

**Q4 2011 Earnings Teleconference Script – K. Hadlock**  
**February 15, 2011**

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Good morning, everyone, and thank you for joining us for Questar's full-year 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 2011 earnings presentation that can be found on our Web site at [www.questar.com](http://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 full-year 2011 net income of \$207.9 million, or \$1.16 per diluted share. This compares to income from continuing operations of \$201.1 million or \$1.13 per diluted share in 2010.

Operating cash flow was strong in 2011, totaling \$484 million, up more than 5 percent versus 2010. Overall capital investment was \$368 million, up almost 15 percent over 2010.

*Turning to slide 5...*

All three business units showed earnings improvement in 2011 versus the prior year. Corporate was lower due to higher interest expense from the \$250 million of debt issued in December of 2010.

Overall, net income in 2011 increased by \$6.8 million or 3 cents per diluted share over income from continuing operations in 2010.

*Moving to slide 6...*

Wexpro, our cost-of-service natural gas development company, grew EBITDA to \$213.9 million, up \$14.5 million or 7 percent compared to 2010. 2011 Net income was up \$7.1 million to \$95.2 million, an increase of 8 percent over 2010. These results were driven largely by a higher average investment base, which saw a year-over-year increase of \$17.8 million or about 4.1 percent. Wexpro invested capital of \$136.2 million in 2011 compared to \$90.6 million in 2010.

*Turning to slide 7...*

Questar Pipeline, our interstate natural gas pipeline and storage business, delivered solid performance in 2011. Revenue was up slightly driven primarily by additional transportation revenues from the Overthrust Loop Expansion. These results were essentially offset by lower revenues from natural gas liquids sales. Net income was \$67.9 million, consistent with 2010's strong performance. Capital investment in 2011 was \$16.5 million lower than 2010, driven by the completion of several key projects early in the year.

*Moving to slide 8...*

Questar Gas, our retail gas distribution utility, saw an increase in gross margin of \$12.4 million. EBITDA and net income were both higher by \$5.0 million and \$2.2 million, respectively. Questar Gas's capital investment in 2011 was \$121.5 million, an increase of \$12.9 million.

*Moving to slide 9...*

With regard to costs, Questar's 2011 consolidated operating and maintenance costs were essentially flat versus 2010. Our general and administrative expense was higher due to the absorption of expenses that were previously allocated to QEP Resources in 2010 prior to the spin-off, and slightly higher employee costs.

Production and other taxes were \$1.9 million higher due to property taxes on higher plant investment.

Depreciation in 2011 was up \$6.5 million compared to 2010 due to higher capital investment.

Consolidated interest expense was \$300,000 lower primarily due to lower interest rates, partially offset by corporate debt issued in December of 2010.

*Turning to slide 10...*

The Company continues to generate strong cash flow. For 2011, cash flow from continuing operations before working capital changes totaled about \$484 million, a 5.4 percent increase over 2010.

At Dec. 31, Questar had net available liquidity of \$281 million, with \$219 million of commercial paper outstanding.

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

## **Full-year 2011 Earnings Teleconference Script – R. Jibson**

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**Feb. 15, 2012**

Good morning, everyone, and thanks, Kevin, for that summary. We appreciate all of you joining us today. I'll comment briefly on our full-year 2011 results and update our long-term outlook.

*Let's begin on slide 12...*

With the end of the fourth quarter, we recognized a number of key milestones in 2011. First, we completed the first full calendar year as the "New Questar," emerging as a well-balanced, integrated natural gas company. Second, we celebrated the 30<sup>th</sup> anniversary of the signing of the Wexpro agreement. Finally, we delivered record results in each of our business units — Questar Gas, Wexpro and Questar Pipeline.

We reported full-year consolidated earnings of \$1.16 per diluted share, which exceeded our revised guidance range of \$1.11 to \$1.14 per diluted share. Given the headwinds we faced coming into the year, I am very pleased with our employees' efforts to achieve these results.

We have also delivered on our commitment to increase the dividend. During 2011, we increased the annual dividend rate to 65¢ per share, an increase of more than 16 percent. Our payout ratio now stands at 56 percent based on 2011 earnings results. 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.

Finally, during 2011, the Questar Board of Directors approved a \$100 million share-repurchase program, which will be effective through 2012. During 2011, we repurchased shares with a value of \$4.9 million. We expect to accelerate the repurchase program in the early part of 2012 to manage the share count back to pre-spin levels.

*Turning to Wexpro's results on slide 13...*

Wexpro is a unique company that delivered record net income in 2011 of \$95.2 million and produced a return on equity of 20.4 percent. Wexpro delivered low-cost production largely due to increasing drilling efficiencies in the Vermillion Basin. Drilling performance in this area continues to exceed expectations with drilling times of less than 5 days per well. This has resulted in average finding costs of less than \$1.00 per Mcfe for completed wells that Wexpro operates in Vermillion. Together with Wexpro's non-operated wells in Pinedale, our average full-year finding costs were \$1.08 per Mcfe.

