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GAS UTILITIES

# ANNUAL REPORT

OF

**Questar Gas Company**

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Utah Business Entity Number: 558729-0142

TO THE


**PUBLIC SERVICE COMMISSION  
OF UTAH**

For Calendar Year

2012

## ATTESTATION / CERTIFICATION OF RESPONSIBILITY

I certify that I have examined the information contained in this report submitted to the Utah Division of Public Utilities, and that, to the best of my knowledge, information, and belief, all statements of fact contained in this report are true and represent an accurate statement of the affairs of the respondent company as of the date shown below.

Signature: 

Print Name: David M. Curtis

Date: April 15, 2013

Title: Vice-President and Controller

Phone Number: (801)324-2403

Extension:

Fax Number:

Email:

dave.curtis@questar.com

Please send one completed hard copy and email one copy to the following:

Hard copy to:

Utah Division of Public Utilities  
Heber Wells Building, 4th Floor  
160 East 300 South  
Salt Lake City, UT 84111-6751

Email copy to: (using State approved e-filing protocol.)

dennismiller@utah.gov

## General Company & Contact Information

Company Name: Questar Gas Company

DBA Name (if different):

FKA Name (if different):

Address: 333 South State

City: Salt Lake City State: UT Zip: 84145

Phone Number: (801)324-5100 Fax Number:

(800) Number:

Principle Business Address: 333 South State

City: Salt Lake City State: UT Zip: 84145

Corporate Book Address: 333 South State

City: Salt Lake City State: UT Zip: 00008-4145

## Report Contact Person

Name: Connie Marshall Title: Director - Accounting

Phone Number: (801)324-2471 Extension:

Fax Number: Email: connie.marshall@questar.com

## Corporate Book Custodian

Name: Tom Jepperson Title: Corporate Secretary

Phone Number: (801)324-2648 Extension:

Fax Number: Email: tom.jepperson@questar.com

## Contact Information

### Attorney:

Name: Colleen Bell Title: VP & Assistant General Counsel  
Firm Name: Questar Corporation  
Address: 333 South State  
City: Salt Lake City State: UT Zip: 84145  
Phone Number: (801)324-5556 Extension:  
(800) Number: Fax Number:

### Accountant:

Name: Title:  
Firm Name:  
Address:  
City: State: Zip:  
Phone Number: Extension:  
(800) Number: Fax Number:

### Other Contacts:

Name: Title:  
Phone Number: Extension:  
Fax Number: E-mail:

Name: Title:  
Phone Number: Extension:  
Fax Number: E-mail:

Name: Title:  
Phone Number: Extension:  
Fax Number: E-mail:

### OFFICERS AND DIRECTORS

Report below the officers and directors of respondent at the end of the year. If there were any changes during the year, show name, title, and address of previous officer or director and date of change.

Name	Address	Official Title	Salary
Ronald W. Jibson	333 S State SLC, UT 84145	Director	*
Craig C. Wagstaff	333 S State SLC, UT 84145	Director	*
Kevin W. Hadlock	333 S State SLC, UT 84145	Director	*
Craig C. Wagstaff	333 S State SLC, UT 84145	Exec VP & General Mgr	*
David M. Curtis	333 S State SLC, UT 84145	VP & Controller	*
C. Scott Brown	333 S State SLC, UT 84145	Vp Operations	*
Kelly B. Maxfield	333 S State SLC, UT 84145	VP IT & Administration	*
Kevin W. Hadlock	333 S State SLC, UT 84145	VP & CFO	*
Thomas C. Jepperson	333 S State SLC, UT 84145	Corporate Secretary	*
Anthony R. Ivins	333 S State SLC, UT 84145	Treasurer	*
* See Questar Corporation's Annual Proxy Statement to be filed in April 2013.			

Number of board of directors meetings held during year.....	1
Number of directors required to constitute a quorum.....	3
Total amount of directors' fees paid during year.....	\$ -

### STOCKHOLDERS

Report below the names and addresses of the stockholders who, at the end of the year, owned or held directly or indirectly 5 percent or more of the voting securities of the respondent.

Name	Address	No. of shares	Salary
Questar Coporation	333 S State SLC, UT 84145	9,189,626	

Total shares represented by above.....	100%
Total number of shares at end of year.....	9,189,626
Total number of stockholders at end of year.....	1

## IMPORTANT CHANGES DURING THE YEAR

Give particulars concerning the following matters. Make the statements explicit and precise. Each inquiry must be answered. Only use "none" or "not applicable" if it correctly states the fact.

1. Important additions or changes in franchise rights, including the actual consideration, if any, given therefore.

NA

2. Important additions or extensions of the utility system such as new structures, exchanges, toll facilities, etc.

NA

**COMPARATIVE BALANCE SHEETS**  
**(Utah Operations Financial Statement in Accordance with GAAP)**

Certificated entity only. Do not consolidate with other affiliated entities.

Account	Balance at beginning of year	Balance at end of year
1 Cash and cash equivalents	4,984,207	1,437,066
2 Federal income taxes receivable	1,528,456	
3 Accounts and notes receivable	77,546,873	79,958,221
4 Unbilled gas accounts receivable	75,219,612	78,229,873
5 Deferred income taxes - current	5,583,200	1,542,347
6 Gas stored underground	40,267,239	38,347,749
7 Materials and supplies	12,236,214	13,460,632
8 Prepaid expenses and other	3,084,039	3,060,571
9 Purchased gas adjustment		10,943,027
10 Total current assets	220,449,841	226,979,486
11 Construction Work in Progress	59,449,275	68,754,447
12 Property, plant and equipment	1,867,452,634	1,972,067,144
13 Less allowances for depreciation	(749,550,296)	(762,767,981)
14 Net property, plant and equipment	1,177,351,613	1,278,053,610
15 Other long-term assets		
16 Goodwill	5,652,450	5,652,450
17 Regulatory assets	40,933,457	41,680,722
18 Other long-term assets	2,250,361	3,165,332
19 Total Assets	1,446,637,722	1,555,531,600
20 Notes payable to affiliates	142,675,000	166,100,000
21 Notes pay - Current Port LT Debt	91,500,000	42,000,000
22 Accounts payable and accrued expenses	135,319,667	141,744,772
23 Customer credit balance	24,990,343	30,222,062
24 Interest payable	5,787,876	4,526,182
25 Other taxes payable	13,050,249	9,605,375
26 Purchased gas adjustment	14,195,092	
27 Total current liabilities	427,518,228	394,198,390
28 Long-term debt, less current portion	276,500,000	384,500,000
29 Other liabilities	27,151,095	4,745,989
30 Asset retirement obligation	3,329,613	2,877,858
31 Deferred investment tax credits	1,114,295	809,508
32 Deferred income taxes	258,741,702	300,837,693
33 Total Liabilities	994,354,932	1,087,969,438
34 Common stock	22,974,065	22,974,065
35 Additional paid-in capital	171,307,556	172,503,065
36 Retained earnings	258,001,169	272,085,033
37 Total shareholder's equity	452,282,790	467,562,163
38 Total liabilities and equity	1,446,637,722	1,555,531,600

**COMPARATIVE STATEMENTS OF INCOME**  
**(Utah Operations Financial Statement in Accordance with GAAP)**

Certificated entity only. Do not consolidate with other affiliated entities.

