

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarter ended June 30, 2006**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_ to \_\_\_**

**Commission File Number 1-935**

**QUESTAR GAS COMPANY**

(Exact name of registrant as specified in charter)

**STATE OF UTAH**

(State or other jurisdiction of  
incorporation or organization)

**87-0155877**

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

**180 East 100 South Street, P.O. Box 45360 Salt Lake City, Utah 84145-0360**

(Address of principal executive offices)

Registrant's telephone number, including area code **(801) 324-5555**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On July 31, 2006, 9,189,626 shares of the registrant's common stock, \$2.50 par value, were outstanding (all shares are owned by Questar Corporation).

Registrant meets the conditions set forth in General Instruction H (1) (a) and (b) of Form 10-Q and is filing this Form 10-Q with the reduced disclosure format.

**Questar Gas Company**  
**Form 10-Q for the Quarter Ended June 30, 2006**

**Table of Contents**

[Nature of Business](#)

[Where You Can Find More Information](#)

[Forward-Looking Statements](#)

[Glossary of Commonly Used Terms](#)

**PART I. FINANCIAL INFORMATION**

[Item 1. Financial Statements \(Unaudited\)](#)

[Statements of Income for the three, six and twelve months ended June 30, 2006 and 2005](#)

[Condensed Balance Sheets as of June 30, 2006, June 30, 2005 and December 31, 2005](#)

[Condensed Statements of Cash Flows for the six months ended June 30, 2006 and 2005](#)

[Notes Accompanying the Financial Statements](#)

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 4. Controls and Procedures](#)

**PART II. OTHER INFORMATION**

[Item 6. Exhibits](#)

[Signatures](#)

## **Nature of Business**

Questar Gas Company (Questar Gas or the Company) distributes natural gas as a public utility in Utah, southwestern Wyoming and a small portion of southeastern Idaho. Questar Gas is regulated by the Public Service Commission of Utah (PSCU) and the Public Service Commission of Wyoming (PSCW). The Public Utility Commission of Idaho has contracted with the PSCU for rate oversight of Questar Gas's Idaho operations. Questar Gas is a wholly-owned subsidiary of Questar Corporation (Questar) headquartered in Salt Lake City, Utah.

## **Where You Can Find More Information**

Both Questar and Questar Gas file annual, quarterly, and current reports with the Securities and Exchange Commission (SEC). The public may read and copy these reports and other materials filed with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549-0213. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC also maintains a website that contains information filed electronically that can be accessed over the Internet at [www.sec.gov](http://www.sec.gov).

Interested parties can also access financial and other information via Questar's website at [www.questar.com](http://www.questar.com). Questar and Questar Gas make available, free of charge, through the website copies of Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to such reports. Access to these reports is provided as soon as reasonably practical after such reports are electronically filed with the SEC. Questar's website also contains Statements of Responsibility for Board Committees, Corporate Governance Guidelines and its Business Ethics and Compliance Policy.

Finally, you may request a copy of filings, other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing, at no cost by writing or calling Questar Gas, 180 East 100 South Street, P.O. Box 45360, Salt Lake City, Utah 84145-0360 (telephone number (801) 324-5555).

## **Forward-Looking Statements**

This Quarterly Report may contain or incorporate by reference information that includes or is based upon "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, exploration efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining actual future results. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Among factors that could cause actual results to differ materially are:

- the risk factors discussed in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2005;
- general economic conditions, including the performance of financial markets and interest rates;
- changes in industry trends;
- changes in laws or regulations; and
- other factors, most of which are beyond our control.

Questar Gas undertakes no obligation to publicly correct or update the forward-looking statements in this Quarterly Report, in other documents, or on the website to reflect future events or circumstances. All such statements are expressly qualified by this cautionary statement.

## Glossary of Commonly Used Terms

### **B**

Billion.

### **bbbl**

Barrel, which is equal to 42 U.S. gallons and is a common measure of volume of crude oil and other liquid hydrocarbons.

