

# FINAL TRANSCRIPT

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**STR - Q1 2010 Questar Corp. Earnings Conference Call**

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*Questar Corp. - Chairman, President & CEO*

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## PRESENTATION

### Operator

Good morning my name is Stephanie, and I will be your conference Operator today. At this time, I would like to welcome everyone to the first quarter 2010 earnings release conference call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you, I will now turn today's conference over to Mr. Richard Doleshek. Please go ahead, sir.

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### Richard Doleshek - Questar Corp. - SVP & CFO

Thank you, Stephanie. Good morning, everyone. This is Richard Doleshek, Questar's Chief Financial Officer. Thank you for joining us for Questar's first quarter 2010 results conference call. With me today are Keith Rattie, Questar's Chairman, President and CEO, Chuck Stanley, Questar's Chief Operating Officer and President of Questar Market Resources, Ron Jibson, President of Questar Gas Company, Allan Bradley, President of Questar Pipeline Company, and Sam Brothwell, Vice President Investor Relations and Corporate Planning.

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As you know, it's been a busy seven days for us. In addition to issuing our earnings release yesterday, we issued an operations update for Questar Exploration & Production Company on Monday, and last Wednesday we announced that we are considering a spinoff of our E&P and midstream field services businesses. Although the first quarter results are important and noteworthy, we'll keep our comments about those results relatively brief and after my remarks, Keith will give some more color on our operating results and discuss proposed spinoff.

On Monday Questar E&P reported first quarter 2010 production of 51.5 Bcfe, 51% of which came from our Midcontinent divisions. We updated development activity in our core operating areas and we raised 2010 production guidance by 2 Bcfe to a range of 210 Bcfe to 217 Bcfe. Yesterday, we issued our earnings release in which we reported first quarter 2010 results and raised our 2010 EBITDA guidance by \$30 million. We will discuss these items today and invite your questions at the end of this call.

In today's conference call we will use a non-GAAP measure EBITDA which is defined in our earnings release. In addition, we will be making numerous forward-looking statements. And we remind everyone that our actual results could differ from our estimates for a variety of reasons.

With regard to our first quarter results, all of our business units with the exception of Questar E&P generated record financial results and in total contributed 50% of our aggregate EBITDA. Questar E&P's results reflect the impact of realized natural gas prices that were 25% lower than a year ago. Our first quarter EBITDA was \$432 million, which was down \$33 million from the fourth quarter of 2009, but down only \$2 million from the first quarter of 2009. The rest of Questar, or the businesses other than Questar E&P, generated \$218 million of EBITDA in the quarter compared to \$119 million in the fourth quarter of '09 and \$193 million in the first quarter '09. Remember, that Questar Gas, which contributed \$70 million of EBITDA in the period, generates about half of its annual EBITDA in the first quarter of each year.

Other factors driving our EBITDA include Questar E&P's production, which averaged 572 million cubic feet equivalent per day in the quarter, compared to 602 million cubic feet equivalent per day in the fourth quarter of 2009, and 521 million cubic feet equivalent per day in the first quarter of '09. Questar E&P's field level prices averaged \$5.34 per Mcfe in the quarter compared to \$4.15 per Mcfe in the fourth quarter of 2009 and \$3.52 per Mcfe in the first quarter '09. And our commodity derivatives portfolio contributed \$9 million EBITDA in the quarter, compared to \$110 million the fourth quarter of '09 and \$141 million the first quarter of '09. The commodities portfolio added \$0.17 per Mcfe to Questar E&P's net realized price in 2010 compared to \$1.99 per Mcfe in the fourth quarter, and \$3.01 in the first quarter of '09.

Finally, combined operating maintenance and production tax expenses were \$141 million in the quarter, compared to \$136 million in the fourth quarter of '09, and \$129 million in first quarter '09. The relatively higher first quarter 2010 expenses is primarily a result of higher production taxes at Questar E&P, driven by higher fuel level prices. Consolidated net income for the first quarter of the year was \$150 million, sequentially flat with the fourth quarter of '09, driven by EBITDA that was \$32 million lower in the first quarter, but partially offset by lower DD&A expense. Net income was \$83 million higher in the first quarter of -- in the first quarter of '09, on essentially flat EBITDA, due to non-cash items including DD&A expense that was \$25 million higher, and our provision for income taxes that was \$49 million higher in 2010, offset by \$169 million swing in unrealized gains and losses on basis-only swaps before income tax. We've had some questions about our unrealized gains and losses since we released our earnings yesterday and will be happy to discuss those during Q&A.

For the first quarter 2010, we reported capital expenditures on an accrual basis of \$325 million, compared to \$536 million in the fourth quarter of '09, and \$263 million in the first quarter of '09. Questar Market Resources spent \$291 million in the quarter compared to \$467 million in the fourth quarter of '09 and \$242 million in the first quarter of '09. Questar Pipeline and Questar Gas in combination spent \$34 million in the quarter compared to \$69 million in the fourth quarter '09, and \$21 million in the first quarter '09 (company corrected after the call).

In summary, we had a solid quarter with record financial results in four of our five business units. Net realized commodity prices at QEP were down 10% from last quarter and down 16% from a year ago, and Questar E&P's daily production was down only 5% from the fourth quarter as a result of our normal practice of suspending completion activities in the Rockies in the winter,



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but up 10% from a year ago driven by growth from our Midcontinent divisions. Our balance sheet remains strong, and we have approximately \$900 million available under committed credit lines, so we have plenty of liquidity to continue our -- to execute our capital plan in 2010.

With that, I'll turn it over to Keith.

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**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Good morning, everyone. We are getting a lot of questions on our April 21, announcement that we are contemplating a tax free spinoff of our E&P and midstream gathering and processing businesses, so this morning I'm going to use most of my time to respond to at least some of those questions about the proposed spinoff.

