<b>\$33.7</b>	<b>(\$728.6)</b>

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:

	June 30,	
	2008	2007
	(in millions)	
Net fair value asset (liability)	(\$ 728.6)	\$ 93.7
Fair value if market prices of gas and oil and basis differentials decrease by 10%	(430.5)	261.2
Fair value if market prices of gas and oil and basis differentials increase by 10%	(1,026.6)	(73.8)

## Interest-Rate Risk Management

As of June 30, 2008, Questar had \$1,730.5 million of fixed-rate long-term debt and \$250.0 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, 2007;
- 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.

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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 June 30, 2008. Based on such evaluation, such officers have concluded that, as of June 30, 2008, 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 June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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



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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 June 30, 2008:

			Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
	Number of Shares Purchased*	Average Price per Share		
2008				
April	84,951	\$61.85	-	-
May	6,485	66.18	-	-
June	17,860	67.68	-	-
<b>Total</b>	<b>109,296</b>	<b>\$63.06</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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

##### Director Elections

The Company held its Annual Meeting on May 20, 2008. Phillips S. Baker, Jr., L. Richard Flury, and Bruce A. Williamson were elected at the meeting to serve three-year terms as directors. The following is a tabulation of the votes received by nominees elected at the meeting:

Name	Votes For	Votes Withheld
Phillips S. Baker, Jr.	136,079,553	11,699,108
L. Richard Flury	147,192,180	586,480
Bruce A. Williamson	145,937,053	1,841,608



James A. Harmon was elected at the meeting to serve a one-year term as director: The following is a tabulation of the votes received by Mr. Harmon at the meeting:

Name	Votes For	Votes Withheld
James A. Harmon	88,081,956	59,696,704

The Company's directors are divided into three classes. Other directors whose terms extend beyond the meeting include: Teresa Beck, R. D. Cash, Robert E. McKee III, Gary G. Michael, K. O. Rattie, M. W. Scoggins, Harris H. Simmons, and Charles B. Stanley.

#### **Ratification of Independent Public Accounting Firm**

The Company submitted to its shareholders for ratification the selection of Ernst & Young, to serve as its independent registered public accounting firm for 2008. The following is the tabulation of votes received at the meeting:

Votes For	Votes Against	Votes Withheld
145,361,998	3,460,914	1,749,546

#### **Shareholder Proposal**

A shareholder presented a proposal to declassify the Board of Directors. The following is the tabulation of the votes on this proposal:

Votes For	Votes Against	Votes Withheld	Broker Non-vote
110,306,115	7,922,910	4,511,636	27,831,797

#### **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)

August 5, 2008

/s/Keith O. Rattie

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

August 5, 2008

/s/S. E. Parks

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

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Exhibits List

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