Account	Amount for Preceding Year	Amount for Current Year
1 Operating Revenues	968,827,671	862,213,958
2 Utility Operating Expenses:		
3 Gas Purchases	645,695,687	533,332,123
4 Operating Expense	158,197,869	160,674,756
5 Maintenance Expense	11,324,769	11,917,551
6 Depreciation and Amortization	44,478,663	47,168,966
7 Taxes Other Than Income Taxes	15,029,094	16,184,150
8 Income Taxes	(16,431,134)	0
9 Income Taxes - Deferred	42,304,294	20,898,228
10 Total Utility Operating Expenses	900,599,241	790,175,773
11 Net Operating Income	68,228,430	72,038,184
12 Other Income	4,411,877	(737,366)
13 Other Income Deductions	(629,817)	(155,240)
14 Total Other Income and Deductions	3,782,060	(892,606)
15 Interest Charges	25,940,340	24,061,714
16 Net Income	46,070,150	47,083,864



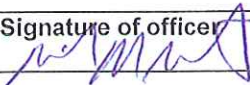
**COMPARATIVE STATEMENTS OF CASH FLOW**  
**(Utah Operations Financial Statement in Accordance with GAAP)**

Certificated entity only. Do not consolidate with other affiliated entities.

Account	Amount for Preceding Year	Amount for Current Year
<b>Operating Activities</b>		
Net Income	46,070,150	47,083,864
<b>Adjustments to reconcile net income to net cash provided from operating activities:</b>		
Depreciation, depletion and amortization	49,190,197	52,204,732
Deferred income taxes	25,287,994	45,832,057
Shared-based compensation	1,004,585	1,195,509
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	4,737,948	(25,130,948)
Inventories	(1,335,911)	695,073
Prepaid expenses and other	(95,367)	23,468
Accounts payable and accrued expenses	(232,577)	11,266,735
Federal income taxes	6,165,452	1,528,456
Other taxes	(1,445,904)	(3,444,874)
Purchased gas adjustments	21,506,536	(26,056,364)
Other assets	(922,062)	(2,079,314)
Regulatory assets(current)	15,502,255	681,730
Regulatory liabilities(current)	598,036	918,245
Other liabilities	(19,134,217)	(3,144,277)
<b>NET CASH (USED IN) PROVIDED FROM OPERATING</b>	<b>146,897,117</b>	<b>101,574,092</b>
<b>Investing Activities</b>		
<b>Capital expenditures</b>		
Property, plant and equipment	(121,474,926)	(162,060,541)
Proceeds from disposition of assets	(1,928,679)	9,223,817
<b>NET CASH (USED IN) PROVIDED FROM INVESTING</b>	<b>(123,403,605)</b>	<b>(152,836,724)</b>
<b>Financing Activities</b>		
Common stock issued	20,000,000	0
Long-term debt issued, net of issue costs	0	148,790,491
Long-term debt repaid	(2,000,000)	(91,500,000)
Change in short-term debt	(10,925,000)	23,425,000
Dividends paid	(30,300,000)	(33,000,000)
Excess tax benefits from share-based compensation	0	0
<b>NET CASH(USED IN) PROVIDED FROM FINANCING</b>	<b>(23,225,000)</b>	<b>47,715,491</b>
<b>Change in cash and cash equivalents</b>	<b>268,512</b>	<b>(3,547,142)</b>
<b>Beginning cash and cash equivalents</b>	<b>4,715,695</b>	<b>4,984,207</b>
<b>Ending cash and cash equivalents</b>	<b>4,984,207</b>	<b>1,437,066</b>

**NOTES TO FINANCIAL STATEMENTS**  
**(Utah Operations Financial Statement in Accordance with GAAP)**  
Provide the notes to the financial statements and sign the certification below.

See Attached

Signature of officer 

Following are extracts of the notes to Questar's 2012 financial statements which are relevant to Questar Gas Company:

## **Note 1 - Summary of Significant Accounting Policies**

### **Nature of Business**

Questar Gas Company (Questar Gas) provides retail natural gas distribution in Utah, Wyoming and Idaho. Questar is headquartered in Salt Lake City, Utah. Shares of Questar common stock trade on the New York Stock Exchange (NYSE:STR).

### **Use of Estimates**

The preparation of financial statements and notes in conformity with GAAP requires that management formulate estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The Company also incorporates estimates of proved developed gas and oil reserves in the calculation of depreciation, depletion and amortization rates of its gas and oil properties. Changes in estimated quantities of the Company's reserves could impact its reported financial results as well as disclosures regarding the quantities of proved gas and oil reserves. Actual results could differ from these estimates.

### **Revenue Recognition**

Questar Gas records revenues in the period that gas is delivered, including gas delivered to residential and commercial customers but not billed as of the end of the accounting period. Unbilled gas deliveries are estimated for the period from the date meters are read to the end of the month. Approximately one-half month of revenue is estimated in any period. Gas costs and other variable costs are recorded on the same basis to ensure proper matching of revenues and expenses. Questar Gas's tariff allows for monthly adjustments to customer bills to approximate the effect of abnormal weather on non-gas revenues. The weather-normalization adjustment significantly reduces the impact of weather on gas-distribution earnings. The PSCU and PSCW approved a CET to promote energy conservation. Under the CET, Questar Gas non-gas revenues are decoupled from the volume of gas used by customers. The tariff specifies a margin per customer for each month with differences to be deferred and recovered from customers or refunded to customers through periodic rate adjustments. Rate adjustments occur every six months under the CET. The adjustments amortize deferred CET amounts over a 12-month period. These adjustments are limited to 5% of non-gas revenues.

Questar Gas allows customers the option of paying an estimated fixed monthly bill throughout the year on a budget-billing program. The estimated payments are adjusted to actual usage annually. Amounts collected from customers under this program in excess of gas deliveries are recorded on the Consolidated Balance Sheets as customer advances. The budget-billing option does not impact revenue recognition. Questar Gas may collect revenues subject to possible refunds and establish reserves pending final orders from regulatory agencies.

