

QUESTAR CORP  
Form 8-K  
October 29, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 8-K**

CURRENT REPORT

Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

Date of Report - October 29, 2003  
(Date of earliest event reported)

**QUESTAR CORPORATION**  
(Exact name of registrant as specified in charter)

STATE OF UTAH

(State of other jurisdiction of  
incorporation or organization)

1-8796  
(Commission File No.)

87-0407509  
(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices)

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

Not Applicable

(Former name or former address, if changed since last report)

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Item 7. Financial Statements and Exhibits

(c) Exhibits.

Exhibit No.

Exhibit

99.1

Release issued October 29, 2003, by Questar Corporation.

Item 12. Results of Operations and Financial Condition

On October 29, 2003, Questar Corporation issued a press release announcing its earnings for the third quarter of 2003. A copy of this press release is furnished as Exhibit 99.1 and is incorporated by reference.

SIGNATURE

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)

October 29, 2003

/s/S. E. Parks

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

List of Exhibits:

Exhibit No.

Exhibit

99.1

Release issued October 29, 2003, by Questar Corporation.

**QUESTAR EARNINGS RISE 23% IN THIRD-QUARTER 2003**  
**Natural Gas Company Boosts 2003 Guidance, Provides Initial 2004 Guidance**

Questar Corp. (NYSE:STR) reported a 23% increase in net income for third-quarter 2003 compared with the year-earlier period due primarily to a 43% increase in realized prices for nonregulated natural gas production.

The integrated natural gas company earned \$28.7 million, or \$.34 per diluted share, in the 2003 quarter compared with \$23.4 million, or \$.28 per share, in the prior-year period. Questar Market Resources (QMR), a nonregulated subsidiary that conducts gas and oil exploration, production, gathering and processing, reported earnings of \$27.4 million, a 71% year-to-year improvement due to higher natural gas prices.

Keith O. Rattie, Questar chairman, president and CEO, said, "Higher natural gas prices and better-than-forecast natural gas production growth in the Rockies have driven Questar earnings in 2003. We now expect 2003 nonregulated natural gas and oil production to slightly exceed 92 bcfe (billion cubic feet equivalent), up about 10% from 2002 after adjusting for asset sales in the second half of last year.

"Moreover, we have taken advantage of recent strength in natural gas prices to significantly increase our equity-production hedges for the remainder of 2003, as well as 2004 and 2005," Rattie said. "As a result, our 2004 earnings will be significantly less sensitive to commodity-price volatility than in the recent past."

For the first nine months of 2003, Questar's net income was \$113.6 million, or \$1.35 per share, compared with \$87.6 million, or \$1.06 per share, for the prior-year period. Nine-month results for 2003 included previously announced adjustments to earnings that occurred in the first and second quarters. A \$.07-per-share charge in the first quarter resulted from the cumulative effect of implementing SFAS 143, Accounting for Asset Retirement Obligations, which requires companies to record a liability for the anticipated costs of retiring long-lived assets. In the second quarter, the company recorded a \$13.6 million, or \$.16 per diluted share, after-tax liability for costs that had been recovered in rates paid by customers of its retail gas-distribution subsidiary, Questar Gas. The liability resulted from a Utah State Supreme Court ruling on Aug. 1, 2003, which reversed an order approving a settlement that provided for recovery of certain natural gas-processing costs. The revenues had been collected from 1999 through June 2003. In 2002 the company changed its method of accounting for goodwill and recorded a \$15.3 million or \$.19 per share cumulative charge. The 2002 results also included gains from asset sales of \$3.7 million or \$.05 per share.

Before these items, Questar earned \$132.8 million, or \$1.58 per diluted share, in the first nine months of 2003 versus \$99.2 million, or \$1.20 per share, in the comparable 2002 period.

For the trailing 12 months ended Sept. 30, 2003, Questar earned \$181.6 million, or \$2.17 per share, compared with \$130.2 million, or \$1.58 per share, for the comparable period ended Sept. 30, 2002. Questar's consolidated return on equity for the 12 months ended Sept. 30, 2003, was 15.7% while return on assets totaled 11.6%.

There was an average of 84 million common diluted shares outstanding in the first nine months of 2003 versus 82.5 million shares a year earlier.

Company increases earnings guidance for 2003; provides initial guidance for 2004

Rattie said that Questar now estimates that 2003 earnings will range from \$2.20 to \$2.30 per share, compared to previous guidance of \$2.15 to \$2.25 per share. This guidance assumes natural gas prices consistent with the forward-price curves at the close of business yesterday and excludes the \$.16 per share charge on Aug. 1, 2003, related to CO<sub>2</sub> -processing costs in the company's retail gas-distribution business. The company's guidance also excludes the one-time \$.07 per-share charge related to the cumulative effect of implementation of the new SFAS 143 accounting rules.

