

QUESTAR CORP
Form 8-K
October 27, 2006

**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 26, 2006

(Date of earliest event reported)

QUESTAR CORPORATION

(Exact name of registrant as specified in charter)

STATE OF UTAH

1-8796

87-0407509

(State of other jurisdiction of
incorporation or organization)

(Commission File No.)

(I.R.S. Employer
Identification No.)

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

(Address of principal executive offices)

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

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17
CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17
CFR 240.13e-4(c))

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Item 2.02 Results of Operations and Financial Condition

On October 26, 2006, Questar Corporation (the Registrant) issued a press release to report the Registrant's financial results for the third quarter and nine months ended September 30, 2006. A copy of the Registrant's release is attached hereto as Exhibit 99.1, and the information contained therein is incorporated herein by reference. The information contained in Item 2.02 to this Form 8-K, including the exhibit, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and the information shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits.

Exhibit No.

Exhibit

99.1

Release issued October 26, 2006, by Questar Corporation.

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 26, 2006

/s/ S. E. Parks

S. E. Parks

Senior Vice President and

Chief Financial Officer

List of Exhibits:

Exhibit No.

Exhibit

99.1

Release issued October 26, 2006, by Questar Corporation.

QUESTAR NET INCOME UP 45% IN THIRD QUARTER 2006**Company Raises 2006 Earnings Guidance, Provides Initial 2007 Outlook**

SALT LAKE CITY Questar Corp. (NYSE:STR) – a natural gas-focused energy company – grew net income 45% in the third quarter of 2006 to \$95.1 million, or \$1.08 per diluted share, compared to \$65.8 million, or \$0.75 per diluted share, for the third quarter of 2005. Net-income growth was driven by higher natural gas production and higher realized prices for natural gas, oil and natural gas liquids (NGL) in the company's exploration and production businesses. Third-quarter 2006 results included a \$15.8 million or \$0.18 per diluted share after-tax gain from the sale of assets, an \$8.7 million or \$0.10 per diluted share after-tax charge related to unsuccessful exploratory wells in Wyoming and Utah, and a \$3.2 million or \$0.04 per diluted share after-tax charge for unrealized mark-to-market losses on natural gas basis swaps.

For the first nine months of 2006, Questar net income was \$322.6 million, or \$3.68 per diluted share, compared to \$221.7 million, or \$2.55 per diluted share for the 2005 period, a 46% increase.

NET INCOME (LOSS) BY LINE OF BUSINESS

(in millions, except per share)

	3 Months Ended September 30,			9 Months Ended September 30,		
	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>
Market Resources						
Questar E&P	\$66.0	\$44.8	47%	\$192.6	\$115.4	67%
Wexpro	12.1	11.3	7	36.1	31.9	13
Gas Management	11.0	7.3	51	30.9	25.1	23
Energy Trading and other	<u>2.9</u>	<u>1.9</u>	53	<u>6.4</u>	<u>4.3</u>	49
Market Resources Total	92.0	65.3	41	266.0	176.7	51
Questar Pipeline	10.1	9.2	10	31.5	25.2	25
Questar Gas	(9.2)	(9.9)	7	19.5	15.4	27
Corporate and other operations	<u>2.2</u>	<u>1.2</u>	83	<u>5.6</u>	<u>4.4</u>	27

QUESTAR CORPORATION TOTAL	<u>\$95.1</u>	<u>\$65.8</u>	45%	<u>\$322.6</u>	<u>\$221.7</u>	46%
Earnings per diluted share	\$1.08	\$0.75		\$3.68	\$2.55	
Average diluted shares	87.7	87.4		87.6	87.0	

All Questar operating units posted double-digit net income growth in the first nine months of 2006, said Keith O. Rattie, Questar chairman, president and CEO. All are on track to deliver record net income this year. Note also that Questar E&P grew production 16% in the third quarter compared to a year ago. Questar E&P has now delivered 15% or higher production growth for five straight quarters.

THIRD-QUARTER HIGHLIGHTS

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Questar E&P reported a 16% increase in natural gas, oil and NGL production volumes to 33.8 billion cubic feet of natural gas equivalent (Bcfe) compared to 29.2 Bcfe for the third quarter of 2005. Natural gas comprised 87% of reported volumes during the quarter.

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Realized natural gas prices at Questar E&P rose 12% and realized crude oil and NGL prices rose 16%. Natural gas hedges increased reported revenues by \$18.3 million while oil hedges reduced revenues by \$6.7 million.

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Market Resources sold non-core properties, primarily in western Colorado, and recognized an after-tax gain of \$15.8 million in the quarter.