### **Cost of Sales**

Questar Gas obtains the majority of its gas supply from Wexpro's cost-of-service production and pays Wexpro an operator service fee based on the terms of the Wexpro Agreement. Questar Gas also obtains transportation and storage services from Questar Pipeline. These intercompany revenues and expenses are eliminated in the Questar Consolidated Statements of Income by reducing revenues and cost of sales. The underlying costs of Wexpro's production and Questar Pipeline's transportation and storage services are disclosed in other categories in the Consolidated Statements of Income, including operating and maintenance expense and depreciation, depletion and amortization expense. During the second and third quarters of the year, a significant portion of the natural gas from

Wexpro production is injected into underground storage. This gas is withdrawn from storage as needed during the heating season in the first and fourth quarters. The cost of natural gas sold is credited with the value of natural gas as it is injected into storage and debited as it is withdrawn from storage. The reported balance in consolidated cost of sales may be a negative amount during the second and third quarters because of the entries to record injection of gas into storage and the elimination of intercompany transactions.

The details of Questar Gas's cost of sales are as follows:

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
<b>Questar Gas</b>			
Gas purchases	\$ 104.2	\$ 221.2	\$ 245.4
Operator service fee	274.0	253.4	240.0
Transportation and storage	79.6	78.4	78.1
Gathering	20.5	25.0	23.6
Royalties	32.0	38.9	37.2
Storage (injection) withdrawal, net	1.9	3.0	(0.8)
Purchased-gas account adjustment	16.1	20.6	(36.8)
Other	5.0	5.2	5.5
Total Questar Gas cost of natural gas sold	533.3	645.7	592.2
Elimination of Questar Gas cost of natural gas sold - affiliated parties	(347.7)	(327.3)	(313.7)
Total Questar Gas cost of natural gas sold - unaffiliated parties	185.6	318.4	278.5

### G. Regulation

The Company applies the regulatory accounting principles to the rate-regulated businesses. Under these principles, the Company records regulatory assets and liabilities that would not be otherwise recorded under GAAP for non-rate regulated entities. Regulatory assets and liabilities record probable future revenues or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-making process.

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. Questar Gas may hedge a portion of its natural gas supply to mitigate price fluctuations for gas-distribution customers. The regulatory commissions allow Questar Gas to record periodic mark-to-market adjustments for commodity-price derivatives in the purchased-gas-adjustment account. Questar did not have any commodity-price derivatives at December 31, 2012 or 2011. See Note 10 for a description and comparison of regulatory assets and liabilities as of December 31, 2012 and 2011.

### Cash and Cash Equivalents

Cash equivalents consist principally of repurchase agreements with maturities of three months or less. In almost all cases, the repurchase agreements are highly liquid investments in overnight securities made through commercial bank accounts that result in available funds the next business day.

### Property, Plant and Equipment

Property, plant and equipment balances are stated at historical cost. Maintenance and repair costs are expensed as incurred.

### *Contributions in aid of construction*

Customer contributions in aid of construction reduce plant unless the amounts are refundable to customers. Contributions for main-line extensions may be refundable to customers if additional customers connect to the main-line segment within five years. Refundable contributions are recorded as liabilities until refunded or the five -year period expires without additional customer connections. Amounts not refunded reduce plant. Capital expenditures in the Consolidated Statements of Cash Flows are reported net of non-refundable contributions.

### *Depreciation, depletion and amortization*

Major categories of fixed assets in gas distribution are grouped together and depreciated using a straight-line method. Gains and losses on asset disposals are recorded as adjustments in accumulated depreciation. The Company has not capitalized future abandonment costs on a majority of its long-lived gas distribution assets due to a lack of a legal obligation to restore the area surrounding abandoned assets. In these cases, the regulatory agencies have opted to leave retired facilities in the ground undisturbed rather than excavate and dispose of the assets. Depreciation rates for Questar Gas are established through rate proceedings.

The following represent average depreciation, depletion and amortization rates of the Company's capitalized costs:

	Year Ended December 31,		
	2012	2011	2010
Questar Gas distribution plant	2.8%	2.8%	2.9%

### **Impairment of Long-Lived Assets**

Properties are evaluated on a specific-asset basis or in groups of similar assets, as applicable. Impairment is indicated when a triggering event occurs and the sum of the estimated undiscounted future net cash flows of an evaluated asset is less than the asset's carrying value. If impairment is indicated, fair value is calculated using a discounted-cash-flow approach. Cash flow estimates require forecasts and assumptions for many years into the future for a variety of factors, including commodity prices and operating costs. There were no impairments in 2012, 2011 or 2010.

### **Goodwill and Other Intangible Assets**

Goodwill represents the excess of the amount paid over the fair value of net assets acquired in a business combination and is not subject to amortization. Goodwill and indefinite lived intangible assets are tested for impairment at a minimum of once a year or when a triggering event occurs. The Company evaluates whether it is more likely than not that the carrying value of a reporting unit is greater than its fair value using events and circumstances such as economic conditions, industry changes, financial performance, etc. Fair value is measured using actively traded market values of other comparable companies in the same businesses. If the fair value of the reporting unit exceeds its carrying value then goodwill is considered not to be impaired. If the carrying value of the business unit is greater than the fair value, an impairment of goodwill is recognized equal to the excess of carrying amount of goodwill over its fair value.

### **Capitalized Interest and Allowance for Funds Used During Construction**

The Company capitalizes interest costs when applicable. The PSCU and PSCW require the capitalization of funds used during construction (AFUDC) for rate-regulated plant and equipment. Amounts recorded in the Statements of Income for the capitalization of AFUDC and interest costs are disclosed in the table below:

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
Capitalized interest costs (recorded as a reduction of interest expense)			
Questar Gas	\$ 0.1	\$ 0.1	\$ 0.1

### Derivative Instruments and Hedging Activities

The Company may elect to designate a derivative instrument as a hedge of exposure to changes in fair value or cash flows. A derivative instrument qualifies as a hedge if all of the following tests are met:

- The item to be hedged exposes the Company to market risk.
- The derivative reduces the risk exposure and is designated as a hedge at the inception of the hedging relationship.
- At the inception of the hedge and throughout the hedge period, there is a high correlation between changes in the fair value of the derivative instrument and the fair value of the underlying hedged item.

If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of the change together with the offsetting gain or loss from the change in fair value of the hedged item. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of accumulated other comprehensive income (loss) (AOCI) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amount excluded from the assessment of hedge effectiveness, as well as the ineffective portion of the gain or loss, is reported currently in earnings. When a derivative instrument is designated as a cash flow hedge of a forecasted transaction that becomes probable of not occurring, the gain or loss on the derivative is immediately reclassified into earnings from AOCI.