### **Btu**

One British thermal unit – a measure of the amount of energy required to raise the temperature of a one-pound mass of water one degree Fahrenheit at sea level.

### **cf**

Cubic foot is a common unit of gas measurement. One standard cubic foot equals the volume of gas in one cubic foot measured at standard conditions – a temperature of 60 degrees Fahrenheit and a pressure of 30 inches of mercury (approximately 14.7 pounds per square inch).

### **dth**

Decatherms or ten therms. One dth equals one million Btu or approximately one Mcf.

### **gas**

All references to “gas” in this report refer to natural gas.

### **heating degree days**

A measure of the number of degrees the average daily outside temperature is below 65 degrees Fahrenheit.

### **M**

Thousand.

### **MM**

Million.

### **natural gas equivalents**

Oil and NGL volumes are converted to natural gas equivalents using the ratio of one barrel of crude oil, condensate or NGL to 6,000 cubic feet of natural gas.

### **natural gas liquids (NGL)**

Liquid hydrocarbons that are extracted and separated from the natural gas stream. NGL products include ethane, propane, butane, natural gasoline and heavier hydrocarbons.

### **proved reserves**

Those quantities of natural gas, crude oil, condensate and NGL on a net revenue interest basis, which geological and engineering data demonstrate with reasonable certainty to be recoverable under existing economic and operating conditions. See 17 C.F.R. Section 4-10(a)(2) for a complete definition.

### **proved developed reserves**

Reserves that include proved developed producing reserves and proved developed nonproducing reserves. See 17 C.F.R. Section 4-10(a)(3).

### **proved developed producing reserves**

Reserves expected to be recovered from existing completion intervals in existing wells.

### **proved undeveloped reserves**

Reserves expected to be recovered from new wells on proved undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. See 17 C.F.R. Section 4-10(a)(4).

### **reservoir**

A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

QUESTAR GAS COMPANY  
STATEMENTS OF INCOME  
(Unaudited)

	3 Months Ended		6 Months Ended		12 Months Ended	
	June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005
(in thousands)						
<b>REVENUES</b>						
From unaffiliated customers	\$181,853	\$151,043	\$648,792	\$494,733	\$1,110,462	\$845,105
From affiliated companies	1,237	1,370	2,814	2,631	6,327	5,184
<b>TOTAL REVENUES</b>	<b>183,090</b>	<b>152,413</b>	<b>651,606</b>	<b>497,364</b>	<b>1,116,789</b>	<b>850,289</b>
<b>OPERATING EXPENSES</b>						
Cost of natural gas sold	137,966	112,359	509,108	363,956	865,325	617,657
Operating and maintenance	17,324	17,846	38,398	35,871	76,361	68,433
General and administrative	10,746	10,160	20,359	21,046	38,565	39,805
Other taxes	3,726	3,278	7,334	6,464	11,883	9,987
Depreciation and amortization	10,593	10,892	22,165	22,198	45,795	43,488
Rate-refund obligation						1,095
<b>TOTAL OPERATING EXPENSES</b>	<b>180,355</b>	<b>154,535</b>	<b>597,364</b>	<b>449,535</b>	<b>1,037,929</b>	<b>780,465</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,735</b>	<b>(2,122)</b>	<b>54,242</b>	<b>47,829</b>	<b>78,860</b>	<b>69,824</b>
Interest and other income	1,485	1,272	2,681	2,546	5,097	4,618
Interest expense	(5,469)	(4,855)	(10,939)	(9,919)	(21,178)	(19,795)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(1,249)</b>	<b>(5,705)</b>	<b>45,984</b>	<b>40,456</b>	<b>62,779</b>	<b>54,647</b>
Income taxes	(556)	(2,259)	17,313	15,190	23,399	20,232
<b>NET INCOME (LOSS)</b>	<b>(\$ 693)</b>	<b>\$ (3,446)</b>	<b>\$28,671</b>	<b>\$ 25,266</b>	<b>\$ 39,380</b>	<b>\$ 34,415</b>