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Questar E&P plugged and abandoned the deep exploratory portion of the Stewart Point 15-29 well on the Pinedale Anticline after failing to establish commercial production in the Hilliard and Rock Springs formations. The company recorded an after-tax charge of \$6.3 million related to abandonment of the deep portion of the well, which was subsequently re-completed as a commercial well in the Lance Pool.

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Unrealized mark-to-market losses on NYMEX/Rockies basis swaps reduced net income \$3.2 million.

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Wexpro's investment base grew 14% to \$224.8 million at September 30, 2006, compared to \$197.6 million a year earlier. Wexpro produced 10.2 Bcfe during the third quarter on behalf of affiliate Questar Gas. Wexpro net income also benefited from 15% higher realized oil and NGL prices.

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Questar Gas Management gas-gathering volumes increased 13% and total gathering margin rose 22% compared to the third quarter of 2005. Gas-processing volumes increased 56% in the third quarter of 2006 to 30.6 million MMBtu compared to 19.5 million MMBtu for the year-earlier quarter. Gross gas-processing margin increased 127% to \$9.8 million.

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Questar Pipeline net income grew 10%, driven by new transportation contracts on its southern system in central Utah and on Overthrust Pipeline.

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Questar earned a 16.6% return on assets (ROA - defined as earnings before interest and income taxes divided by average total assets) for the trailing 12-month period ended September 30, 2006. Market Resources ROA was 21.0%, Questar Pipeline ROA was 9.1%, and Questar Gas ROA was 9.1%.

QUESTAR RAISES 2006 GUIDANCE AND PROVIDES INITIAL 2007 EARNINGS OUTLOOK

Questar now expects full-year 2006 EPS to range from \$4.65 to \$4.75 per diluted share. The increased guidance reflects increased production and better than previously forecast Rockies and Midcontinent natural gas prices in Questar E&P. The company now expects Questar E&P 2006 production to range from 127 to 129 Bcfe. Current forward NYMEX/Rockies and NYMEX/Midcontinent basis differentials for the remainder of 2006 are about \$1.00 per thousand cubic feet (Mcf) less than those incorporated in previous earnings guidance on July 26, 2006. The narrower basis differentials more than offset the \$0.50 per Mcf decrease in assumed NYMEX prices incorporated in current guidance.

Questar also provided initial 2007 net income and production estimates. The company estimates that 2007 net income could range from \$5.20 to \$5.50 per diluted share. The lower end of the estimate is based on an assumed average NYMEX price of \$7.25 per Mcf for currently unhedged 2007 natural gas production and an average prompt-month NYMEX oil price of \$60.00 per barrel applied to unhedged volumes. The upper end of the range is based on an average NYMEX gas price of \$8.25 per Mcf and an average prompt-month NYMEX oil price of \$65.00 per barrel applied to unhedged 2007 production. The company's guidance excludes one-time items, assumes hedges in place on the date of this release, and assumes natural gas and oil prices and basis differentials as summarized in the following table:

EPS Guidance Assumptions

	2006 <u>Current</u>	2006 <u>Previous</u>	2007 <u>Initial Outlook</u>
Earnings per share*	\$4.65-\$4.75	\$4.50-\$4.70	\$5.20-\$5.50
Average diluted shares (millions)	87.7	87.5	88.1
Questar E&P production Bcfe	127-129	126-128	132-135
Pinedale wells completed	48-51	45-48	45-48
NYMEX gas price per MMBtu**	\$6.50-\$7.50	\$7.00-\$8.00	\$7.25-\$8.25
NYMEX/Rockies basis differential per MMBtu**	\$1.25	\$2.25	\$2.00
NYMEX/Midcontinent basis differential per MMBtu**	\$0.70	\$1.50	\$1.00
NYMEX crude oil price per barrel**	\$60.00-\$65.00	\$65.00-\$75.00	\$60.00-\$65.00

* Excludes \$15.8 million of after-tax gain on asset sales in the third quarter of 2006

** On unhedged volumes for the remainder of 2006 and full year of 2007

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Questar E&P has hedged about 76% of forecast fourth-quarter 2006 and 65% of forecast 2007 natural gas and oil-equivalent production with fixed-price swaps. The company has hedged an additional 8%, or 2.6 Bcf of forecast remaining 2006 production and 13%, or 17.0 Bcf of forecast 2007 production with NYMEX/Rockies basis-only swaps (see table at the end of this release).