### Credit Risk

The Rocky Mountain region is the Company's primary market area. Exposure to credit risk may be affected by the concentration of customers in this region due to changes in economic or other conditions. Customers include individuals and numerous commercial and industrial enterprises that may react differently to changing conditions. Management believes that its credit-review procedures, loss reserves, customer deposits and collection procedures have adequately provided for usual and customary credit-related losses. Loss reserves are periodically reviewed for adequacy and may be established on a specific-case basis.

Bad debt expense associated with accounts receivable amounted to \$1.2 million in 2012, \$2.4 million in 2011 and \$0.5 million in 2010. The 2010 bad-debt expense was reduced by \$1.5 million from the settlement of a revenue dispute that had been previously accrued for in the allowance for bad debts. The allowance for bad debts was \$3.1 million at December 31, 2012 and \$3.2 million at December 31, 2011. Questar Gas's retail-gas operations account for a majority of the bad debt expense. Questar Gas estimates bad debt expense as a percentage of general-service revenues with periodic adjustments. Uncollected accounts are generally written off six months after gas is delivered and interest is no longer accrued. Questar Gas recovers bad debt costs related to the gas-cost portion of rates in its Utah operations through a purchased-gas adjustment to rates.

### Asset Retirement Obligations

Questar records an asset retirement obligation (ARO) when there is a legal obligation associated with the retirement of a tangible long-lived asset. The Company has not capitalized future abandonment costs on a majority of its long-lived transportation and distribution assets because the Company does not have a legal obligation to restore the area

surrounding abandoned assets. In these cases, the regulatory agencies have opted to leave retired facilities in the ground undisturbed rather than requiring the Company to excavate and dispose of the assets. If recording an ARO is warranted, the fair value of retirement costs is estimated by Company personnel based on abandonment costs of similar properties available to field operations and depreciated over the life of the related assets. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. Income or expense resulting from the settlement of ARO liabilities is included in net gain (loss) from asset sales on the Statements of Income. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate. See Note 3 for further discussion on AROs.

### **Income Taxes**

Questar and its subsidiaries file a consolidated federal income tax return. Questar Gas accounts for income tax expense on a separate return basis and records tax benefits as they are generated. Deferred income taxes are provided for the temporary differences arising between the book and tax carrying amounts of assets and liabilities. These differences create taxable or tax-deductible amounts for future periods. Questar Gas uses the deferral method to account for investment tax credits as required by regulatory commissions. The Company records interest earned on income tax refunds in interest and other income and records penalties and interest charged on tax deficiencies in interest expense.

Accounting standards for income taxes specify the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold for a tax position to be reflected in the financial statements. If recognized, the tax benefit is measured as the largest amount of tax benefit that is more-likely-than-not to be realized upon ultimate settlement. Management has considered the amounts and the probabilities of the outcomes that could be realized upon ultimate settlement and believes that it is more-likely-than-not that the Company's recorded income tax benefits will be fully realized. There were no unrecognized tax benefits at the beginning or at the end of the years ended December 31, 2012, 2011 and 2010. The federal income tax returns for 2009, 2010 and 2011 are under examination by the Internal Revenue Service (IRS). The 2012 federal income tax return has not been filed.

For tax years beginning in 2012, Questar has been accepted into the IRS's Compliance Assurance Process (CAP). The CAP employs real-time resolution to improve federal tax compliance by resolving all or most tax positions prior to filing the related tax return. Successful conclusion of the CAP allows the IRS to achieve an acceptable level of assurance regarding the accuracy of the Taxpayer's filed tax return and to eliminate or substantially reduce the need for a traditional examination.

Current federal tax statutes allow taxpayers a deduction of bonus depreciation related to capital expenditures of 100% in 2011 and 50% in 2012. The effects of bonus depreciation and other significant book/tax timing differences resulted in a NOL for federal income tax purposes in 2011. The 2011 NOL was \$124.8 million. Questar's estimated taxable income for 2012 is \$69.7 million, resulting in an estimated NOL carryforward to future years of \$55.1 million. The estimated NOL carryforward will expire in 2031. It is anticipated that Questar will be able to utilize the NOL by offsetting it against future taxable income. See Note 7 for further discussion on income taxes.

### **Share-Based Compensation**

Questar issues stock options, restricted shares, restricted stock units and performance shares to certain officers, employees and non-employee directors under its LTSIP. The Company uses the Black-Scholes-Merton mathematical model in estimating the fair value of stock options and the Monte Carlo simulation method in estimating the fair value of performance shares for accounting purposes. The granting of restricted shares and restricted stock units results in recognition of compensation cost measured at the grant-date market price. Questar

uses an accelerated method in recognizing share-based compensation costs with graded vesting periods. See Note 11 for further discussion on share-based compensation.

#### **Recent Accounting Developments**

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* to enhance disclosure of the effects of reclassifications out of AOCI on income statement line items. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2012 and are applied prospectively. Because the guidance contained in this ASU only affects disclosure, the Company does not expect adoption will have an impact on the Company's financial position, results of operations or cash flows.

#### **Reclassifications**

Certain reclassifications were made to prior-year financial statements and notes to conform to the 2012 presentation.

All dollar amounts in this Annual Report on Form 10-K are in millions, except per-share information and where otherwise noted.

#### **Note 2 - Earnings Per Share**

##### **Long-Term Stock Incentive Plan**

Questar issues stock options, restricted shares and restricted stock units to certain officers, directors and employees under its LTSIP. Stock options for participants have terms ranging from five to ten years with a majority issued with a seven to ten -year term. Options held by employees generally vest in three or four equal, annual installments. Options granted to non-employee directors generally vest in one installment six months after grant. Restricted shares and restricted stock units vest in equal installments over a specified number of years after the grant date with the majority vesting in three or four years. Unvested restricted shares have voting and dividend rights; however, sale or transfer is restricted. Restricted stock units do not have voting rights until shares are distributed. Restricted stock units also accrue dividend equivalents, which are subject to the same vesting, distribution and voting conditions of the underlying award.

Beginning in 2011, Questar grants performance shares to certain Company executive officers under the terms of the LTSIP. The awards are designed to motivate and reward these executives for long-term Company performance and provide an incentive for them to remain with the Company. The target number of performance shares for each executive officer is subject to adjustment upward or downward based on the Company's performance relative to a specified peer group of companies over a three -year performance period with respect to defined performance criteria. Each three -year performance period commences at the beginning of the year of grant. The actual performance shares awarded, if any, are distributed in the quarter following the conclusion of the performance period so long as such executive officer was employed by the Company or its affiliates as of the last day of the performance period. Half of any award will be distributed in shares of Questar common stock and half in cash. For a summary of LTSIP transactions, see Note 11.