See notes accompanying the financial statements

QUESTAR GAS COMPANY  
CONDENSED BALANCE SHEETS  
(Unaudited)

	June 30, 2006	2005	December 31, 2005
	(in thousands)		
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents			\$ 3,206
Notes receivable from Questar	\$ 9,800		
Accounts receivable, net	58,466	\$ 47,998	101,188
Accounts receivable from affiliated companies	2,196	2,464	2,102
Unbilled gas accounts receivable	13,048	9,024	86,161
Federal income taxes recoverable			5,508
Inventories, at lower of average cost or market			
Gas stored underground	36,515	18,411	57,526
Materials and supplies	10,319	6,311	6,649
Prepaid expenses and other	863	1,052	2,857
Purchased-gas adjustments		14,642	39,852
Deferred income taxes – current	11,849		
Total current assets	<u>143,056</u>	<u>99,902</u>	<u>305,049</u>
Property, plant and equipment	1,364,998	1,348,365	1,383,362
Less accumulated depreciation and amortization	583,818	595,456	615,934
Net property, plant and equipment	<u>781,180</u>	<u>752,909</u>	<u>767,428</u>
Goodwill and other noncurrent assets	11,934	12,093	12,090
Regulatory assets	22,615	21,253	22,052
	<u>\$ 958,785</u>	<u>\$ 886,157</u>	<u>\$1,106,619</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Current liabilities</b>			
Checks in excess of cash balances	\$ 2,229	\$ 889	
Notes payable to Questar		45,400	\$ 77,400
Accounts payable and accrued expenses	66,889	50,375	152,904
Accounts payable to affiliated companies	26,458	21,657	27,409
Customer-credit balances	8,401	12,223	30,829
Rate-refund obligation		3,341	
Purchased-gas adjustments	28,498		
Deferred income taxes - current		12,646	14,124
Total current liabilities	<u>132,475</u>	<u>146,531</u>	<u>302,666</u>
Long-term debt	323,000	273,000	323,000
Deferred income taxes	118,081	107,832	118,024
Other long-term liabilities	51,027	38,177	44,603
<b>Common shareholder's equity</b>			
Common stock	22,974	22,974	22,974
Additional paid-in capital	115,710	115,255	115,255
Retained earnings	195,518	182,388	180,097
Total common shareholder's equity	<u>334,202</u>	<u>320,617</u>	<u>318,326</u>
	<u>\$ 958,785</u>	<u>\$ 886,157</u>	<u>\$1,106,619</u>

See notes accompanying the financial statements

QUESTAR GAS COMPANY  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	6 Months Ended June 30,	
	2006	2005
	(in thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 28,671	\$ 25,266
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	24,155	24,925
Deferred income taxes	(25,916)	(7,948)
Share-based compensation	455	
Net loss from asset sales	295	41
	<u>27,660</u>	<u>42,284</u>
Changes in operating assets and liabilities	111,273	52,184
<b>NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>	<b>138,933</b>	<b>94,468</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(44,639)	(35,151)
Proceeds from disposition of assets	721	463
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(43,918)</b>	<b>(34,688)</b>
<b>FINANCING ACTIVITIES</b>		
Checks in excess of cash balance	2,229	889
Change in notes receivable from Questar	(9,800)	
Change in notes payable to Questar	(77,400)	(49,800)
Dividends	(13,250)	(13,000)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(98,221)</b>	<b>(61,911)</b>
Change in cash and cash equivalents	(3,206)	(2,131)
Beginning cash and cash equivalents	3,206	2,131
Ending cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>

See notes accompanying the financial statements

QUESTAR GAS COMPANY  
 NOTES ACCOMPANYING THE FINANCIAL STATEMENTS  
 (Unaudited)

**Note 1 – Basis of Presentation of Interim Financial Statements**

The accompanying unaudited financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and pursuant to the rules and regulations of the SEC. The interim financial statements reflect all normal, recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of financial position and results of operations for the interim periods presented. Interim financial statements do not include all of the information and notes required by GAAP for audited annual financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2005. Certain reclassifications were made to prior period financial statements to conform with the current presentation.