First, just some quick comments on the quarter and our outlook for the rest of the year, and Richard summarized this well. We are off to a pretty good start in 2010. As Richard noted, consolidated first quarter EBITDA was flat with a year ago, despite a 25% drop in net realized natural gas prices. We're raising our consolidated 2010 EBITDA guidance. We've also raised Questar E&P's 2010 production guidance to 212 billion cubic feet of equivalent to 217 billion cubic feet of equivalent.

Questar E&P's first quarter results highlight what we think is one of our competitive strengths, and that is that we have one of the lowest cash cost structures in the industry. Questar E&P cash margins held up pretty well in a low price environment in the first quarter.

In our Monday operations release we gave you an update on our major E&P projects, the Haynesville shale, Pinedale, the Anadarko Woodford Cana shale play, Granite Wash, and the North Dakota Bakken oil play. Note that we are continuing to add acreage in the core of the Haynesville shale, the Cana, and Granite Wash plays. Note that we came out of the winter with a good inventory of Pinedale wells. We are starting to complete those now, and that should get Pinedale production turned up over the rest of the year. Note also that we've drilled and cased some new wells in the Bakken and we're going to start completing those wells next week. Our latest Woodford Cana shale wells are keepers and note that despite mechanical problems down hole, our first operated horizontal Granite Wash well in the Texas panhandle appears to be very strong. I encourage you to ask Chuck Stanley for more color when we get to Q&A.

As Richard noted, four of our five major Questar business units, Wexpro, Gas Management, Questar Pipeline, and Questar Gas, all posted record first quarter net income, and in fact all are on track to report record net income this year. Bottom line is that we've got terrific people running each of our businesses and they're executing very well.

So, let me turn to the proposed tax free spinoff of our E&P and midstream field services businesses. As we noted in our April 21, press release, E&P Co -- and that's a place holder name that we're using for now -- E&P Co would be comprised of our commodity businesses, Questar E&P, Questar Gas Management, and Questar Energy Trading. After the spinoff, Questar Corp. would remain an integrated natural gas company, comprised of Wexpro, plus our regulated businesses, Questar Pipeline, and Questar Gas. Questar shareholders of record on the ex-dividend date would receive one share of E&P Co for each share they own of Questar. Subject to Board approval and other conditions precedent, and I will talk about those in a moment, the spin could occur in the third or fourth quarter of this year.

Now I'm going to try to respond to the most frequently asked questions from investors and then we'll invite you to ask questions that -- any questions that we've missed when we get to Q&A. The obvious first question is, Why? Bottom line, we think that a spinoff of our E&P business would create two top tier companies in their respective market segments. Over the past decade, you've seen what we've done to transform Questar by driving growth in our E&P business. We've transformed Questar E&P from what was once primarily a Rockies producer into a multi-basin growth company operating in several of the most economic natural gas plays in the country today. And in doing so, we've delivered double digit reserves and production growth while



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maintaining one of the lowest cost structures in the industry. We think that E&P Co would be one of America's -- continue to be one of America's fastest growing E&P companies.

The E&P Co businesses reported a combined EBITDA of \$1.17 billion in 2009, and could generate over \$1 billion of EBITDA in 2010, but more important, we think we have an attractive inventory of future development opportunities and thus good visibility on growth. Haynesville shale, Pinedale Anticline, Granite Wash, Woodford shale and the Bakken, we think that's a pretty good foundation on which to continue to grow an already successful E&P business. And we're on track, as we noted, to grow production by at least 12% this year, and we believe we can grow production at a compound rate of 12% to 15% over the next five years without an acquisition and with solid returns on capital even at natural gas prices consistent with the current forward curve. E&P Co, as we noted, would also include our midstream field services business, Gas Management, and our marketing business. Both of these businesses are integral to the way we manage our E&P business. Once we complete the two major gas processing projects that we've got under way in the Rockies, today Gas Management will throw off significant free cash flow to help fund future E&P growth.

In short, we believe that E&P investors would find E&P Co a compelling investment opportunity. We also believe that yield oriented investors would find the new Questar Corp. to be a compelling investment opportunity. After the spinoff, Questar Corp. would remain a uniquely integrated natural gas company comprised of Wexpro, Questar Pipeline and Questar Gas, and we, frankly, think that the performance of these businesses tends to get overlooked.

Under the 1981 Wexpro agreement, Wexpro earns a 19% after tax unlevered return on its net investment in the development of natural gas reserves on behalf of our utility Questar Gas. Over the past decade, Wexpro has grown net income four-fold. That, of course, has been driven by a four-fold increase in its investment base. Over that time frame, Wexpro produced over 400 Bcf of natural gas for the utility, and yet Wexpro cost of service reserves today are 89% higher than they were a decade ago. In fact, cost of service reserves today are higher than they were nearly 29 years ago at the inception of the Wexpro Agreement.

Turning to Questar Pipeline, our Pipeline team has grown net income three-fold over the past decade, and that's been driven by a three-fold increase in transportation volumes. For its part, Questar Gas has doubled net income over the last decade, and that's been driven by one of the highest customer growth rates in the country and, I should add, by employees who are among the most productive in the industry. When you combine these businesses, together they grew net income at a compound rate of over 12% over the last decade, they are on track to generate over \$500 million of EBITDA in 2010, and after the spinoff the new Questar Corp. would have the potential to continue to grow net income at high single digit rates over the next five years and beyond. New Questar should generate significant free cash flow, to fund future growth projects, while also paying a substantial dividend and growing that dividend at a significant rate. So, bottom line, with this transaction we believe we can unlock significant value for our long-term shareholders, by creating two top tier companies that are well positioned to continue to create value going forward.

