

Q3 2011 Earnings Teleconference Script – K. Hadlock

Oct. 26, 2011

Thank you, operator. Good morning everyone and thank you for joining us for Questar's third quarter 2011 earnings conference call. I am Kevin Hadlock, Questar's chief financial officer. With me today are Ron Jibson, president and CEO of Questar Corporation; Jim Livsey, executive vice president of Wexpro; Allan Bradley, CEO of Questar Pipeline; and Craig Wagstaff, senior vice president of Questar Gas. During this call, we will be referring to our third quarter earnings presentation that can be found on our website at www.questar.com.

Moving to slide 2 ...

Before we begin, let me remind you that we will be making forward-looking statements during our call today and actual results could differ from our estimates for a variety of reasons that we describe in our SEC filings. Also, this call may reference non-GAAP financial measures. Our slides in the Appendix provide reconciliations to these measures.

Let's begin on slide 4 ...

Yesterday we reported third quarter net income of \$36.1 million, or 20 cents per diluted share. This compares to income from continuing operations of \$29.4 million or 16 cents per diluted share in the third quarter of 2010.

As we have emphasized in prior calls, we are focused on reducing our cost structure. These efforts proved successful in the third quarter as our combined O&M and G&A expense was down nearly 7 percent compared to the third quarter of 2010.

Operating cash flow has been strong in the first nine months of 2011, totaling \$364 million, up 18 percent versus the same period last year.

With the success we have had year-to-date, we have raised our 2011 earnings guidance range to between \$1.11 and \$1.14 per diluted share.

Turning to slide 5 ...

All three business units showed earnings improvement in the third quarter versus the prior year. Corporate was slightly lower due to higher interest expense from the \$250 million of debt issued in December of 2010.

Overall, net income in the third quarter of 2011 increased by \$6.7 million or 4 cents per diluted share over income from continuing operations in the same period last year.

Moving to slide 6 ...

Wexpro, our cost-of-service natural gas development company, grew EBITDA to \$56 million, up \$6.8 million or 14 percent versus the same period last year. Net income was up \$3.4 million to \$25.6 million, an increase of 15 percent from the third quarter of 2010.

These results were driven largely by a higher average investment base, which saw a year-over-year increase of \$16.1 million or about 3.7 percent. Wexpro's capital investment of \$43.3 million in the third quarter was substantially higher than last year as we saw a larger number of well completions and higher ownership interest in wells drilled.

Overall, Wexpro delivered strong results in the third quarter and earned an attractive return on equity, which was 20.7 percent for the 12 months ended Sept. 30.

Turning to slide 7 ...

Questar Pipeline, our interstate natural gas pipeline and storage business, had a strong third quarter. Revenue was up \$1 million driven primarily by additional transportation revenues from the recently completed Overthrust Loop Expansion. These results were partially offset by lower revenues from natural gas liquids sales.

Net income was \$18.8 million, an increase of \$2.5 million or 15 percent compared to last year's third quarter, due in part, to lower O&M, G&A and interest expense.

Capital investment in the third quarter of 2011 was higher due to the investment in our Mainline 104 expansion project.

Overall, Questar Pipeline earned an 11.8 percent return on average equity for the 12 months ended Sept. 30.

Moving to slide 8 ...

Questar Gas, our retail gas distribution utility, saw an increase in gross margin of \$800,000, due to continued customer growth and recovery of feeder line replacement costs.

On a net income basis, Questar Gas normally shows a loss in the third quarter. For the third quarter of 2011, Questar trimmed the loss by \$1.2 million versus the prior year. This was due in part to a reduction in O&M and G&A costs versus the third quarter of 2010.

On a financial basis, for the 12 months ended Sept. 30, Questar Gas earned an 11.7 percent return on average equity, driven by a seasonally low level of equity on solid earnings results.

Moving to slide 9 ...

With regard to costs, Questar's consolidated operating and maintenance costs were down \$1.4 million due to lower labor and maintenance expense. Our general and administrative expense in the third quarter totaled \$24.1 million, down \$3.1 million from the same period last year due to lower labor and share-based compensation costs. Improvements in both O&M and G&A costs demonstrate that our cost reduction initiatives are proving effective.

Production and other taxes were slightly higher due to property taxes on higher plant investment.

Depreciation was up \$1.9 million due to the acceleration of capital investment over the past year.

Consolidated interest expense was \$800,000 lower due to the redemption of Questar Pipeline's long-term notes using short-term debt, partially offset by corporate debt issued in December of 2010.

Turning to slide 10 ...