#### **Note 3 - Asset Retirement Obligations**

Questar records AROs when there are legal obligations associated with the retirement of tangible, long-lived assets. At Questar, AROs apply primarily to abandonment costs associated with gas and oil wells, production facilities and certain other properties. The Company has not capitalized future abandonment costs on a majority of its long-lived



transportation and distribution assets because the Company does not have a legal obligation to restore the area surrounding abandoned assets. The fair value of retirement costs is estimated by Company personnel based on abandonment costs of similar properties available to field operations and depreciated over the life of the related assets. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. Income or expense resulting from the settlement of ARO liabilities is included in net gain (loss) from asset sales on the Consolidated Statements of Income. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate.

Questar's AROs by line of business are summarized in the table below:

	December 31,	
	2012	2011
	(in millions)	
Questar Gas	\$ 0.5	\$ 0.7
Total	\$ 0.5	\$ 0.7

Wexpro collects from Questar Gas and deposits in trust certain funds related to estimated ARO costs. The funds are recorded as other noncurrent assets and used to satisfy retirement obligations as the properties are abandoned. The accounting treatment of reclamation activities associated with AROs for properties administered under the Wexpro Agreement is defined in a guideline letter between Wexpro and the Utah Division of Public Utilities and the staff of the PSCW.

#### Note 4 - Fair Value Measurements

Questar complies with the provisions of the accounting standards for fair value measurements and disclosures. These standards define fair value in applying GAAP, establish a framework for measuring fair value and expand disclosures about fair value measurements. The standards establish a fair value hierarchy. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets 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. The Company had no assets or liabilities measured using Level 3 inputs at December 31, 2012 and 2011. Fair value accounting standards also apply to certain nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis. Questar did not have any such assets or liabilities at December 31, 2012 and 2011.

Beginning in 2012, Questar adopted fair value accounting guidance issued in May 2011. The guidance did not result in any changes to the reported amounts of assets or liabilities, but did result in disclosure of the fair value hierarchy levels associated with fair value estimates for financial assets and liabilities not carried at fair value.

Questar primarily applies the market approach for recurring fair value measurements and maximizes its use of observable inputs and minimizes its use of unobservable inputs. Questar considers bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. In addition to using market data, Questar makes assumptions in valuing its assets and liabilities, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

### Questar Gas

The following table discloses the carrying amount, estimated fair value and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to Questar Gas's financial statements in this Annual Report on Form 10-K:

	Hierarchy Level of Fair Value Estimates	Carrying Amount December 31, 2012	Estimated Fair Value December 31, 2012	Carrying Amount December 31, 2011	Estimated Fair Value December 31, 2011
(in millions)					
<b>Financial assets</b>					
Cash and cash equivalents	1	\$ 1.4	\$ 1.4	\$ 5.0	\$ 5.0
<b>Financial liabilities</b>					
Notes payable to Questar	1	166.1	166.1	142.7	142.7
Long-term debt, including current portion	2	426.5	503.7	368.0	445.4

The carrying amounts of cash and cash equivalents and notes payable to Questar approximate fair value. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using Questar Gas's current credit-risk-adjusted borrowing rates.

### Note 6 - Debt

The Company has a revolving credit arrangement with various lenders to provide back-up credit liquidity support for its commercial paper program. Credit commitments under this revolving credit arrangement totaled \$500.0 million at December 31, 2012, with no amounts borrowed. This revolving credit arrangement has interest-rate options generally below the prime interest rate and carries commitment fees on the unused balance. The Company amended its revolving credit arrangement on September 2, 2011, by increasing the lender commitments from \$350.0 million to \$500.0 million and extending the maturity date from July 1, 2013, to August 31, 2016. The amendment also replaced the previous debt covenant ratio of consolidated funded debt to EBITDA with a new ratio of consolidated funded debt to capitalization. On October 29, 2012, the Company amended its revolving credit arrangement to enable Questar Gas to issue \$150.0 million in the private placement market in December 2012. Under both amendments, consolidated funded debt cannot exceed 70% of consolidated capitalization. The Company is in compliance with this covenant at December 31, 2012.

Questar centrally manages cash. Questar makes loans to Questar Gas under a short-term borrowing arrangement. Amounts loaned earn an interest rate that is identical to the interest rate paid on amounts borrowed. The following table details the notes payable to Questar from Questar Gas and the associated interest rate.

	December 31,	
	2012	2011
(in millions)		
<b>Questar Gas</b>		
Notes payable to Questar with variable interest rates	\$ 166.1	\$ 142.7
Interest rate	0.39%	0.41%

All short- and long-term debt and the revolving credit arrangement are unsecured obligations and rank equally with all other unsecured liabilities. The terms of the Questar Corporation and Questar Gas long-term debt obligations do not have dividend-payment restrictions.

In December 2012, Questar Gas issued \$110.0 million of 15 -year Senior Notes at 3.28% and \$40.0 million of 12 -year Senior Notes at 2.98% in the private placement market. The proceeds of approximately \$148.8 million, after deducting estimated issuance costs, were used to refinance \$91.5 million of long-term that matured in 2012, \$40.0 million that matured in January 2013 and \$2.0 million maturing in September 2013, and for general corporate purposes. These maturities had a weighted-average interest rate of 6.06%.

The details of long-term debt are as follows:

	December 31,	
	2012	2011
	(in millions)	
<b>Questar Gas</b>		
6.30% to 6.91% Medium-term Notes due 2012	—	91.5
5.00% to 6.89% Medium-term Notes due 2013 to 2018	126.5	126.5
6.30% Notes due 2018	50.0	50.0
2.98% Notes due 2024	40.0	—
3.28% Notes due 2027	110.0	—
7.20% Notes due 2038	100.0	100.0
<b>Total Questar Gas long-term debt</b>	<b>426.5</b>	<b>368.0</b>

The aggregate maturities of Questar Gas long-term debt for the next five years are as follows:

	Questar Gas	Total
	Years Ending December 31,	
	(in millions)	
2013	\$42.0	\$42.0
2017	\$14.5	\$14.5

#### Note 7 - Income Taxes

##### Questar Gas

Details of Questar Gas's income tax expense and deferred income taxes are provided in the following tables. The components of income tax expense were as follows:

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
<b>Federal</b>			
Current	\$ (18.7)	\$ —	\$ (15.9)
Deferred	45.1	26.3	40.2
<b>State</b>			
Current	—	(1.6)	(2.2)

Deferred	1.2	3.2	3.5
Deferred investment tax credit recognized	(0.4)	(0.4)	(0.4)
Total income tax expense	\$ 27.2	\$ 27.5	\$ 25.2