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The company estimates that a \$1.00 per MMBtu change in the average NYMEX price of natural gas for the remainder of 2006 would result in about a \$0.02 change in earnings per diluted share. A \$1.00 per MMBtu change in the 2007 price would change 2007 earnings \$0.22 per diluted share.

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A \$10.00 per barrel change in the average NYMEX price of oil for the remainder of 2006 would result in about a \$0.01 change in earnings per diluted share. A \$10.00 per barrel change in the 2007 price would change 2007 earnings \$0.05 per diluted share.

Questar Market Resources Net Income Up 41% in Third Quarter, 51% for First Nine

Months of 2006

Market Resources which conducts natural gas and oil exploration, development and production, gas gathering and processing, wholesale gas and oil marketing and gas storage reported net income of \$92.0 million in the third quarter of 2006, up 41% from \$65.3 million in the third quarter of 2005. For the first nine months of 2006, Market Resources net income increased 51% to \$266.0 million.

Questar E&P Net Income Increases 47% in Third Quarter, 67% for First Nine Months of 2006

Questar E&P a Market Resources subsidiary which conducts natural gas and oil exploration, development and production benefited from growing production and higher realized prices for the third quarter and first nine months of 2006. Questar E&P reported net income of \$66.0 million in the third quarter, up 47% from \$44.8 million in the 2005 period. Questar E&P production increased 16% to 33.8 Bcfe compared to 29.2 Bcfe in the 2005 quarter. Natural gas comprised about 87% of Questar E&P production in the 2006 period. For the first nine months of 2006, Questar E&P net income rose 67% to \$192.6 million compared to \$115.4 million a year earlier, driven by an 18% increase in production and higher realized natural gas, oil and NGL prices compared to the year-earlier period.

Questar E&P Production by Region

	3 Months Ended September 30,			9 Months Ended September 30,		
	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2006*</u>	<u>2005</u>	<u>Change</u>
	(Bcfe)			(Bcfe)		
Pinedale Anticline	10.9	8.7	25%	28.8	22.8	26%
Uinta Basin	6.5	6.6	(2)	18.9	19.2	(2)
Rockies Legacy	<u>4.5</u>	<u>4.3</u>	5	<u>14.5</u>	<u>12.3</u>	18
Subtotal Rocky Mountains	21.9	19.6	12	62.2	54.3	15

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Midcontinent	<u>11.9</u>	<u>9.6</u>	24	<u>35.2</u>	<u>28.2</u>	25
Total Questar E&P	<u>33.8</u>	<u>29.2</u>	16%	<u>97.4</u>	<u>82.5</u>	18%

*Includes 0.7 Bcfe related to settlement of an imbalance in Rockies Legacy. Without the one-time adjustment, total nine-month Questar E&P production grew 17%.

Average realized net-to-the-well natural gas prices at Questar E&P increased 12% in the third quarter of 2006 to \$5.73 per Mcf compared to \$5.12 per Mcf in the 2005 period. Gas hedges increased revenues \$18.3 million in the third quarter of 2006. Questar E&P average realized oil and NGL price was \$49.81 per barrel compared with \$43.04 a year earlier, a 16% increase. Oil hedges decreased revenues \$6.7 million in the third quarter of 2006. Unrealized mark-to-market losses on Rockies basis swaps reduced net income \$3.2 million in the 2006 quarter.

Questar E&P Realized Prices and Hedging Impact

	3 Months Ended September 30,			9 Months Ended September 30,		
	<u>2006</u>	<u>2005</u>	% Change	<u>2006</u>	<u>2005</u>	% Change
Realized natural gas price (per Mcf)	\$ 5.73	\$ 5.12	12%	\$ 5.99	\$ 4.91	22%
Hedge impact on realized price (per Mcf)	0.62	(1.54)	(140)	0.24	(0.98)	(124)
Realized oil and NGL price (per bbl)	\$49.81	\$43.04	16	\$50.10	\$40.61	23
Hedge impact on realized price (per bbl)	(9.20)	(14.61)	(37)	(8.68)	(10.01)	(13)
Unrealized mark-to-market losses on basis swaps, net (millions before tax)	(\$5.1)	\$0.0		(\$10.8)	\$0.0	

Questar may hedge sales prices on up to 100% of forecast production from proved reserves to lock in acceptable returns on invested capital and to protect returns, cash flow and net income from a decline in commodity prices. During the third quarter of 2006, Questar E&P continued to take advantage of higher natural gas and oil prices to hedge additional future production. 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.

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 unit of gas-equivalent production increased 5% compared to the third quarter and the first nine months of 2005.