The preparation of financial statements and notes in conformity with GAAP requires that management make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from estimates. The results of operations for the six and twelve months ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006, due to a variety of factors discussed in the Forward-Looking Statements section of this report.

**Note 2 – Share-Based Compensation**

Questar issues stock options and restricted shares to certain officers, employees and non-employee directors under its Long Term Stock Incentive Plan (LTSIP). Questar has granted and continues to grant share-based compensation to certain Questar Gas employees. Prior to January 1, 2006, Questar and the Company accounted for share-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion (APBO) 25 “Accounting for Stock Issued to Employees” and related interpretations. No compensation cost was recorded for stock options issued because the exercise price equaled the market price on the date of grant. The granting of restricted shares resulted in recognition of compensation cost. Restricted shares are valued at the grant-date market price and amortized to expense over the vesting period.

Questar and the Company implemented SFAS 123R “Share-Based Payment,” effective January 1, 2006 and chose the modified prospective phase-in method of accounting by SFAS 123R. The modified prospective phase-in method requires recognition of compensation costs for all share-based payments granted, modified or settled after January 1, 2006, as well as for any awards that were granted prior to the implementation date for which the required service has not yet been performed. As a result of adopting SFAS 123R, the Company’s income before income taxes for the six months ended June 30, 2006, was approximately less than \$0.1 million lower than if the Company had continued to account for share-based compensation under APBO 25. The pro forma share-based compensation expense impact for the first half of 2005 was \$0.1 million.

Transactions involving stock options granted to employees of Questar Gas under the LTSIP are summarized below:

	Outstanding Options	Price Range	Weighted- Average Price
Balance at January 1, 2006	657,646	\$15.00 – \$28.01	\$25.00
Exercised	(95,826)	15.00 – 28.01	24.16
Employee transfer	(4,500)	27.11	27.11
Balance at June 30, 2006	<u>557,320</u>	<u>\$15.00 – \$28.01</u>	<u>\$25.13</u>

There were no changes in the number of unvested stock options held by employees of Questar Gas in the first half of 2006.

Range of exercise prices	Options Outstanding			Options Exercisable		Unvested Options	
	Number outstanding at June 30, 2006	Weighted-average remaining term in years	Weighted-average exercise price	Number exercisable at June 30, 2006	Weighted-average exercise price	Number unvested at June 30, 2006	Weighted average exercise price
\$15.00 – \$17.00	52,298	3.2	\$15.89	52,298	\$15.89		
19.13 – 22.95	132,788	4.7	22.37	132,788	22.37		
\$27.11 – \$28.01	372,234	6.0	27.41	310,984	27.47	61,250	\$27.11
	<u>557,320</u>	5.4	\$25.13	<u>496,070</u>	\$24.89	<u>61,250</u>	\$27.11

Restricted shares generally vest in three to five years. The weighted average remaining vesting term of unvested restricted shares at June 30, 2006 was three years. Transactions involving restricted shares held by employees of Questar Gas are summarized below:

	Shares	Price Range	Weighted Average Price
Balance at January 1, 2006	21,700	\$34.90 – \$51.00	\$42.84
Granted	9,350	73.50	73.50
Distributed	<u>(3,671)</u>	34.90	34.90
Balance at June 30, 2006	<u>27,379</u>	\$34.90 – \$73.50	\$54.37

### Note 3 – Questar Gas Rate Reduction

In response to the rising cost of buying gas for its customers, Questar Gas in December 2005 proposed a comprehensive three-year pilot program to promote energy conservation. The Division of Public Utilities and Utah Clean Energy (a public-interest group working to promote energy efficiency) joined Questar Gas in the request. The key feature of the proposal is a “conservation enabling tariff” (CET). The Company’s current rate structure does not provide an incentive for the Company to increase conservation efforts because energy conservation reduces Company revenues and profits. Under the proposed CET, Questar Gas revenues would be decoupled from the volume of gas used by customers. Questar Gas would then work with customers to find ways to reduce natural gas consumption.