The difference between the statutory federal income tax rate and Questar Gas's effective income tax rate is explained as follows:

	Year Ended December 31,		
	2012	2011	2010
Federal income taxes statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) in rate as a result of:			
State income taxes, net of federal income tax benefit	1.0	1.4	1.2
Amortization of investment tax credits related to rate-regulated assets	(0.4)	(0.5)	(0.5)
Other	1.0	1.5	0.8
Effective income tax rate	36.6 %	37.4 %	36.5 %

Significant components of Questar Gas's deferred income taxes were as follows:

	December 31,	
	2012	2011
	(in millions)	
<i>Deferred tax liabilities</i>		
Property, plant and equipment	\$ 293.4	\$ 264.7
Employee benefits and compensation costs	19.3	9.7
Deferred tax liabilities - noncurrent	312.7	274.4
<i>Deferred tax assets</i>		
Net operating loss carryforward	11.1	14.6
Deferred tax assets - noncurrent	11.1	14.6
Deferred income taxes – net noncurrent liability	\$ 301.6	\$ 259.8
<i>Deferred income taxes - current asset</i>	\$ 6.1	\$ 5.6
<i>Deferred income taxes - current liability</i>	4.6	—
Deferred income taxes - net current asset	\$ 1.5	\$ 5.6

#### Note 8 - Commitments, Contingencies and Leases

On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. The case, entitled *Questar Gas Company v. QEP Field Services Company*, was filed in the Third District Court in Salt Lake County, Utah. Questar Gas believes certain charges of QEP Field Services Company for gathering services exceed the amounts contemplated under a Gas Gathering Agreement, effective September 1, 1993, pertaining to certain gas produced by Wexpro Company under the Wexpro Agreement. Questar Gas is alleging breach of contract by QEP Field Services Company and is seeking an accounting, damages and a declaratory judgment relating to the services and charges under the Gas Gathering Agreement. The charges under the Gas Gathering Agreement are included in Questar Gas's rates as part of its purchased gas costs. While Questar Gas intends to vigorously pursue its legal rights, the claims involve complex legal issues and uncertainties that make

it difficult to predict the outcome of the case and therefore management cannot determine at this time whether this litigation may have an adverse material effect on its financial position, results of operations or cash flows.

Questar Gas is involved in various commercial, environmental, and regulatory claims. Litigation and other legal proceedings arise in the ordinary course of business. Except as stated above concerning the QEP lawsuit, management does not believe any of them individually or in the aggregate will have a material adverse effect on Questar Gas's financial position, results of operations or cash flows.

A liability is recorded for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome. Disclosures are provided for contingencies reasonably likely to occur, which would have a material adverse effect on Questar Gas's financial position, results of operations or cash flows. Some of the claims involve highly complex issues relating to liability, damages and other matters subject to substantial uncertainties and, therefore, the probability of liability or an estimate of loss cannot be reasonably determined.

## **Commitments**

### ***Questar Gas***

Currently, more than half of Questar Gas natural gas supply is provided by cost-of-service reserves developed and produced by Wexpro. In 2012, Questar Gas purchased the remainder of its gas supply from multiple third parties under index-based or fixed-price contracts. Questar Gas has commitments to purchase gas for \$29.5 million in 2013, \$16.0 million in each of 2014 and 2015, \$16.1 million in 2016, and \$19.3 million in 2017 based on current prices. Generally, at the conclusion of the heating season and after a bid process, new agreements for the next heating season are put in place. Questar Gas bought natural gas under purchase agreements amounting to \$104.1 million in 2012, \$221.0 million in 2011 and \$245.2 million in 2010.

In addition, Questar Gas stores gas during off-peak periods (typically during the summer) and withdraws gas from storage to meet peak gas demand (typically in the winter). The company has contracted for transportation and underground storage services with Questar Pipeline. Annual payments for these services amount to \$73.0 million in 2013, \$71.1 million in 2014 through 2016, and \$44.5 million in 2017. Questar Gas has third-party transportation and gathering commitments requiring yearly payments of \$27.9 million in 2013 through 2017.

## **Note 9 - Wexpro Agreement**

Wexpro's operations are subject to the terms of the Wexpro Agreement. The agreement was effective August 1, 1981, and sets forth the rights of Questar Gas to receive certain benefits from Wexpro's operations. The agreement was approved by the PSCU and PSCW in 1981 and affirmed by the Supreme Court of Utah in 1983. The Utah Division of Public Utilities and the staff of the PSCW are entitled to monitor the performance of the Company and Wexpro under the Wexpro Agreement and have retained two monitors, an independent certified public accountant and an independent petroleum engineer, to review the performance of the agreement. Major provisions of the agreement are as follows.

Wexpro conducts developmental-oil drilling on productive oil properties and bears any costs of dry holes. Oil discovered from these properties is sold at market prices with the revenues used to recover operating expenses and to give Wexpro a return on its investment in successful wells. The after-tax rate of return is adjusted annually and is approximately 17.4%. Any operating income remaining after recovery of expenses and Wexpro's return on investment is divided between Wexpro and Questar Gas, with Wexpro retaining 46% and Questar Gas retaining

54%. Questar Gas received oil-income sharing of \$2.5 million in 2012, \$3.3 million in 2011 and \$1.1 million in 2010.

Amounts received by Questar Gas from the sharing of Wexpro's oil income are used to reduce natural gas costs to utility customers.

#### Note 10 - Rate Regulation

The following table details regulatory assets and liabilities:

	December 31, 2012		December 31, 2011	
	Current	Noncurrent	Current	Noncurrent
(in millions)				
<b>Regulatory assets:</b>				
<i>Questar Gas</i>				
Purchased-gas adjustment	\$ 15.2	\$ —	\$ —	\$ —
DSM	11.0	—	24.2	—
Deferred production taxes	5.0	—	2.3	—
Deferred royalties	6.3	—	—	—
Cost of reacquired debt	—	5.3	—	5.9
Pipeline integrity costs	—	8.7	—	6.5
ARO cost-of-service gas wells	—	2.4	—	2.7
Other	3.5	—	—	—
<b>Total Questar Gas regulatory assets</b>	<b>41.0</b>	<b>16.4</b>	<b>26.5</b>	<b>15.1</b>
<b>Regulatory liabilities:</b>				
<i>Questar Gas</i>				
Purchased-gas adjustment	\$ —	\$ —	\$ 10.8	\$ —
CET	4.2	—	3.2	—
Income taxes refundable to customers	—	0.5	—	0.7
Other	0.1	—	0.2	—
<b>Total Questar Gas regulatory liabilities</b>	<b>4.3</b>	<b>0.5</b>	<b>14.2</b>	<b>0.7</b>

Questar Gas records regulatory assets and liabilities. They recover the costs of assets but do not generally receive a return on these assets.