The company also provided initial guidance for 2004. Questar estimates that next year's earnings could range from \$2.25 to \$2.40 per share. This guidance is based on forecast 2004 nonregulated production of 95 to 100 bcfe, and assumes natural gas prices for unhedged volumes at or near levels reflected in the current forward curves. The 2004 production and earnings guidance takes into account declining production and a higher depreciation, depletion and amortization rate in the company's Uinta Basin operations in eastern Utah (see the company's separate news release containing details on nonregulated activities).

The company's 2004 guidance does not include gains and losses from the sale of assets, one-time charges, and any benefits from the possible renewal of tax credits for

unconventional natural gas production. The tax credits are currently being considered by Congress as part of a national energy bill.

Company significantly increases equity natural gas hedges for 2003 and 2004

Questar also reported that it has taken advantage of recent strong natural gas prices to hedge additional volumes of expected natural gas production for the remainder of 2003, as well as 2004 and 2005. Questar has hedged 15.1 bcf of fourth-quarter 2003 natural gas production (about 72% of forecast) at an average net-to-the-well price of \$3.71 per thousand cubic feet (Mcf).

For 2004, Questar has now hedged 67.6 bcf (about 80% of forecast natural gas production) at an average net-to-the-well price of \$4.02 per Mcf. The company's hedges are more heavily weighted to the Rockies, to reduce basis risk. The company estimates that a \$.10 per million Btu change in natural gas prices at the Henry Hub for the full year 2004 will result in a change in Questar net income of \$800,000-\$900,000, or about \$.01 per share.

The company has also hedged 18 bcf of 2005 natural gas production at an average net-to-the-well price of \$3.94 per Mcf. The company said it intends to add hedges in both 2004 and 2005 over the next 12-18 months.

For the fourth quarter of 2003, the company has hedged 276,000 barrels of oil production at a net-to-the-well price of \$21.80 per barrel. The company has not hedged 2004 or 2005 oil production. Oil production accounts for about 13-14% of the company's total production on a gas-equivalent basis.

### Third Quarter 2003 Results

Nonregulated activities: higher natural gas prices boost results

QMR reported net income of \$27.4 million in third-quarter 2003 compared with \$16 million in the year-earlier period. Questar Exploration and Production, a QMR subsidiary that conducts exploration and production operations in the Rockies and the Midcontinent, earned \$17.4 million in the 2003 quarter versus \$7 million a year earlier.

QMR's average realized selling price for natural gas rose 43% to \$3.56 per Mcf compared with \$2.49 per Mcf in the 2002 quarter. The 2003 results reflected higher natural gas prices and the significant narrowing of the Rockies' natural gas-basis differential following the May 1 start-up of a regional pipeline expansion. QMR received an average price of \$22.69 per barrel for nonregulated oil and natural gas-liquids production, 8% higher than in the 2002 quarter.

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Nonregulated natural gas-equivalent production declined 4% during the current-year quarter to 23 bcfe compared to 23.9 bcfe in the prior-year period due primarily to the company's sale of its Canadian subsidiary, effective October 2002, and other properties sold in 2002. However, Rocky Mountain production increased nearly 14% in the current-year quarter. Adjusting for property sales, QMR's third-quarter 2003 net production rose 13% over the year-ago period.

Wexpro, a QMR subsidiary that develops gas reserves on behalf of Questar's gas-distribution utility, earned \$7.8 million in the third quarter of 2003, compared to \$7.9 million a year earlier. Wexpro earns a specified return on its net investment in commercial wells. Wexpro's investment base was \$161.2 million at the end of third-quarter 2003.

QMR's gas gathering, processing and marketing operations earned a combined \$2.2 million in the 2003 quarter compared with \$1.1 million for the comparable year-earlier quarter. Earnings before income taxes from QMR's share of Rendezvous Gas Services increased from \$530,000 to \$1.2 million in the 2003 quarter compared with the year-earlier period. A QMR subsidiary, Questar Gas Management, is a 50% partner in Rendezvous, which provides gathering and processing services for the Pinedale and Jonah producing areas in western Wyoming. Rendezvous will continue to benefit from growing gathering volumes from the Pinedale area.

Regulated Income declines due to lower pipeline construction activity and new utility rate structure

Questar Regulated Services - which includes interstate gas transmission and storage and retail gas distribution - reported a net loss of \$400,000 during third-quarter 2003 versus \$4 million in earnings a year earlier.