The Company continues to generate strong cash flow. For the first nine months of 2011, cash flow from continuing operations before working capital changes totaled about \$364 million, an 18 percent increase over the first nine months of 2010. This strong cash flow will allow us to continue raising the dividend and will provide an opportunity to manage the share count back to pre-spin levels through the \$100 million share-repurchase program that we announced last quarter.

During the third quarter, we took advantage of favorable market conditions and increased the size of our credit facility to \$500 million and extended maturity of the facility to 2016. At the end of the third quarter, Questar had net available liquidity of \$222 million. At Sept. 30, Questar had \$278 million of commercial paper outstanding, which was used, in part, to retire \$180 million of Questar Pipeline debt that matured in the second and third quarters of this year. We expect to refinance this amount before year end.

With that, let me turn the time over to Questar's President and CEO, Ron Jibson, to discuss operations and Questar's outlook.

Q3 2011 Earnings Teleconference Script – R. Jibson

Oct. 26, 2011

Good morning everyone and thanks Kevin for that summary. We appreciate all of you joining us today. I'll comment briefly on our third-quarter results, update our outlook for the remainder of 2011, and discuss our outlook for 2012 and beyond.

Let's begin on slide 12 ...

We had a successful third quarter with all three business units performing very well. Wexpro continues to be a key differentiator for Questar because of its unique cost-recovery model and industry-leading returns. The company develops natural gas and oil on a defined set of producing properties in the Rockies and earns an approximate 20 percent after-tax, unlevered return on its net investment base. The natural gas produced from these properties is delivered to our utility, Questar Gas, at a cost-of-service that includes the 20 percent return. So while Wexpro's operations are similar to those of a natural gas exploration and production company, its economic model is much like that of a regulated utility, noted for its stable and predictable earnings and cash flow, but without commodity price exposure or the need for periodic rate cases.

Wexpro's development program continues to deliver low-cost production largely due to increasing drilling efficiencies in the Vermillion Basin. Drilling performance in this location continues to exceed expectations with drilling times as short as five to six days and reserve estimates of 2.5 to 3.5 Bcfe per well. This has resulted in average finding costs of less than \$1.00 per Mcfe for recently completed wells that Wexpro operates in this area. Together with Wexpro's non-operated wells in Pinedale, our average year-to-date finding costs were \$1.10 per Mcfe, which makes cost-of-service gas from new wells competitive with the forward price curve.

Questar Pipeline, our natural gas transportation and storage business, experienced increased revenues primarily due to the Overthrust loop expansion project completed earlier this year. This increase was partially offset by lower revenues from natural gas liquid sales. We also made significant progress on two key projects during the third quarter. We are on track to complete the Mainline 104 extension and the Skull

Creek processing expansion in the fourth quarter of 2011. Also in the third quarter, we received authorization to increase Clay Basin's storage capacity by 2.7 billion cubic feet.

Questar Gas turned in another strong quarter, benefitting from customer growth in our service area. Over the past 12 months, Questar Gas added about 11,000 customers, an increase of about 1.2 percent, outpacing the national average. Questar Gas's revenues also increased from feeder-line replacement cost recovery.

As Kevin mentioned in his comments, we benefited from lower consolidated O&M and G&A expenses, which is a testament to our employees' focus on our cost-containment initiatives.

Turning to Slide 13 ...

Questar's return on equity continues to be industry-leading. For the trailing 12-month period ending Sept. 30, 2011, we saw a consolidated ROE of 20.3 percent. This superior return is supported by Wexpro, which provided a return on equity of 20.7 percent. Questar Pipeline delivered an ROE of 11.8 percent, which is near its authorized return. On a financial basis, Questar Gas's return on equity was 11.7 percent, driven by a seasonally low level of equity on solid earnings results.

Moving to slide 14 ...

Looking at the remainder of 2011, we have sufficient visibility into our earnings to raise our guidance to between \$1.11 and \$1.14 per diluted share. This new earnings guidance is supported by strong year-to-date earnings, continued focus on cost containment, and an increase to Wexpro's full-year capital investment forecast by \$17 million to \$125 million.

We continue to look for opportunities to execute on the \$100 million share-repurchase program that was approved by our board last quarter. Year-to-date, we have repurchased \$3.8 million under the \$100 million authorization, which extends through the end of 2012.

Turning to slide 15 and some perspective on our 5-year outlook ...

We continue to expect natural gas prices to remain soft over the next several years. While we have very little direct exposure to commodity price volatility, sustained low natural gas prices have an impact on drilling activity in the Rockies.

While the U.S. economy continues to show signs of weakness, economists are forecasting that Utah's recovery should outpace the national average. We continue to see strong signs of economic development in Utah. Recently, Forbes magazine named Utah as the No. 1 Best State for Business, and Fortune magazine named Salt Lake City as one of the 15 best global cities for business.