The next question we've gotten is, Are you just sending up a trial balloon? The answer to that is, no. We don't do trial balloons. Certainly not in the case of what would be the most significant strategic move in Questar's 80-year history. In fact, we took this to the Board last August, we've been working on it in earnest since last October, in fact if you go back even further, we were seriously considering a restructuring back in 2008 about the time the financial markets collapsed.

Next question, Why are we announcing this now? We chose to go public a week ago and felt we had to for several reasons. First, we have to right size the balance sheets of the two new public companies, and to do that we have to work with our banks and the rating agencies. You'll recall that we issue long-term debt in three subsidiaries, including Questar Market Resources. To separate and spinoff our E&P business, we would have to move, first move Wexpro out of QMR and up to the parent Questar Corp. Then we would have to spin QMR without Wexpro, i.e., E&P Co out to Questar shareholders and in doing that, we would trigger covenant provisions in Questar Market Resources' public debt, and other credit agreements. We may have to offer to purchase QMR bonds under the changing control provisions and we'd have to renegotiate QMR and Questar Corp. credit agreements. To do both of these, we'd have to put new credit facilities in place. So to keep this transaction moving forward, we need to begin negotiations with our bank group now, and once you start talking to a large group of banks, you are effectively



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going public whether you intend to or not. In fact, we, we were reviewing the proposed transaction with our lead arranger banks on April 21, in Houston about the time we pushed the send button on the press release.

Second, we've got a lot of work to do internally to separate E&P Co from the rest of Questar. As I've mentioned, we've operated as an integrated company for 80 years. We've got to put new policies, systems, and practices in place before E&P Co. can conduct business as a stand alone public company. As such, we felt we'd reached a point in this process where we needed to get a lot of our employees involved to help us do all of this, so it was time to tell all of our employees what we've have been working on.

Third, mindful that this transaction is still subject to Board approval, we expected that our announcement would help validate the core premise, that is, that a separation of our E&P business should unlock shareholder value. We will let you be the judge on whether or not the market's reaction to the announcement is validating that.

Fourth, we need to engage other key stakeholders. For example we've reviewed this proposed transaction with both Moody's and S&P. As you may have seen, both agencies issued press releases on April 22. We are meeting with both agencies in New York next week. We've also briefed state regulators and other state officials.

Next question, What are the other conditions precedent? Well, in addition to final Board approval this transaction is subject to a Private Letter Ruling from the IRS, confirming that the spinoff of E&P Co will not be a taxable event for Questar shareholders, or the company. Please note that we submitted our request for the PLR a couple of months ago; depending on IRS workload it can take two months, three months, or longer to get a PLR. Our outside counsel has maintained an ongoing dialogue with the folks inside the IRS who are processing our request. As to other conditions precedent, obviously there are unforeseen market events beyond our control. For example, if there were to be another collapse of the financial markets, more credit market turmoil, et cetera, any of those unforeseen events could affect the timing of a transaction.

Next move, or next question. Why not wait until natural gas market fundamentals improve? Well, bearish fundamentals in the U.S. natural gas market today -- bearish market conditions are clearly a consideration, but this is about long-term strategy, not about timing the market. It's about creating two top tier companies that we think will be well positioned to compete in very different segments of the U.S. natural gas market, and to do so throughout the commodity price cycle. I think most of the analysts on the sell side that have published research on Questar over the past several years would likely attest that the chronic gap between our share price and a -- sum of the parts market valuation, has existed pretty much in both high price and low price environments, and we think this gap is really the consequence of that transformation of Questar into predominantly an E&P company. In fact, inside the Board room I've described Questar today as being stuck in the middle. Too much E&P for more risk averse investors, but too much non-E&P for many E&P investors. Many institutional investors who would like to own a company like E&P Co are perhaps being deterred by the complexity of our corporate structure, and in turn, yield oriented investors who might find a company comprised of Wexpro, Questar Pipeline, and Questar Gas a compelling investment, tend to shy away from Questar Corp. today because of the inherent risk in volatility that results from our ongoing emphasis on growth in our E&P business. So, simply put, we believe this transaction could illuminate and unlock value for shareholders over the long-term irrespective of what happens to natural gas prices in the short-term.

Next question. Would this transaction require the approval of federal or state regulators? No. A spinoff of our non-regulated E&P and midstream field services businesses would not affect the corporate structure of either Questar Pipeline or Questar Gas, both would remain subsidiaries of Questar Corp. The transaction also would not affect Questar Gas customer rates or service, nor would it impact the utility's unique relationship to Wexpro under the Wexpro Agreement. In fact, the -- we think the transaction could benefit Questar Gas customers over the intermediate and longer terms. Just one example, as you may have noticed after our announcement, S&P placed the triple B plus senior unsecured debt ratings of both Questar Pipeline and Questar Gas on credit watch, with positive implications. We've assured local officials that Questar Corp. would remain headquartered in Salt Lake City, and would remain committed to the same corporate citizenship that's been a hallmark of this company for 80 years. Now all of that said, we have reached out to both Utah and Wyoming regulators in the spirit of partnership, mindful that they're stakeholders in this transaction, they have a duty to look after the interests of our utility customers and the



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community. We are going to keep them apprised as we move forward. But, I repeat, this transaction does not require regulatory approval, and I should add, nor does it require shareholder approval.

Final question, then we will go to Q&A. When are we going to name the management teams? We would name the management teams once all precedent conditions have been satisfied and we get final Board approval to move forward with the transaction.

So, let me summarize. A separation of our high growth E&P and midstream field services businesses from our mostly regulated businesses, may be a logical step in a long-term strategy that has served all Questar stakeholders pretty well over the past decade. This transaction is still subject to final Board approval, but now may be the time to take that step. We've got a lot of work to do. But the road map is in place. Key stakeholders have been engaged, and we're putting a lot of effort and thought into what could be a momentous step in the history of this 80-year-old company.