Questar Gas and most other parties agreed to a settlement of issues other than the CET that had been proposed in this case. Effective June 1, 2006, the PSCU approved a settlement ordering Questar Gas to reduce the nongas portion of customer rates by \$9.7 million to reflect a reduction in depreciation rates, a change in capital structure, and recovery of pipeline integrity costs.

The reduction of depreciation rates resulted from a study ordered in the last general rate case and is estimated to be \$8.5 million per year. The following changes were made to the depreciation rates: asset lives were increased for most asset classes; cost of asset retirement was included in the depreciation rate as negative salvage; low value general plant assets were changed to a vintage amortization rather than specific asset accounting; and accumulated depreciation was adjusted to conform to the new rates over the next ten years. The average annual depreciation rate declined from 3.9% to 3.0%. These new depreciation rates were adopted in June 2006.

## Note 4 – Recent Accounting Development

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (FIN 48). The interpretation applies to all tax positions related to income taxes subject to FASB Statement No. 109 “Accounting for Income Taxes.” FIN 48 clarifies 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. FIN 48 is effective January 1, 2007. The Company is evaluating the effect, if any, that FIN 48 will have on its financial statements.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Summary

Questar Gas reported a seasonal net loss of \$0.7 million in the second quarter of 2006 compared with a net loss of \$3.4 million in the second quarter of 2005. Questar Gas net income was \$28.7 million in the first half of 2006 compared with \$25.3 million in the first half of 2005. For the 12 months ended June 30, 2006, net income was \$39.4 million, up from \$34.4 million in the year-earlier period. The improved 2006 results were from higher margins from customer growth and the recovery of gas-processing costs in 2006 that were not recognized in 2005 results until the fourth quarter.

### Results of Operations

Following is a summary of Questar Gas financial and operating results for the second quarter, first half and trailing 12 months ended June 30, 2006 compared with the same periods of 2005:

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2006	2005	2006	2005	2006	2005
	(in thousands)					
<b>OPERATING INCOME</b>						
Revenues						
Residential and commercial sales	\$162,398	\$131,737	\$603,891	\$453,783	\$1,017,902	\$766,582
Industrial sales	8,366	8,694	18,006	19,101	39,012	40,799
Transportation for industrial customers	1,395	1,298	3,006	2,905	5,981	5,807
Other	10,931	10,684	26,703	21,575	53,894	37,101
Total revenues	183,090	152,413	651,606	497,364	1,116,789	850,289
Cost of natural gas sold	137,966	112,359	509,108	363,956	865,325	617,657
Margin	45,124	40,054	142,498	133,408	251,464	232,632
Operating expenses						
Operating and maintenance	17,324	17,846	38,398	35,871	76,361	68,433
General and administrative	10,746	10,160	20,359	21,046	38,565	39,805
Depreciation and amortization	10,593	10,892	22,165	22,198	45,795	43,488
Other taxes	3,726	3,278	7,334	6,464	11,883	9,987
Rate-refund obligation						1,095
Total operating expenses	42,389	42,176	88,256	85,579	172,604	162,808
Operating income (loss)	\$ 2,735	\$ (2,122)	\$ 54,242	\$ 47,829	\$ 78,860	\$ 69,824
<b>OPERATING STATISTICS</b>						
Natural gas volumes (in Mdth)						
Residential and commercial sales	16,692	16,843	58,957	56,762	98,505	96,420
Industrial sales	1,126	1,394	2,277	3,097	4,861	6,895

Transportation for industrial customers	7,384	7,068	15,869	15,723	31,351	31,855
Total deliveries	25,202	25,305	77,103	75,582	134,717	135,170
<hr/>						
Natural gas revenue (per dth)						
Residential and commercial sales	\$ 9.73	\$ 7.82	\$ 10.24	\$ 7.99	\$10.33	\$7.95
Industrial sales	7.44	6.24	7.91	6.17	8.02	5.92
Transportation for industrial customers	\$ 0.19	\$ 0.18	\$ 0.19	\$ 0.18	\$0.19	\$0.18
Heating degree days colder (warmer) than normal	(25%)	6%	(7%)	(3%)	(6%)	(2%)
Average temperature adjusted usage per customer (dth)	18.1	18.2	68.5	68.1	113.7	116.3
Customers at June 30,	835,511	798,277				