Questar Pipeline - an interstate gas transmission and storage subsidiary - earned \$7.9 million in the 2003 quarter versus \$8.8 million in the comparable 2003 period. Lower construction activity in 2003 resulted in reduced construction-related capitalized costs. Also, the TransColorado Pipeline contributed to 2002 third-quarter income before its sale in the fourth quarter. Questar Pipeline's total transportation volumes grew 9% to 89 million decatherms compared with a year earlier. The growth reflected the second-half 2002 start-up of the eastern zone of the company's Southern Trails Pipeline and increased deliveries to the expanded Kern River Pipeline.

The seasonal loss from Questar Gas, the company's state-regulated retail gas distribution business, increased from \$4.7 million in the third-quarter of 2002 to \$8.3 million in the current-year period. Questar Gas benefited from a \$2.3 million after-tax settlement related to gas-processing costs in the third quarter of 2002. This amount was part of the liability charge in the second quarter of 2003. In addition, Questar Gas's revenue profile has changed in 2003, with a greater portion of revenues expected in the first and fourth quarters because of a new rate structure that went into effect Dec. 30, 2002. Also, Questar Gas accrued an additional \$900,000 after tax, including interest, for the possible refund of CO<sub>2</sub>-processing costs.

Questar Gas served 756,000 customers at the end of the 2003 quarter, a one-year increase of about 20,000 or 3%.

### Corporate and Other Operations

Corporate and Other Operations reported net income of \$1.7 million in third-quarter 2003 compared with \$3.4 million in the year-earlier period due to lower margins on services provided to affiliates in 2003 and a \$1.2 million tax benefit recognized in 2002.

### Nine-Month Results

Higher commodity prices boost nonregulated results

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Questar Market Resources' net income for the first nine months of 2003 was \$84.1 million compared with \$56.4 million for the 2002 period. Natural gas production declined 3% to 57.6 bcf due to 2002 property sales, while the average realized selling price was 44% higher at \$3.58 per Mcf. Nonregulated oil and natural gas-liquids production decreased 22% to 1.7 million barrels due primarily to 2002 property sales, while the average realized selling price improved 16% to \$23.28 per barrel.

QMR's 2002 nine-month earnings included \$3.3 million in tax credits for unconventional natural gas production, which expired at the end of that year.

### Regulated Activities

Questar Regulated Services had net income of \$24.3 million in the first nine months of 2003, compared with \$40.2 million in the prior-year period. Questar Pipeline's net income was \$23.1 million in the first nine months of 2003, about \$1 million less than the same period last year. Lower construction activity in 2003 resulted in lower construction-related capitalized costs.

Questar Gas's net income was \$1 million in the current-year period compared with \$16 million in the first nine months of 2002. The 2003 results include the \$13.6 million after-tax liability for gas-processing costs recorded in the second quarter and \$900,000 in the third quarter. The 2002 results included a \$2.3 million after-tax settlement related to gas-processing costs in the third quarter of the year. This amount was part of the \$13.6 million charge in the second quarter of 2003. Questar Gas had been on track to earn its 11.2% allowed return on equity in 2003 before the Aug. 1 Utah Supreme Court ruling. The company may be required to refund to retail customers previously recovered costs. The company strongly believes that these costs are prudent and necessary to deal with a potentially serious safety concern, and therefore recoverable in rates. Because the outcome of ongoing proceedings before the Utah Public Service Commission is uncertain, the company recorded a charge of \$.16 per share in the second quarter of 2003.

### Corporate and Other Operations

Corporate and Other Operations reported earnings of \$5.2 million for the first nine months of 2003. With the \$15.3 million goodwill-accounting charge, the segment lost \$9.0 million in the same period of 2002.

### CURRENT HEDGE POSITIONS

Gas hedges/2003

Bcf

Price per Mcf.,

net to well

Rocky Mountains

4<sup>th</sup> quarter

	10.8
	\$3.53
Midcontinent	
4 <sup>th</sup> quarter	
	4.3
	\$4.14
Total	
4 <sup>th</sup> quarter	
	15.1
	\$3.71
Oil hedges/2003	
	Mbbls
	Price per bbl,
	net to well
Rocky Mountains	
4 <sup>th</sup> quarter	
	230
	\$21.68
Midcontinent	
4 <sup>th</sup> quarter	
	46
	\$22.38
Total	
4 <sup>th</sup> quarter	
	276
	\$21.80