With that, operator, let's open it up for questions.

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## QUESTIONS AND ANSWERS

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Operator?

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**Operator**

(Operator Instructions) We will pause for just a moment to compile the Q&A roster. Your first question is from the line of Brian Singer of Goldman Sachs.

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**Brian Singer** - Goldman Sachs - Analyst

Thank you. Good morning.

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**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Good morning, Brian.

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**Brian Singer** - Goldman Sachs - Analyst

Can you talk in more detail on the Haynesville wells, specifically with regards to the chokes or the modified flow backs? What are you seeing from some of those wells, whether it's the ones that you've announced or prior wells that you choked back? And what are your current views on EUR implications?

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**Chuck Stanley** - Questar Corp. - COO

Brain, this is Chuck. Good morning. We, we would view the results from this list of wells that we turned to sales in the past quarter as being comparable to the earlier wells that we completed and reported the higher rates, the 20 million cubic feet a day to 30 million cubic foot a day initial rates. These wells are being substantially choked back. We are attempting to minimize draw down at the formation in order to avoid any damage to the reservoirs. We have a small group of wells that we are practicing

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this modified flow back procedure on. To date, what we see is at any given point on the cumulative production curve a higher flowing bottom hole pressure compared to wells that we flow back basically unconstrained.

So, after recovering a Bcf of gas we are seeing a 15% to 20% higher flowing bottom hole pressure compared to a well that flowed back hard initially. We don't know exactly why this behavior is occurring, but we suspect it's a combination of more evenly dewatering the fractures along the entire length of the lateral, potentially avoiding closure of the near well bore fracture and allowing for complete dewatering and flow back of the entire length of the fracture, and a few other sort of theses on why it works. But the empirical evidence seems to suggest that the wells over the long haul are going to recover more gas than a well that is flowed back hard initially, because of lack of damage or incomplete dewatering of the individual fractures.

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**Brian Singer** - *Goldman Sachs - Analyst*

Great, thanks. That's really helpful color. And then secondly, when you think about the New Co, or E&P Co, which, which would have the unregulated gathering and trading bus-- gathering, processing and trading business. How do you -- how do you think about growth, production growth, in the context of capital spending versus cash flow? And how does the cash flow from the, the gathering, progressing, and trading business play in to how you are thinking about cap ex versus cash flow?

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**Chuck Stanley** - *Questar Corp. - COO*

Okay, well, I think that, first of all, we believe, as Keith mentioned in his comments, that the midstream field services business is integral to, and complementary, with our upstream business, for a couple of reasons. One, in our core areas, Pinedale, Haynesville, we believe that owning and operating infrastructure lowers our overall operating costs, allows us to prebuild our systems in anticipation of growing production volumes, and these large gas processing facilities that we have under construction, in particular the Blacks Fork facility in western Wyoming, which has the largest gas field in the Rockies dedicated to it for life, will represent a long-term opportunity to generate significant cash flow that we can reinvest in our upstream business.

So, we are extracting additional value from the well stream coming from the Pinedale Anticline production. And -- these projects represent fairly lumpy -- they are large initial investments and then they become an enduring, long-term source of free cash flow to support other parts of our business. When we think about the cash flow from our midstream business, when our Blacks Fork 2 plant comes online in 2011 and in combination with the Iron Horse plant which is down in the Uintah Basin, we are anticipating a near doubling of EBITDA out of our midstream business because of the large amount of liquids that'll be recovered from those plants. That's in combination with the other ongoing expansions of our systems that we have in process, or planned, over the next several years.

With that additional source of cash flow, and looking at our five year plan, we've already, we've already told you that we believe that we can grow production in the 12% to 15% annual production growth CAGR over the next five years. Our five year plan on, on forward prices shows a significant amount of free cash flow being generated from our upstream and midstream field services and trading businesses over the five years.

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**Keith Rattie** - *Questar Corp. - Chairman, President & CEO*

Just one other quick added comment, Brian, we gave a lot of thought internally as to where Gas Management, our midstream business, should fit in the separation. We've concluded that in addition to the operational factors that Chuck reviewed, the way it's been integrated into our E&P activities, we felt that the best way to approach this was to put the commodity businesses together and the more fee based businesses together. Now granted, in the first quarter of this year, Gas Management, 78% of its operating revenues came from, from fee based activities. But as we build these new processing plants, that more of it will be exposed to the frac spread.



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**Chuck Stanley** - Questar Corp. - COO

That's right, Keith, by the end of 2011, about half of our EBITDA stream will be coming from the commodity side of our G&P business, from liquids recovering in our plants. And obviously, part of the processing strategy is a play on the differential between oil and natural gas prices, which enhance the economics of processing.

**Brian Singer** - Goldman Sachs - Analyst

Thank you, thank you very much.

**Operator**

Your next question is from the line of Carl Kirst of BMO Capital.

**Carl Kirst** - BMO Capital Markets - Analyst

Hey, good morning everybody.

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Hi, Carl.

**Carl Kirst** - BMO Capital Markets - Analyst

Few questions, just, Keith, with respect to the timing of the, of the spin, post the Private Letter Ruling, the Board of directors approval, is that actually become the last steps that, such that the spin happens immediately post the Board? Or does the Board approve and then you go off into effectively renegotiating your letters of credit, et cetera? I'm just curious how that timing works.

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

We are working those in parallel. I'll let Richard give you a little more color on the process of restructuring our balance sheets. Let me just give you the basic timing on this, Carl. The Board approval, if we get final Board approval, would probably be subject to finalization of some material agreements which, of course, would include the credit facilities. But once we ask the Board, and presumably get final Board approval, the clock would really start rolling in earnest. We'd be getting ready to hit the road, road shows, with the two respective management teams, and would not long after that, likely announce the ex-dividend date and the transaction date.