Following is a description of Questar Gas's regulatory assets and liabilities:

- Purchased-gas costs that are different from those provided for in present rates are accumulated and recovered or credited through future rate changes.
- The DSM program asset represents funds expended for promoting the conservation of natural gas through advertising, rebates for efficient homes and appliances, and home energy audits. These costs are deferred and recovered from customers through periodic rate adjustments.
- Production taxes and royalties on cost-of-service gas production are recorded when the gas is produced and recovered from customers when taxes and royalties are paid, generally within 12 months.
- Gains and losses on the reacquisition of debt by rate-regulated companies are deferred and amortized as

- interest expense over the would-be remaining life of the reacquired debt. The reacquired debt costs had a weighted-average life of approximately 10 years as of December 31, 2012.
- The costs of complying with pipeline-integrity regulations are recovered in rates subject to a PSCU order. Questar Gas is allowed to recover \$4.4 million per year. Costs incurred in excess of this amount will be recovered in future rate changes.
- A regulatory asset that represents future expenses related to abandonment of Wexpro-operated gas and oil wells. The regulatory asset will be reduced over an 18 -year period following an amortization schedule that commenced January 1, 2003, or as cash is paid to plug and abandon wells.
- The CET liability represents actual revenues received that are in excess of the allowed revenues. These amounts are refunded through periodic rate adjustments.
- Income taxes refundable to customers arise from adjustments to deferred taxes, refunded over the life of the related property, plant and equipment.

### *Rate Changes*

Questar Gas has an allowed return on equity of 10.35% in Utah. Questar Gas is required to file a general rate case in Utah by mid-2013. Questar Gas filed a general rate case in Wyoming in December 2011 and received an order in 2012, which increased rates by \$0.6 million per year and authorized a return on equity of 9.16%.

### **Note 11 - Share-Based Compensation**

Questar may issue stock options, restricted shares, restricted stock units and performance shares to certain officers, employees and non-employee directors under its LTSIP. To generally preserve the potential benefits under the LTSIP prior to the Spinoff, stock options and restricted share awards outstanding as of June 30, 2010, were adjusted and bifurcated into stock options and restricted share awards for both Questar and QEP, respectively. The exercise price of options and the grant-date prices of restricted shares were recast using the ratio of the June 30, 2010, closing prices of Questar, \$14.66 or 32.23%, and QEP, \$30.83 or 67.77%.

The Company uses the Black-Scholes-Merton mathematical model in estimating the fair value of stock options for accounting purposes. Fair value calculations rely upon subjective assumptions used in the mathematical model and may not be representative of future results. The Black-Scholes-Merton model was intended for measuring the value of options traded on an exchange. No stock options were granted in 2012 or 2011.

Questar issues stock options, restricted shares and performance shares to certain officers and employees of Questar Gas under its LTSIP and recognizes expense over time as the stock options, restricted shares and performance shares vest. Questar Gas share-based compensation expense amounted to \$1.2 million in 2012 compared with \$1.1 million in 2011 and \$1.4 million in 2010.

The following table summarizes the stock options held under the LTSIP by Questar Gas officers and employees at December 31, 2012:

Range of exercise prices	Options Outstanding			Options Exercisable		Unvested Options	
	Number outstanding at Dec. 31, 2012	Weighted-average remaining term in years	Weighted-average exercise price	Number exercisable at Dec. 31, 2012	Weighted-average exercise price	Number unvested at Dec. 31, 2012	Weighted-average exercise price
<i>Questar Gas</i>							
\$ 4.37 - \$13.10	28,750	2.2	\$ 8.94	26,417	\$ 8.57	2,333	\$ 13.10

The following table summarizes the restricted shares held under the LTSIP by Questar Gas officers and employees at December 31, 2012. The weighted-average remaining vesting period of unvested restricted shares at December 31, 2012, for Questar Gas was 12 months.

	Restricted Shares Outstanding	Price Range	Weighted- Average Price
<i>Questar Gas</i>	105,303	\$ 13.10 - \$ 19.39	\$ 18.15

The following table summarizes the target number of performance shares held under the LTSIP by Questar Gas executive officers at December 31, 2012. The weighted-average remaining vesting period of unvested performance shares at December 31, 2012, for Questar Gas was 18 months.

	Target Number of Performance Shares Outstanding	Grant-Date Fair Value Range	Weighted- Average Grant-Date Fair Value
<i>Questar Gas</i>	22,838	\$ 18.23 - \$ 25.42	\$ 22.03

## Note 12 - Employee Benefits

### Defined Benefit Pension Plan and Other Postretirement Benefits

The Company has a noncontributory defined benefit pension plan and a life insurance plan covering a majority of its employees and a postretirement medical plan providing coverage to less than half of its employees. Employees hired or rehired after June 30, 2010 are not eligible for the noncontributory defined benefit pension plan and employees hired or rehired after December 31, 1996, are not eligible for the postretirement medical plan and are not eligible to receive basic life coverage once they retire.

Questar Gas participates in Questar's pension and other postretirement benefit plans. Questar Gas's pension plan and postretirement medical and life insurance assets and benefit obligations cannot be separately determined because plan assets are not segregated or restricted to meet the companies' pension and postretirement medical and life obligations. If the companies were to withdraw from the pension plan, the pension obligation for Questar Gas employees would be retained by the pension plan.

Questar Gas contributes to the Questar pension plans in amounts equal to yearly expenses. Questar Gas's pension expense was \$19.7 million in 2012, \$13.4 million in 2011 and \$15.4 million in 2010. Questar Gas's postretirement benefit expenses other than pensions were \$3.3 million in 2012, \$2.3 million in 2011 and \$3.6 million in 2010.

### Employee Investment Plan

The Employee Investment Plan (EIP) is a defined contribution pension plan that allows eligible employees to purchase shares of Questar common stock or other investments through payroll deduction at the current fair market value on the transaction date. The Company currently contributes an overall match of 100% of employees' pre-tax purchases up to a maximum of 6% of their qualifying earnings. To satisfy employee purchases of Questar stock, the EIP trustee may purchase Questar shares on the open market with cash received or Questar may issue new shares. The Company recognizes expense equal to its yearly matching contributions. Questar's expense amounted to \$7.3 million in 2012, \$7.0 million in 2011, and \$5.9 million in 2010.