Questar E&P Production Cost Structure

	3 Months Ended September 30,			9 Months Ended September 30,		
			%			%
	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>2006</u>	<u>2005</u>	<u>Change</u>
	(Per Mcfe)			(Per Mcfe)		
Depreciation, depletion and amortization	\$1.43	\$1.19	20%	\$1.37	\$1.17	17%
Lease operating expense	0.56	0.52	8	0.55	0.55	
General and administrative expense	0.34	0.29	17	0.32	0.31	3
Allocated interest expense	0.19	0.21	(10)	0.21	0.21	
Production taxes	<u>0.45</u>	<u>0.61</u>	(26)	<u>0.45</u>	<u>0.53</u>	(15)
Production costs	<u>\$2.97</u>	<u>\$2.82</u>	5%	<u>\$2.90</u>	<u>\$2.77</u>	5%

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Depreciation, depletion and amortization expense increased due to higher costs for drilling, completion and related services, increased cost of steel casing, other tubulars and wellhead equipment, and the ongoing depletion of older, lower-cost reserves.

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Per-unit lease operating expense increased in the third quarter due to increased costs of materials and consumables and higher well workover costs.

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Per-unit general and administrative expense increased in the third quarter due primarily to an increase in the estimate of uncollectible accounts receivable.

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Interest expense per unit decreased in the 2006 quarter due to refinancing of long-term debt at a lower interest rate.

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Production taxes per unit decreased due to lower natural gas sales prices during the 2006 periods and from adjustments to prior estimates.

Wexpro Net Income Up 7% in Third Quarter, 13% for First Nine Months of 2006

Wexpro a Market Resources subsidiary that develops and produces cost-of-service reserves for Questar Gas reported net income of \$12.1 million in the current quarter, up 7% from the third quarter of 2005. Under a long-standing agreement with the states of Utah and Wyoming, Wexpro recovers its costs and earns an unlevered after-tax return of about 19 to 20% on its investment base the investment in commercial wells and related facilities, adjusted for working capital and reduced for deferred income taxes and accumulated depreciation. Wexpro investment base at September 30, 2006, increased 14% to \$224.8 million compared to \$197.6 million a year earlier. Wexpro current-quarter net income also benefited from 15% higher realized oil and NGL prices. For the first nine months of 2006, Wexpro net income was \$36.1 million compared to \$31.9 million for the first nine months of 2005, a 13% increase. Wexpro first nine-months 2006 results benefited from 23% higher realized oil and NGL prices.

Gas Management Net Income Up 51% in Third Quarter, 23% for First Nine Months of 2006

Questar Gas Management (Gas Management) Market Resources gas-gathering and processing-services business grew net income 51% to \$11.0 million in the third quarter of 2006. Gas Management results benefited from a 127% increase in gas-processing plant margin compared to the 2005 quarter. Gathering volumes were up 13% to 72.1 million MMBtu equivalent for the current quarter compared to 63.8 million MMBtu for the 2005 quarter, driven by growing Questar E&P and third-party Pinedale production and new gathering and processing projects serving third parties in the Uinta Basin. For the first nine months of 2006, Gas Management net income increased 23% to \$30.9 million compared to \$25.1 million in the 2005 period, driven by higher volumes and improved margins in both gathering and processing.

Questar Pipeline Net Income Up 10% in Third Quarter, 25% for First Nine Months of 2006

Questar Pipeline a subsidiary that provides interstate natural gas-transportation and storage services reported net income of \$10.1 million in the third quarter of 2006 compared to \$9.2 million in the third quarter of 2005. Third-quarter results were driven by a \$3.1 million increase in transportation revenues from recent system expansions. NGL revenues were \$1.5 million lower in the third quarter of 2006 compared to the prior-year quarter. Third quarter 2005 results included \$2.7 million of revenues related to the settlement of allocation of NGL sales with shippers. Questar Pipeline net income was \$31.5 million in the first nine months of 2006 compared with \$25.2 million a year ago. Net income rose 25%, driven by \$9.5 million in higher transportation revenues from system expansions and \$1.7 million higher NGL revenues. Operating, maintenance, general and administrative costs per decatherm transported decreased to \$0.12 in the first nine months of 2006 from \$0.14 in the first nine months of 2005 due to a 13% increase in transportation volumes and a 5% decrease in expenses.

Questar Gas Seasonal Net Loss Narrows in Third Quarter, Net Income Up 27% for First Nine

Months of 2006

Questar Gas which provides natural gas distribution services in Utah, Wyoming and Idaho reported a seasonal loss of \$9.2 million in the third quarter of 2006 compared with a loss of \$9.9 million for the third quarter of 2005.