**Richard Doleshek** - Questar Corp. - SVP & CFO

Carl, some more color, this is Richard, we are going to go ahead and launch the syndication of the credit facility at Questar Corp. as soon as we get Board approval. We've already got the lead arrangers working on it. But the broad syndication won't happen until after we get the Board approval. And the same thing with the amendment to the QMR credit facility. We're talking to the lead banks about how we want to amend it. We won't launch that general amendment process until after Board approval.



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**Carl Kirst** - BMO Capital Markets - Analyst

Okay, now that, that's helpful. Second question actually was just a follow up from Brian's question on the Haynesville, Chuck. How long do you need before you get comfortable that we actually will ultimately see higher recoveries? Is it another few quarters? Is it another few years? I mean, what's that point that gives you extra comfort that the modified flow back will indeed give you better results?

**Chuck Stanley** - Questar Corp. - COO

Guess the totally intellectually honest answer is after the well has been depleted. But, one can surmise from a basically cumulative production versus pressure plot, that if a well, after recovering say 50% of its projected reserves has a higher flowing pressure, than one that, that has been unconstrained, that the ultimate recovery from the well that with the higher flowing pressure at any point on the cumulative reserve curve, will have a higher ultimate recovery. Of course we can't predict what will happen 10 years, 15 years from now, but from a -- if you look at it just from an NPV, or present value perspective, you quickly overcome the apparent higher economic value of having a well that will produce at 30 million or 40 million cubic feet a day for a couple of months, and then decline very rapidly versus one that you constrain at 10 million or 15 million cubic feet a day and let it basically plateau for that period of time, if you recover another Bcf of incremental reserves from the well.

There is a concept from my youth about maximum efficient rate in oil and gas facilities and you can spend a lot of extra capital on well site facility separators, dehy(dration) equipment, et cetera, to accommodate a flush production rate of two or three times the stabilized rate on these wells, and the economics of putting out additional facilities, additional topside facilities to handle a couple of months of 25 million cubic feet a day or 30 million cubic foot a day rate, are quickly consumed when that well comes off of a fairly high decline rate. So, we are trying to not only manage production to avoid reservoir damage, but we're also trying to optimize returns here by focusing on the rate at which we generate the highest returns at any given gas price for the shareholder.

**Carl Kirst** - BMO Capital Markets - Analyst

Great, appreciate the color. Last question if I could, just trying to better understand how we are targeting the next few wells of the Granite Wash. I know there are, I guess, several different targeted zones, obviously Colony, Panhandle, et cetera. How do you -- is each separate area targeting one specific zone? I'm trying to get a better understanding for the risk reward. Is it possible one area, one zone could work, but perhaps in the same area another zone wouldn't? I'm trying to get a better sense of perhaps the risk reward of the next few wells, and kind of where are we in the science project of this?

**Chuck Stanley** - Questar Corp. - COO

Okay, a couple of key concepts you recall from previous discussions -- there is a vertical segregation of the shallow West Horizon, the Cherokee, the Caldwell, the two zones that we're targeting in the first couple of wells, tend to be liquids rich, we saw the results of the Puryear well -- we are not happy with the well because we still have some of the frac zones that aren't open to the well bore. We still have some junk in the well, but it shows kind of a productive capacity of over 10 million Bcf a day and 600 barrels of oil.

I should point out that that 1,400 plus btu gas stream is the equivalent of another 1,600 barrels as day, or so, of liquid. So this is really a 7 million cubic feet a day dry gas well, and a 2,200-barrel a day liquid producer, which is a pretty substantial component of value in the liquid stream. The shallower zones tend to be liquids rich, Carl. The distribution of those zones, we need some more sub-surface control, but we are pretty sure that we have the shallow liquids rich horizons present over a large part of our acreage. You will see that the wells that we are currently drilling, the Methodist Home well in particular down in the southern part of our acreage, shown on slide 8, from our OPS release, that is targeting the Atoka section, which is the deepest part of the

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horizons, the deepest horizons in the Granite Wash, and it tends to be dry. We have to drill deeper section in order to save the leases so that we will help hold back production of the entire section above the Atoka --

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**Carl Kirst** - BMO Capital Markets - Analyst

So, Chuck are these wells being twinned? Or just Atoka only?

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**Chuck Stanley** - Questar Corp. - COO

No, we'll drill the Atoka first, so we will have sales production from the deepest horizon in the Granite Wash interval, and that will hold that interval and all of the shallower intervals under the lease. And then, after the lease is held by production, we can come back and target shallower horizons. So there's a variety of targets out here, anywhere from, you know, four or five targets in some areas to over a dozen targets in other parts of the -- of our acreage. And we're targeting the intervals where we have the best control.

We wanted to drill some shallow wells to establish the presence of productivity in the shallower section, in the Caldwell and the Cherokee zones, so the Morrison was targeting the Cherokee horizon, which is just below the Caldwell. The -- I'm sorry, the Edwards, rather is targeting the Cherokee horizon which is just below the Caldwell. The Puryear was in the Caldwell. Those are the liquid rich zones. The Methodist Home well is targeting an Atoka interval, as is the Morrison well.

We will continue to evaluate the shallower horizon after we basically prove up all of our leases and are able to hold all of our leases by production. Make sense?

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**Carl Kirst** - BMO Capital Markets - Analyst

It does, and thanks for the time and congratulations.

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**Chuck Stanley** - Questar Corp. - COO

Thanks.

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**Operator**

Your next question is from the line of Gil Yang with Bank of America.