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Gas hedges/2004

	Bcf	Price per Mcf, net to well
Rocky Mountains		
1 <sup>st</sup> half	22.5	\$3.78
2 <sup>nd</sup> half	21.0	\$3.69
Year	43.5	\$3.74
Midcontinent		
1 <sup>st</sup> half	12.0	\$4.53
2 <sup>nd</sup> half	12.1	\$4.53
Year	24.1	\$4.53
Total		
1 <sup>st</sup> half		



	34.5
	\$4.04
2 <sup>nd</sup> half	
	33.1
	\$3.99
Year	
	67.6
	\$4.02
Gas hedges/2005	
	Bcf
	Price per Mcf.,
	net to well
Rocky Mountains	
1 <sup>st</sup> half	
	5.4
	\$3.67
2 <sup>nd</sup> half	
	5.6
	\$3.67
Year	
	11.0
	\$3.67
Midcontinent	
1 <sup>st</sup> half	
	3.5
	\$4.37
	9

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2 <sup>nd</sup> half		3.5
		\$4.37
Year		7.0
		\$4.37
Total		
1 <sup>st</sup> half		8.9
		\$3.94
2 <sup>nd</sup> half		9.1
		\$3.94
Year		18.0
		\$3.94

Questar is an integrated natural gas company headquartered in Salt Lake City with total assets of \$3.1 billion. Through subsidiaries, it engages in gas and oil development and production; gas gathering, processing and marketing; interstate gas transmission and storage; retail gas distribution; retail energy services; and information systems and technologies.

## Forward-looking Statements

This release contains certain forward-looking statements within the meaning of the federal securities laws. Such statements are based on management's current expectations, estimates and projections, which are subject to a wide range of uncertainties and business risks. Factors that could cause actual results to differ from those anticipated are discussed in the company's periodic filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended Dec. 31, 2002. Subject to the requirements of otherwise applicable law, the company cannot be expected to update the statements contained in this news release or take actions described herein or otherwise currently planned.

For more information, visit Questar's internet site at: [www.questar.com](http://www.questar.com)

## QUESTAR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	3 Months Ended September 30,		9 Months Ended September 30,		12 Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
(In Thousands, Except Per Share Amounts)						
<b>REVENUES</b>						
Questar Market Resources	\$ 179,980	\$ 108,877	\$ 549,153	\$ 357,580	\$ 714,049	\$ 489,906
Questar Regulated Services						
Natural gas distribution	71,054	59,347	396,162	402,309	587,688	612,541
Natural gas transmission	17,777	18,015	55,417	44,855	76,837	58,409
Other	1,328	770	3,686	2,553	5,293	3,691
Corporate and other operations	3,364	3,661	9,558	10,520	12,959	19,702
<b>TOTAL REVENUES</b>	<b>273,503</b>	<b>190,670</b>	<b>1,013,976</b>	<b>817,817</b>	<b>1,396,826</b>	<b>1,184,249</b>
<b>OPERATING EXPENSES</b>						
Cost of natural gas and other products sold	79,423	17,328	350,723	243,414	503,051	405,858
Operating and maintenance	66,307	67,368	208,355	206,523	286,149	287,700
Depreciation, depletion and amortization	47,536	46,953	141,172	136,723	189,401	179,906
Distribution rate-refund obligation	1,462		23,462		23,462	
Exploration	961	1,102	3,174	4,983	4,277	7,952
Abandonment and impairment of gas, oil and other properties	1,087	1,411	2,062	2,466	10,779	3,553
Production and other taxes	17,882	10,329	52,413	33,933	62,672	41,878
<b>TOTAL OPERATING EXPENSES</b>	<b>214,658</b>	<b>144,491</b>	<b>781,361</b>	<b>628,042</b>	<b>1,079,791</b>	<b>926,847</b>
<b>OPERATING INCOME</b>	<b>58,845</b>	<b>46,179</b>	<b>232,615</b>	<b>189,775</b>	<b>317,035</b>	<b>257,402</b>
Interest and other income	1,818	1,329	6,617	17,894	45,390	31,689
Earnings from unconsolidated affiliates	1,329	6,328	3,687	10,090	5,374	10,974
Minority interest	38	4	168	301	368	572
Debt expense	(17,306)	(20,488)	(53,734)	(60,886)	(73,969)	(78,706)
<b>INCOME BEFORE INCOME TAXES</b>						
<b>AND CUMULATIVE EFFECTS</b>	<b>44,724</b>	<b>33,352</b>	<b>189,353</b>	<b>157,174</b>	<b>294,198</b>	<b>221,931</b>
Income taxes	16,033	9,995	70,188	54,294	107,020	76,470