### Margin Analysis

Questar Gas margin (revenues less gas costs) increased \$5.1 million in the second quarter, \$9.1 million in the first half of 2006 and \$18.8 million for the 12 months ended June 30, 2006, compared to the same periods of 2005. Following is a summary of major changes in Questar Gas margin:

	3 Months Ended June 30, 2006 Compared with 2005	6 Months Ended June 30, 2006 Compared with 2005	12 Months Ended June 30, 2006 Compared with 2005
	(in thousands)		
New customers	\$1,224	\$4,683	\$ 7,902
Change in usage per customer	(260)	879	(3,248)
Gas processing revenues collected from customers	1,189	2,605	6,636
Interest on past-due receivables	258	548	909
Recovery of bad debt gas costs	(636)	803	2,266
Change in unbilled estimate	2,727		
Other	568	(428)	4,367
Increase	\$5,070	\$9,090	\$18,832

Temperature-adjusted usage per customer was about flat in the second quarter and first half of 2006 compared to the same periods of 2005. Usage per customer declined 2% in the 12 months ended June 30, 2006, compared to the 2005 period. Weather, as measured in degree days, was 25% warmer than normal in the second quarter of 2006 compared to 6% colder than normal in the second quarter of 2005. For the first half of 2006, weather was 7% warmer than normal compared with 3% warmer than normal in 2005. Weather was 6% warmer than normal in the 12 months ended June 30, 2006, compared to 2% warmer than normal in the 2005 period. A weather-normalization adjustment on customer bills generally offsets financial impacts of moderate temperature variations. Questar Gas adjusted its estimate of unbilled revenues during the second quarter of 2006, increasing the margin by \$2.7 million. At June 30, 2006, Questar Gas was serving 835,511 customers, up from 824,447 at December 31, 2005.

Industrial deliveries (including sales and transportation) increased 1% in the second quarter of 2006, decreased 4% in the first half of 2006, and decreased 7% in the 12 months ended June 30, 2006, compared to 2005 periods. The first-half and 12-month decreases were primarily driven by lower power-generation requirements.

As discussed below, Questar Gas received rate coverage for gas-processing costs in the second quarter of 2006 of \$1.2 million, the first half of 2006 of \$2.6 million and 12 months ended June 30, 2006 of \$6.6 million. Rate coverage for costs incurred in the prior year was not recognized until the fourth quarter of 2005, pursuant to a February 2006 regulatory order.

The increase in bad-debt costs as discussed below has been partially offset with recovery of the gas-cost portion of bad debt costs through the gas balance account. This decreased the second quarter 2006 margin by \$0.6 million, increased the first half 2006 margin by \$0.8 million and increased the 12 months ended June 30, 2006 margin by \$2.3 million.

#### Expenses

Cost of natural gas sold increased 23% in the second quarter, 40% in the first half of 2006, and 40% in the 12 months ended June 30, 2006, compared to 2005 periods due primarily to increased gas purchase cost per dth. 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. As of June 30, 2006, Questar Gas had a \$28.5 million over collection balance in the purchased-gas adjustment account representing gas recovered from customers in excess of costs incurred. Rates in Utah effective June 2006 were 9% higher than a year earlier although rates during a portion of the 2006 winter heating season were 42% higher than the prior year.

Operating, maintenance, general and administrative expenses were flat in the second quarter of 2006, up 3% in the first half of 2006, and up 6% in the 12 months ended June 30, 2006, compared to 2005 periods. Bad debt costs were \$1.0 million higher in the first half of 2006 and \$2.7 million higher in the 12 months ended June 30, 2006. As noted earlier, the gas-cost portion of bad debts is recovered through the gas balance account.