The accelerating pace of our drilling program allowed us to spend greater amounts of capital in 2011 than originally forecast. Wexpro's year-end investment base was \$474.4 million, an increase of

\$17.8 million compared to the end of 2010. Wexpro experienced record cost-of-service natural gas production of 50.5 billion cubic feet to our utility, Questar Gas. In addition, Wexpro's proved reserves rose 3 percent to 790.7 billion cubic feet equivalent as it replaced 144 percent of its 2011 cost-of-service production.

Wexpro expects to invest between \$550 million and \$700 million through 2016. We currently project capital investment of \$130 million for 2012, slightly lower than our estimate last quarter. This capital program should compound annual earnings growth of 4 percent to 8 percent through the five-year planning horizon.

Before I leave Wexpro, I want to comment on the dialogue concerning the potential for a Wexpro II agreement. The current Wexpro Agreement does not permit us to add new properties. Given the current low-priced natural gas environment, 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 extending the life of cost-of-service production.

*Moving to Questar Pipeline on slide 14...*

Questar Pipeline, our natural gas transportation and storage business, reported record net income of \$67.9 million and earned a return on equity of 11.4 percent for 2011. Higher revenue was primarily driven by incremental transportation revenues from the Overthrust Loop Expansion project completed in March of 2011, offset by lower revenues from natural gas liquid sales. We also completed other important projects during the year including the Skull Creek processing expansion, the Mainline 3 replacement and the Mainline 104 extension. Also during the year, we received authorization to increase Clay Basin's storage capacity by 2.7 billion cubic feet. Even with the completion of these important projects, Questar Pipeline's 2011 O&M and G&A costs were essentially flat when compared to 2010. Lower interest expense in 2011 was offset by higher depreciation expenses and other taxes.

We continue to look for opportunities to provide value-added services to producers. Market dynamics, including the current low natural gas price environment, are presenting fewer growth opportunities. Consequently, we are expecting Questar Pipeline's earnings to be essentially flat over the five-year planning horizon. On the positive side, we are projecting cumulative free cash flow of approximately \$350 million over the five-year plan.

*Turning to Questar Gas on Slide 15...*

Questar Gas turned in a very strong year, earning net income of \$46.1 million and a return on equity of 10.6 percent, on a financial basis. This is the 7<sup>th</sup> consecutive year that Questar Gas has earned

its allowed return. Questar Gas's results benefitted from customer growth in the service area, slightly higher rates stemming from the full-year benefit of the 2010 general rate case settlement, and recovery of feeder-line replacement costs. Over the past 12 months, Questar Gas added nearly 10,000 new customers, an increase of about 1 percent, outpacing the national average. We also maintained a strong focus on customer satisfaction, which remains at an all-time high.

Turning to our outlook for Questar Gas, 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, increasing to 2 percent, over the five-year plan. Recently, Utah repeated as Forbes Magazine's Best State for Business and Careers in its sixth annual look at the business climates of the 50 states. Given recent economic forecasts for the State of Utah, our customer growth estimates could prove conservative.

Our earnings growth rate is also supported by the multi-year infrastructure replacement program. The feeder-line tracker allows us to earn a return 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 expected to spend about \$55 million in 2012 on our feeder-line and infrastructure replacement program.

*Turning to slide 16...*

Questar's return on equity continues to be industry-leading. For the full-year 2011, we saw a consolidated return on equity of 20.1 percent. This superior return is supported by Wexpro, which provided an ROE of 20.4 percent. Questar Pipeline delivered an ROE of 11.4 percent, which is near its authorized return. On a financial basis, Questar Gas's return on equity was 10.6 percent, which included a \$20 million equity contribution made in 2011.

*Moving to slide 17...*

Looking at 2012, we see some additional headwinds including lower natural gas prices and higher pension and interest expense. However we remain comfortable that net income could range from \$1.15 to \$1.19 per diluted share.

Considering the impact of bonus depreciation, Wexpro's investment base and earnings should continue to grow. Questar Gas expects to grow its rate base through its multi-year feeder-line replacement program investment and modest customer growth. Questar Pipeline expects higher transportation revenues to offset lower NGL revenues. Finally, Wexpro and Questar Pipeline's continued strong cash flow generation will help support Questar's capital requirements and dividend growth.

*Wrapping up on Slide 18...*

Let me conclude by emphasizing the unique strengths of Questar's business model. We have strong, integrated operations that span across the entire natural gas value chain from "well head to burner tip." Each business is supported by constructive regulatory relationships and produces a superior risk-adjusted return. We have excellent organic growth opportunities at Questar Gas and Wexpro, supported by strong cash flow generation at Questar Pipeline. Finally, we manage a conservative balance sheet with ample cash flow and liquidity that not only supports our earnings growth, but also an increasing dividend and our \$100 million share-repurchase program.

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