Questar Gas's EIP expense equaled its matching contribution of \$3.6 million in 2012, \$3.4 million in 2011 and \$3.9 million in 2010

#### Note 14 - Related-Party Transactions

##### *Questar Gas*

In 2012, 2011 and 2010 Questar Gas provided technical and communication services to affiliates. In 2010 Questar Gas also provided administrative, accounting, legal, data-processing and regulatory support to affiliates. Questar Gas provided these services at its cost and charged \$13.6 million in 2012, \$14.0 million in 2011 and \$25.9 million in 2010. The majority of these costs are allocated. The allocation methods are based on the specific nature of the charges. Management believes that the allocation methods are reasonable.

Questar Gas has reserved transportation capacity on Questar Pipeline's system for 916 Mdth per day during the heating season and 841 Mdth per day during off-peak months. Questar Gas periodically releases excess capacity and receives a credit from Questar Pipeline for the released capacity revenues and a portion of Questar Pipeline's interruptible transportation revenues. Questar Gas paid for transportation, storage and processing services provided by Questar Pipeline and a subsidiary amounting to \$73.6 million in 2012, \$73.7 million in 2011 and \$73.5 million in 2010, which included demand charges. The costs of these services were included in cost of natural gas sold.

Under the terms of the Wexpro Agreement, Questar Gas receives a portion of Wexpro's income from oil operations after recovery of Wexpro's operating expenses and a return on investment. This amount, which is included in revenues and reduces amounts billed to gas distribution customers, was \$2.5 million in 2012, \$3.3 million in 2011 and \$1.1 million in 2010. The amounts that Questar Gas paid Wexpro for the operation of cost-of-service gas properties were \$274.0 million in 2012, \$253.4 million in 2011 and \$240.0 million in 2010. Questar Gas reports these amounts in cost of natural gas sold.

Questar Gas had a lease with an affiliate for space in an office building located in Salt Lake City, Utah, which expired on April 30, 2012. Rent expense was \$0.4 million in 2012, \$1.1 million in 2011 and \$2.5 million in 2010.

Questar charged Questar Gas for certain administrative functions amounting to \$42.1 million in 2012, \$46.9 million in 2011 and \$13.2 million in 2010. These costs are included in operating expenses and are generally allocated based on each affiliated company's proportional share of revenues less product costs; property, plant and equipment; and labor costs. Management believes that the allocation method is reasonable.

Questar Gas borrowed cash from Questar and incurred interest expense of \$0.6 million in 2012, \$0.3 million in 2011 and \$0.4 million in 2010.

#### Note 17 - Supplemental Gas and Oil Information (Unaudited)

##### *Capitalized Costs of Cost-of-Service Activities*

Capitalized costs of cost-of-service gas and oil properties net of the related accumulated depreciation, depletion and amortization are shown below:

	December 31,	
	2012	2011
	(in millions)	
Questar Gas	7.8	8.5

### *Estimated Quantities of Cost-of-Service Proved Gas and Oil Reserves*

Estimates of cost-of-service proved gas and oil reserves have been prepared in accordance with professional engineering standards and the Company's established internal controls. The estimates were prepared by Wexpro's reservoir engineers, individuals who possess professional qualifications and demonstrated competency in reserves estimation and evaluation. Because gas reserves managed, developed and produced by Wexpro are delivered to Questar Gas at cost-of-service, SEC guidelines with respect to standard economic assumptions are not applicable. The SEC acknowledges this potential circumstance and provides that companies may give appropriate recognition to differences arising because of the effect of the rate-making process. Accordingly, in cases where differences arise because of the effect of the rate-making process, Wexpro uses a minimum-producing rate or maximum well-life limit to determine the ultimate quantity of reserves attributable to each well.

Wexpro has limited proved undeveloped reserves to acreage in areas directly offsetting a proved developed well. The Company annually reviews all proved undeveloped reserves to ensure an appropriate plan for development exists. All proved undeveloped reserves are converted to proved developed reserves within five years of the proved undeveloped reserve booking. At December, 2012, all of the Company's proved undeveloped reserves were scheduled to be developed within five years from the date such locations were initially disclosed as proved undeveloped reserves. In 2012, Wexpro converted 15% of total 2011 year-end proved undeveloped reserves to developed status.

Revisions of prior estimates reflect the addition of new proved undeveloped reserves associated with current development plans, revisions to prior proved undeveloped reserves, revisions to infill drilling development plans, as well as the transfer of proved undeveloped reserves to unproved reserve categories due to changes in development plans during 2012 and 2011. Wexpro changed its development plans in 2012 due to success in increasing production, which resulted in a higher proportion of cost-of-service gas in Questar Gas's natural gas supply. Wexpro reduced the pace of development and therefore has revised downward proved undeveloped locations that are economic today but will not be drilled within five years of the initial recording date. The Company's year-end development plans are consistent with SEC guidelines for proved undeveloped reserve development within five years.

In establishing reserves, the SEC allows the use of techniques that have been field tested and demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation. In general, the Company uses numerous data elements and analysis techniques in the estimation of proved reserves. These data elements and techniques include, but are not limited to, production tests, well performance data, decline curve analysis, wireline logs, core data, pressure transient analysis, seismic data and interpretation, and material balance calculations. Although the Company utilizes these reliable technologies, no reserves were recorded more than one location away from production, from increasing recovery factor estimates, or from extending down-dip reservoir limits associated with the use of reliable technology.

Wexpro's estimates of proved reserves were made by the Company's engineers and are the responsibility of management. The Company requires that reserve estimates be made by qualified reserves estimators (QREs), as defined by the Society of Petroleum Engineers' standards. The QREs interact with engineering, land and geoscience personnel to obtain the necessary data for projecting future production, costs, net revenues and ultimate recoverable reserves. Management approves the QREs' reserve estimates annually. All QREs receive ongoing education on the fundamentals of SEC reserves reporting through internal and external training over the policies for estimating and recording reserves in compliance with applicable SEC definitions and guidance.

Estimated quantities of cost-of-service proved gas and oil reserves are set forth below:

	Natural Gas (Bcf)
<b>Proved Reserves</b>	
Balances at December 31, 2009	649.4
Balances at December 31, 2010	738.4
Balances at December 31, 2011	758.7
<b>Balances at December 31, 2012</b>	<b>697.2</b>

**Financial Statement Schedules:**

**QUESTAR GAS COMPANY**  
Schedule of Valuation and Qualifying Accounts

Column A Description	Column B Beginning Balance	Column C Amounts charged to expense	Column D Deductions for accounts written off and other	Column E Ending Balance
(in millions)				
<b>Year Ended December 31, 2012</b>				
Allowance for bad debts	\$ 2.9	\$ 1.1	\$ (1.2)	\$ 2.8
<b>Year Ended December 31, 2011</b>				
Allowance for bad debts	2.9	2.4	(2.4)	2.9
<b>Year Ended December 31, 2010</b>				
Allowance for bad debts	5.1	0.5	(2.7)	2.9