Depreciation expense decreased 3% in the second quarter of 2006, was flat in the first half of 2006, and increased 5% in the 12 months ended June 30, 2006, compared to 2005 periods. As explained in Part I, Item 1. Financial Statements Note 3, Questar Gas reduced its depreciation rates effective June 1, 2006, in accordance with a PSCU order. This offset the depreciation impact of plant additions from customer growth.

#### Gas processing cost recovery

In October 2005, Questar Gas, the Utah Division of Public Utilities and the Committee of Consumer Services submitted a stipulation to the PSCU to resolve issues related to the recovery of gas-processing costs. The PSCU held a hearing on October 20, 2005, and issued an order on January 6, 2006, approving the stipulation beginning on February 1, 2005. The stipulation provides for the recovery of 90% of the non fuel cost of service for processing and 100% of the fuel costs up to 360 Mdth per year. Half of the third-party processing revenues are shared with customers after the first \$0.4 million. In the fourth quarter of 2005 Questar Gas reduced expenses for recovery of gas costs by \$4.9 million for the period from February 1, 2005 to December 31, 2005. A request to the PSCU for rehearing of this issue was denied. The individuals who filed this request have appealed the issue to the Utah Supreme Court.

#### Rate Matters

See Part I, Item 1. Financial Statements Note 3 for a discussion of the Conservation Enabling Tariff and a rate reduction in Utah.

### **Item 4. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by the report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company, required to be included in the Company's reports filed or submitted under the Exchange Act. The Company's Chief Executive Officer and Chief Financial Officer also concluded that the controls and procedures were effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's

management including its principal executive and financial officers or persons performing similar functions as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls.

Since the Evaluation Date, there have not been any changes in the Company's internal controls or other factors during the most recent fiscal quarter that could materially affect such controls.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

- a. The following exhibits are filed as part of this report:

<u>Exhibit No.</u>	<u>Exhibits</u>
31.1.	Certification signed by Alan K. Allred, Questar Gas Company's President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2.	Certification signed by S. E. Parks, Questar Gas Company's Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.	Certification signed by Alan K. Allred and S. E. Parks, Questar Gas Company's President and Chief Executive Officer and Vice President and Chief Financial Officer, respectively, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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 GAS COMPANY  
(Registrant)

August 8, 2006

/s/Alan K. Allred  
Alan K. Allred  
President and Chief Executive Officer

August 8, 2006

/s/S/ E. Parks  
S. E. Parks  
Vice President and Chief Financial Officer

Exhibits List

<u>Exhibit No.</u>	<u>Exhibits</u>
31.1.	Certification signed by Alan K. Allred, Questar Gas Company's President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 31.2. Certification signed by S. E. Parks, Questar Gas Company's Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32. Certification signed by Alan K. Allred and S. E. Parks, Questar Gas Company's President and Chief Executive Officer and Vice President and Chief Financial Officer, respectively, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1.

#### CERTIFICATION

I, A. K. Allred, certify that:

1. I have reviewed this quarterly report of Questar Gas Company on Form 10-Q for the period ending June 30, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2006

/s/A. K. Allred

A. K. Allred,  
President and Chief Executive Officer

Exhibit 31.2.

### CERTIFICATION

I, S. E. Parks, certify that:

1. I have reviewed this quarterly report of Questar Gas Company on Form 10-Q for the period ending June 30, 2006;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2006

/s/S. E. Parks  
S. E. Parks  
Vice President and Chief Financial Officer

Exhibit No. 32.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Questar Gas Company (the Company) on Form 10-Q for the period ending June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), Alan K. Allred, President and Chief Executive Officer of the Company, and S. E. Parks, Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

QUESTAR GAS COMPANY

August 8, 2006

/s/Alan K. Allred  
Alan K. Allred  
President and Chief Executive Officer

August 8, 2006

/s/S. E. Parks  
S. E. Parks  
Vice President and Chief Financial Officer