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**Gil Yang** - Bank of America Merrill Lynch - Analyst

Hi, good morning. Just follow up on that question -- or the answer. I wasn't clear. You're drilling into the Atoka with the verticals, or horizontal well?

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**Chuck Stanley** - Questar Corp. - COO

Gil, this is Chuck again, we're drilling -- all of these are horizontal wells. But the basic concept of a few clauses in some of these leases where we're in, we drill to the deepest horizon that we believe is prospective, and by establishing production in that deepest horizon, we hold all of the other intervals above it by production, and then we can come back after we've drilled up the shallow -- the deeper section and develop the shallower sections.

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**Gil Yang** - Bank of America Merrill Lynch - Analyst

How many horizontal Atokas do you need to drill to hold your position?

**Chuck Stanley** - Questar Corp. - COO

I don't know, probably 15 or 20.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay. All right. The --

**Chuck Stanley** - Questar Corp. - COO

Some of the sections already have vertical producers in them and those wells hold a portion of our lease hold.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay. The -- was the mechanical problem related to the formation at all? Or was it sort of a once off type thing that happens occasionally?

**Chuck Stanley** - Questar Corp. - COO

I think everything that one could conceive of that could go wrong with the Puryear well went wrong with it. The Caldwell zone, which is the shallowest horizon out here, tends to be the lowest pressured. There was some offset production from a couple of old vertical wells that we think may have introduced some partial depletion into the reservoir, but the rock quality in the Caldwell is excellent. The porosity and permeability from the samples that we recovered, we-- we're not sure exactly what happened. We had -- we were basically drilling out the frac plugs in the well, and the coil tubing and motor got stuck. We suspect that it was a piece of a plug, of a frac plug that basically wedged or t-seated us in the lateral. We fished on the coil tubing basically for over a month. We were able to basically extract all but a few hundred feet of coil tubing and motor. We then kicked the well off and it started flowing. We now think that after the well flows for a while, and we clean it up, we should be able to go back in and fish the remaining portion of the coil tubing and motor out of the hole. There's going to be a lot of debate, I'm sure, in our shop as to when we take that risk, because every time you go back in and start fishing you put your existing production at risk. But at some point we're going to have to get that stuff out and go ahead drill up those last three frac plugs.

We are not the only ones that have experienced problems with the, with the shallower horizons, with having coil tubing and motor stuck in these laterals. It's a long distance. The initial flow back of these shallower horizons doesn't generate a lot of volume to flush the well to keep the plug parts and sand moving, so there is a lot of risk of getting stuck. So we are talking about strategies that we can use to help mitigate the risk going forward in the shallower horizons. I think it's a matter of experience. I have all the confidence in the world that our team will figure out how to do it as we gain more experience in the area.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay, great. In the Haynesville, I guess you don't have indication yet how much higher in EUR, but could you venture a guess?

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**Chuck Stanley** - Questar Corp. - COO

I would guess that there is a Bcf or more of incremental recovery from these wells, just based on what we are seeing. We have been pretty conservative in our initial booking of the wells. We believe -- we believe and it is our hope, that over time as these wells continue to perform, that we will be able to increase the reserves assigned to the PDP wells, proved, developed, producing wells. That will ultimately influence our view of the proved undeveloped locations.

As a reminder, our average producing well on our acreage in the core of the Haynesville is booked at about 6.8 Bcfe on a gross basis. And we have all of our proved undeveloped locations booked at 6 Bcfe. So there's -- and we only assigned two development locations to a 640-acre unit. We've got a lot of room to increase reserves in our Haynesville property as we gain more confidence in well performance, which will ultimately dictate the reserve assignments to the proved, developed, producing wells, and also more confidence in the ultimate spacing of the wells to add additional PUD locations on the -- in each individual unit.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay, great. And just to finish up on that, how should we think of the decline curve for the wells on restrictive flow rates? Is it flat for six months and then starts to decline? Or is it just a, sort of exponential decline through it's whole life? Or is it still hyperbolic early on?

**Chuck Stanley** - Questar Corp. - COO

They exhibit a plateau period, Gil, where they basically are flat and you see -- so, flat production, declining pressure, and then after six months or so they break over and then they follow the normal hyperbolic decline curve that we've described previously for a unconstrained well, and ultimately they will flatten out in to exponential decline after several years.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay, and do you then at the six month break point -- plus or minus, obviously -- but, at that six month break point do you let it flow unconstrained like you would a normal well? Or are you still restricted?

**Chuck Stanley** - Questar Corp. - COO

Well, in essence, if you hold a constant choke, let the flowing pressure decline, ultimately the, the well will behave on a hyperbolic decline curve with a constant choke. So, it in essence meets its unconstrained production performance after six month plateau or so.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay.

**Chuck Stanley** - Questar Corp. - COO

So we don't do anything to open the choke on the well, we just let it basically start to decline naturally when it does.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay. All right, great. Thanks a lot.

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**Chuck Stanley** - Questar Corp. - COO

You bet.

**Operator**

Your next question is from the line of Becca Followill, of Tudor Pickering Holt.

**Becca Followill** - Tudor, Pickering, Holt & Co. Securities, Inc - Analyst

Good morning. Two questions for you. One, what will be the hedge policy on E&P Newco? Will you put on additional hedges before you do a spin? Or just stick with what you have?

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

We wouldn't put hedges on solely for because of the transaction, Becca. Hedge policy post-separation would likely be different than the policy that you've seen from us going back to its inception in 2002, probably would hedge less at least in the near term, going forward, and may use different types of hedge instruments to reflect a different, different perspective and appetite for risk.