INCOME BEFORE CUMULATIVE						
EFFECTS	28,691	23,357	119,165	102,880	187,178	145,461
Cumulative effect of accounting change for asset retirement obligations, net of income taxes of \$3,331			(5,580)		(5,580)	
Cumulative effect of accounting change for goodwill, net of \$2,010 attributed to minority interest				(15,297)		(15,297)
NET INCOME	\$ 28,691	\$ 23,357	\$ 113,585	\$ 87,583	\$ 181,598	\$ 130,164
BASIC EARNINGS PER COMMON						
SHARE						
Income before cumulative effects	\$ 0.35	\$ 0.28	\$ 1.45	\$ 1.26	\$ 2.28	\$ 1.78
Cumulative effects			(0.07)	(0.19)	(0.07)	(0.19)
Net income	\$ 0.35	\$ 0.28	\$ 1.38	\$ 1.07	\$ 2.21	\$ 1.59
DILUTED EARNINGS PER						
COMMON SHARE						
Income before cumulative effects	\$ 0.34	\$ 0.28	\$ 1.42	\$ 1.25	\$ 2.24	\$ 1.77
Cumulative effects			(0.07)	(0.19)	(0.07)	(0.19)
Net income	\$ 0.34	\$ 0.28	\$ 1.35	\$ 1.06	\$ 2.17	\$ 1.58
Weighted average common shares						
outstanding						
Used in basic calculation	82,896	81,842	82,600	81,728	82,318	81,631
Used in diluted calculation	84,398	82,398	84,043	82,487	83,622	82,320
Dividends per common share	\$ 0.205	\$ 0.18	\$ 0.575	\$ 0.54	\$ 0.76	\$ 0.72

QUESTAR CORPORATION AND SUBSIDIARIES  
SELECTED FINANCIAL AND OPERATING RESULTS

(Unaudited)

3 Months Ended		9 Months Ended		12 Months Ended	
September 30,		September 30,		September 30,	
2003	2002	2003	2002	2003	2002
(In Thousands)					

FINANCIAL RESULTS

REVENUES FROM UNAFFILIATED CUSTOMERS

Questar Market Resources	\$ 179,980	\$ 108,877	\$ 549,153	\$ 357,580	\$ 714,049	\$ 489,906
Questar Regulated Services						
Natural gas distribution	71,054	59,347	396,162	402,309	587,688	612,541
Natural gas transmission	17,777	18,015	55,417	44,855	76,837	58,409
Other	1,328	770	3,686	2,553	5,293	3,691
Total Regulated Services	90,159	78,132	455,265	449,717	669,818	674,641
Corporate and other operations	3,364	3,661	9,558	10,520	12,959	19,702
	\$ 273,503	\$ 190,670	\$1,013,976	\$817,817	\$1,396,826	\$1,184,249

REVENUES FROM AFFILIATED  
COMPANIES

Questar Market Resources	\$ 29,282	\$ 24,807	\$ 85,688	\$ 81,717	\$ 110,618	\$ 106,861
Questar Regulated Services						
Natural gas distribution	444	145	1,901	1,243	2,334	1,592
Natural gas transmission	20,104	18,317	59,750	58,198	78,152	77,126
Other	579	422	1,493	1,236	1,944	1,546
Corporate and other operations	6,863	7,669	21,198	22,803	28,852	29,366
	\$ 57,272	\$ 51,360	\$ 170,030	\$ 165,197	\$ 221,900	\$ 216,491

OPERATING INCOME (LOSS)

Questar Market Resources	\$ 48,560	\$ 30,565	\$ 156,329	\$ 97,226	\$ 189,547	\$ 126,259
Questar Regulated Services						
Natural gas distribution	(9,820)	(3,908)	16,804	39,209	47,949	63,173
Natural gas transmission	18,346	17,176	53,921	47,884	72,222	63,214
Other	52	(144)	410	(333)	402	(457)
Total Regulated Services	8,578	13,124	71,135	86,760	120,573	125,930

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Corporate and other operations	1,707	2,490	5,151	5,789	6,915	5,213
OPERATING INCOME	\$ 58,845	\$ 46,179	\$ 232,615	\$ 189,775	\$ 317,035	\$ 257,402
NET INCOME (LOSS)						
Questar Market Resources	\$ 27,352	\$ 16,000	\$ 89,177	\$ 56,419	\$ 130,687	\$ 75,523
Questar Regulated Services						
Natural gas distribution	(8,259)	(4,667)	1,287	15,990	17,696	28,498
Natural gas transmission	7,857	8,842	23,252	24,128	31,732	32,168
Other	36	(211)	273	99	334	1,855
Total Regulated Services	(366)	3,964	24,812	40,217	49,762	62,521
Co						