Third-quarter 2006 results reflect continued customer growth and lower bad debt and depreciation expenses. In June 2006 Questar Gas implemented lower customer rates, primarily from reduced depreciation rates. Due to typically low customer usage in the third quarter, the effect of the reduced tariff had little impact on revenues; however, lower depreciation rates caused expenses to decline and resulted in a \$1.0 million increase in net income. This effect is expected to reverse with higher usage in the fourth quarter, as the revenue impact of lower customer rates more than offsets decreased depreciation expense. In October 2006 Questar Gas received Public Service Commission of Utah approval for a pilot conservation enabling tariff which decouples gas margin from volumes of gas sold per customer. Questar Gas net income was \$19.5 million in the first nine months of 2006 compared with \$15.4 million during the same period of 2005, driven by customer growth and recovery of gas-processing costs. In 2005, gas-processing costs of \$1.0 million in the third quarter and \$3.6 million in the first nine months were not recovered in rates until the fourth quarter pursuant to a Utah regulatory order. At September 30, 2006, Questar Gas served 835,000 customers, up 10,000 from the end of 2005.

Third-Quarter Teleconference

Questar management will discuss third-quarter 2006 results and its outlook for the remainder of the year and beyond in a conference call with investors Friday, October 27, beginning at 9:30 a.m. EDT. The call can be accessed on the company Internet site at www.questar.com.

About Questar

Questar Corp. (NYSE:STR) is a natural gas-focused energy company with an enterprise value of about \$8.2 billion. Questar finds, develops, produces, gathers, processes, transports, stores and distributes natural gas.

Forward-Looking Statements

This release includes forward-looking statements within the meaning of Section 27(a) of the Securities Act of 1933, as amended, and Section 21(e) of the Securities Exchange Act of 1934, as amended. 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 December 31, 2005. Questar undertakes no obligation to publicly correct or update the forward-looking statements in this news release, in other documents, or on the website to reflect future events or circumstances. All such statements are expressly qualified by this cautionary statement.

For more information, visit Questar's Internet site at: www.questar.com.

Hedge Positions October 26, 2006

Time Periods	Rocky			Rocky		
	Mountains	Midcontinent	Total	Mountains	Midcontinent	Total
	Gas (Bcf) Fixed-Price Swaps			Estimated Average Price Per Mcf, Net to the Well		
2006						
Fourth quarter	15.6	6.1	21.7	\$6.04	\$6.81	\$6.26
2007						
First half	23.1	15.4	38.5	\$6.88	\$7.81	\$7.25
Second half	23.5	15.6	39.1	6.88	7.81	7.25
12 months	46.6	31.0	77.6	6.88	7.81	7.25
2008						
First half	16.9	12.2	29.1	\$7.19	\$7.98	\$7.52
Second half	17.9	12.3	30.2	7.16	7.98	7.49
12 months	34.8	24.5	59.3	7.18	7.98	7.51
2009						
First half	11.7	8.7	20.4	\$7.05	\$7.55	\$7.26
Second half	12.0	8.8	20.8	7.05	7.55	7.26
12 months	23.7	17.5	41.2	7.05	7.55	7.26
	Gas (Bcf) Basis-Only Swaps			Estimated Average Basis Per Mcf vs. NYMEX		
2006						
Fourth quarter	2.6		2.6	\$2.13		\$2.13
2007						

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First half	8.4	8.4	\$1.92	\$1.92
Second half	8.6	8.6	1.92	1.92
12 months	17.0	17.0	1.92	1.92

2008

First half	13.6	13.6	\$1.60	\$1.60
Second half	13.7	13.7	1.60	1.60
12 months	27.3	27.3	1.60	1.60

2009

First half	1.7	1.7	\$0.95	\$0.95
Second half	1.7	1.7	0.95	0.95
12 months	3.4	3.4	0.95	0.95

	Oil (Mbbl) Fixed-Price Swaps			Estimated Average Price Per Bbl, Net to the Well		
2006						
Fourth quarter	313	101	414	\$47.77	\$59.89	\$50.73
2007						
First half	525	199	724	\$56.85	\$57.83	\$57.12
Second half	534	202	736	56.85	57.83	57.12
12 months	1,059	401	1,460	56.85	57.83	57.12
2008						
First half	109	73	182	\$64.23	\$65.30	\$64.66
Second half	111	73	184	64.23	65.30	64.66
12 months	220	146	366	64.23	65.30	64.66

QUESTAR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

3 Months Ended		9 Months Ended
September 30,		September 30,
2006	2005	