We continue to be optimistic about our long-term growth prospects. For 2012, we have established a preliminary earnings guidance of \$1.15 to \$1.19 per diluted share and estimate our compound annual earnings growth rate to be between 4 percent and 6 percent over our five-year planning horizon. This growth rate is supported by highly visible opportunities to invest in Wexpro development and to grow Questar Gas's investment base through the feeder-line replacement program.

This earnings growth and associated cash flow provides the opportunity for us to continue our dividend growth. We are currently targeting a dividend payout ratio of about 60 percent, which could allow us to increase the dividend faster than earnings growth over the early part of the five-year plan.

Turning to slide 16 ...

Wexpro continues to project compound annual earnings growth of 4 percent to 8 percent through the five-year planning horizon. We are driving further efficiencies in our drilling operations in the Vermillion Basin and are moving into the more prolific areas of Pinedale in the next few years, which gives us confidence in our ability to keep cost-of-service gas competitive with the forward curve.

We are expecting to invest between \$550 million and \$700 million in cumulative capital through 2016, with a forecast of \$135 million for 2012.

Last quarter, I mentioned that we have opened a dialogue with Utah and Wyoming regulators to expand the Wexpro agreement. Currently, the agreement does not permit us to add new properties. We believe that Questar Gas customers and company shareholders could benefit by expanding the Wexpro agreement to include some additional future assets. We would not expect that adding properties to the Wexpro agreement would materially change our current five-year drilling plan, but would accomplish our objective of adding years to the Wexpro agreement.

Moving to slide 17 ...

After several years of significant earnings growth at Questar Pipeline, we are entering a period of slower growth and fewer investment opportunities, while still generating strong free cash flow. The spread between oil and natural gas prices has widened, causing some producers to shift development in favor of “wet gas” and oil-producing areas. As a result, Rockies natural gas production is forecast to be relatively flat over the five-year plan. Additionally, several project completions in 2011 including Ruby pipeline and the Kern River expansion have increased export capacity for Rockies gas. Our strategic position, which is centered around the four key Rockies’ hubs, remains very strong, and our long-term, demand-based contracts mitigate the potential negative impact on transportation revenues over the five-year plan. Overall, we are expecting earnings to be flat over the five-year planning horizon. We will likely see some variability in Questar Pipeline’s earnings due to continued volatility in natural gas liquids volumes and prices.

We continue to look for opportunities to provide value-added services to producers. Market dynamics, however, are presenting fewer growth opportunities. For 2012, we are forecasting capital investment of about \$55 million. On the positive side, we are projecting cumulative free cash flow of approximately \$350 million over the five-year plan.

Turning to slide 18 ...

The outlook for Questar Gas continues to be bright. We are projecting compound annual earnings growth of 7 percent to 9 percent over the five-year planning horizon. This growth rate reflects softer customer growth expectations for 2012 of 1 percent, rising to 2 percent, over the five-year plan. Given recent economic forecasts for the state of Utah, this customer growth estimate could prove conservative.

Questar Gas's growth rate is supported by customer growth and the feeder-line and infrastructure-replacement program. The feeder-line tracker allows us to earn on our current multi-year pipeline-replacement program as we place the new facilities into service. This cost tracker is extremely important for Questar Gas, our customers and our shareholders. Everyone benefits as necessary improvements are made to the distribution system without the need to file general rate cases to add the investment to rate base. Questar Gas is projecting higher capital investment totaling approximately \$155 million in 2012, including about \$55 million allocated toward the feeder-line replacement program.

Moving to slide 19 ...

In summary, we continue to show strong performance in all three of our business segments. I am very pleased with our third-quarter results, which demonstrate our employees' resolve to execute our business plan while reducing costs. Our year-to-date progress gives us confidence to raise our earnings guidance to between \$1.11 and \$1.14 per diluted share in 2011.

Looking out one more year, we have established a preliminary earnings guidance range for 2012 of \$1.15 to \$1.19 per diluted share and a capital budget of approximately \$355 million.

Using the higher earnings expectations for 2011 as the base year, our long-term compound earnings growth rate could be in the range of 4 percent to 6 percent over the five-year plan.

We remain focused on increasing shareholder value and providing a competitive return. In addition to strong earnings growth, we expect to continue increasing the

dividend, targeting a 60 percent payout ratio. This could allow us to increase the dividend faster than earnings growth over the early part of the five-year plan.

Overall, we are pleased with our progress so far this year and are excited about our prospects going forward.

With that, we would be happy to take your questions ...