**Becca Followill** - Tudor, Pickering, Holt & Co. Securities, Inc - Analyst

Okay, thank you. And then, I know people have asked several questions on the timing. But just so I'm clear one more time, to beat a dead horse, first thing really critical is the Private Letter Ruling. And, at that point, once you have it do you go back to the Board and that's when you get the go ahead? Or is there some other precedent before there's Board approval?

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Becca, we're working all of those precedents that I described more or less in parallel. The ongoing discussions with our banks about the debt restructuring and QMR, obviously we would want both entities to start life with appropriate balance sheets for the respective market segments. We -- But those are the two primary considerations and the reality is is that we are going to look at all of the issues in totality and when we think we've, we've addressed the key elements and have good visibility on our ability to go ahead and implement, then that's when we will go to the Board for final approval.

**Becca Followill** - Tudor, Pickering, Holt & Co. Securities, Inc - Analyst

As far as public announcements, what we should expect out of you, though, will you announce that you've received the Letter Ruling? And what are the next announcements that we should look for?

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

We would not publicly announce that we received the Private Letter Ruling. We don't want to put undue emphasis on that as a gating condition for the transaction. A lot of things could happen but I, my best response to the question is you probably won't hear, another -- see another press release on us until we have gone back to the Board.

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**Becca Followill** - Tudor, Pickering, Holt & Co. Securities, Inc - Analyst

Okay. Great, thank you.

**Operator**

-- (inaudible) of Barclays Capital.

**Unidentified Speaker** - Barclays Capital - Analyst

Good morning, guys. Couple of questions for you. I guess they are both related. First, can you give us little bit more clarity on the targeted capital structures for the the spinco and the proforma Questar Corp.? And then, related to that, to the extent you can control the ratings outcome, what are your thoughts on high yield versus investment grade at E&P spinco?

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Those are good questions for Mr. Doleshek.

**Richard Doleshek** - Questar Corp. - SVP & CFO

Okay. Well, I would love to be able to control the ratings out of the agencies, but we're going to see them. We previewed the transaction with them last week. we are going to go see them next week and walk through what our plans are in terms of capital spend and capitalization. And as the press releases from the agencies said, Moody's went ahead and affirmed the rating of the gas company, the pipeline company, and the commercial paper rating at the parent and put the QMR debt on a negative watch. S&P indicated a positive outlook for the gas company, pipeline company, and negative outlook for the E&P company. And clearly, if Moody's being a BA3, any negative implication would take it to non-investment -- take QMR to non-investment grade.

So, we'll be able to tell a compelling story. I think that the biggest issue that faces the E&P company is scale. If you look at credit metrics that exist today, I think they map to an investment grade level. But the size of the operation, the scope of the operations, just I don't think get us across that hurdle, but we will make our case and see where they come out.

With regard to cap structures it's fair to say that what we have in terms of bilateral lines at the corporate level we may look to expand those a little bit, just to make sure we have adequate working capital for what is going to go on in those operations. With regard to the E&P company, I think the capital structure that you see today, the \$800 million of revolving credit and the \$1.15 billion of notes, probably doesn't change much after the spin.

**Unidentified Speaker** - Barclays Capital - Analyst

Okay. So is it fair to say you are comfortable operating the E&P business at the high yield category?

**Richard Doleshek** - Questar Corp. - SVP & CFO

It is. We certainly have planned and, and made assumptions that we aren't able to maintain that investment grade rating, and will be a cross over credit, a high non-investment grade cross over credit.

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**Unidentified Speaker** - *Barclays Capital - Analyst*

Okay. And I guess that begs the question, S&P? Do you have a sense of what they were thinking there? Because they were up to BBB plus, because they rated under a different methodology.

**Richard Doleshek** - *Questar Corp. - SVP & CFO*

Exactly, it would be a three notch downgrade to get to double B plus. And again, we don't have any good indication from them what they are thinking in terms of that multiple notches, they did say the words multiple notches in their press release. So, my guess, though, is that even if we are split rated, investment grade/non-investment grade, we are going to be treated like a non-investment grade company.

**Unidentified Speaker** - *Barclays Capital - Analyst*

Okay. Thanks very much.

**Richard Doleshek** - *Questar Corp. - SVP & CFO*

Thank you.

**Operator**

Your next question comes from the line of Ray Deacon with Pritchard

**Ray Deacon** - *Pritchard Capital Partners - Analyst*

Yes, hey, Chuck, I had a question about the Cana, and just was wondering what you're -- is your gas, is it wet gas there? And do you get about 30% above NYMEX? Does that sound about right? And I saw that Oneok increased their plans to process in the area. I was just wondering what you see as the potential there for production over the next, 4 years, or 5 years?

**Chuck Stanley** - *Questar Corp. - COO*

Ray, great question. Our acreage basically spans the entire play. The center of our acreage where you see all of the current drilling activity on slide 6 and our OPS release slides, is sort of in the heart of the wet gas fairway. As you go to the south and west, if you draw a diagonal line across the northwest corner to the -- northwest corner to the southeast corner of the map, and as you move off the southwest corner of our map, the gas gets drier and drier to the point where liquid yield is negligible.

As you go to the north and east, outside of the current fairway, where a lot of the activity is occurring, you see a couple or three wells that have been drilled over there, it's basically an oil play. The dominant phase is oil. There's free -- there is a large component of condensate, and in some instances we think black oil, or volatile oil, updip.

So, in the heart of the play, this is 1,200 BTU gas, you get at the current gas to oil and NGL ratio, you get a 25% or so uplift in the realized aggregate well stream pricing as opposed to the dry gas stream. As you go down dip, the uplift becomes less and less. Which is why I think you see industry activity concentrated in the, in the center of our map there. We have one rig working in this area. At any given time we have anywhere from fifteen to twenty outside operated wells in various stages of drilling and completion.



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We are participating in a large number -- in a fairly high percentage of all wells drilled in this play at some working interest. Now, our working interest averages a little under 18%, about 17.7%. So we get a lot of outside operator proposals. We participate in wells from anywhere from 2% interest up to 25% or more. But on average about 17.7% working interest. We see this play being a significant future contributor to our production stream and to our cash flow.

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**Ray Deacon** - Pritchard Capital Partners - Analyst

Got it. Great, thanks. And, I guess, little bit similar question. What -- could the -- do you see any, any near term resolution to the permitting issue in the Bakken? And could you move to a two rig program in 2011? Or any thoughts there?

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**Chuck Stanley** - Questar Corp. - COO

We -- Without being completely committal, we hinted that we believe that we are seeing more and more permits pop out of the Bureau of Indian Affairs in North Dakota. We are hopeful that we can put a second rig out there in the third or fourth quarter of this year. We certainly don't want to stand up a rig and drill a couple of wells and then lay the rig back down. We want to be sure that when we add a second rig that we have a sufficient number of permits in front of that rig so that we don't have to start and stop. Because that's not, that's not how you gain efficiencies and how you, how you learn how to drill the wells quicker and cheaper.

The other thing facing us is just the delineation of our leasehold and by that time we should have a couple of three more wells down, which will help us understand two things. One is the distribution of the middle Bakken fairway, which we believe covers most of our acreage, although the eastern edge of our acreage remains to be tested. You can see on our latest investor update, or operations update on slide 9, the Bakken and you can see some wells over on the extreme eastern portion of the -- to the east of our actual leasehold block, that are colored blue, those wells are 500 barrels a day or less. They are starting to define the eastern limit of the fairway. We believe that we seen our wells, close to a thousand barrels day, the first several wells. So we know that the fairway sort of threads along the eastern edge of our block for the middle Bakken. Right now we are currently drilling our first three-forks test, and we believe that a portion of our acreage, maybe up to half of it, is prospective for the three-forks. We need to sort of understand the distribution of the three-forks and the middle Bakken fairways so that when we go in for full-field development -- we basically set up a rig on a pad, we drill a horizontal lateral in the middle Bakken, and then we skid the rig over just like we do at Pinedale and drill a basically parallel but deeper three-forks well to minimize rig moves, optimize fracking and completion and facilities, and also to minimize our footprint out there on the ground, especially adjacent to the lake where topography is a bit of a challenge, especially on the western part of the acreage.

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**Ray Deacon** - Pritchard Capital Partners - Analyst

Got it. Great, thanks very much.

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**Operator**

Your next question is from the line of Vivek Knight -- I'm sorry, Vivek Pal with Knight Capital.

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**Vivek Pal** - Knight Capital - Analyst

Good morning, guys. Most of my questions have been answered. But, real quickly, it seems like the leverage proforma leverage on the spin off entity is going to be about 1.5 times given that you are expecting a billion EBITDA and 13% to 15% debt ? Is that a



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**Richard Doleshek** - Questar Corp. - SVP & CFO

I think we haven't ruled out what the capital structure is going to look like for the E&P company when we spin it off. But again, we think that the leverage level is going to be probably a little bit lower than that on a spinout basis.

**Vivek Pal** - Knight Capital - Analyst

It seems like you're hedged 75% for next year. Little over five, so you still expect about 840 I believe is your mid range for the E&P business?

**Chuck Stanley** - Questar Corp. - COO

Vivek, our hedge level for next year is about 50%. We've got some --

**Vivek Pal** - Knight Capital - Analyst

No, I mean for 2010. My bad. 2010.

**Chuck Stanley** - Questar Corp. - COO

-- We gave EBITDA guidance in our earnings release for the remainder of 2010. We are in the 840 to 870 range for most of our E&P.

**Vivek Pal** - Knight Capital - Analyst

Okay. And for next year you are saying 15% hedged? Will you unwind some hedges just because you want to be less hedged? Or you are going to stick with what you have?

**Chuck Stanley** - Questar Corp. - COO

I think we'll stay where we are. The hedges are in the money. So, keep in mind that when you look at your hedge position, we are fairly unique in the way report them. We report them as net to the well hedges, so they included the basis differential, and --

**Vivek Pal** - Knight Capital - Analyst

Correct. That's correct.

**Chuck Stanley** - Questar Corp. - COO

-- they were put on at a higher price and they are in the money. We would not unwind hedges just to free up cash. We leave our hedge position in place. One of the -- key to answer the question earlier, philosophically as a E&P company we understand that investors in part buy the stock for exposure to commodity prices. But as a low cost producer and as a resource player with drilling programs that are dependent upon sort of a levelized activity to really drive efficiencies through our operation, places like Pinedale, Haynesville and other plays, we believe that a hedging program that helps assure a minimum level of cash flow



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is necessary in order to really become a premier, and we believe we are a premier, low cost developer and producer of gas and oil.

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**Keith Rattie** - Questar Corp. - Chairman, President & CEO

To draw your attention, for the first time in our press release we've disclosed hedges in 2012 and 2013.

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**Vivek Pal** - Knight Capital - Analyst

Yes.

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**Keith Rattie** - Questar Corp. - Chairman, President & CEO

You will see that on a net to well basis, in 2013 for example, we hedged almost 50 b's in the Rockies at net to the well number about \$6. Those were put on sometime ago at an environment where NYMEX was close to 7. And the intent there was to protect our development program at Pinedale.

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**Vivek Pal** - Knight Capital - Analyst

Given that your leverage is going to be fairly low, are you thinking like some of your other peers in the space to look more in to oil assets and in terms of M&A. Have you thought about -- because it seems like you already will be 4b or 5b credits so, with the ratings out of the way, do you think it's time to actually make some acquisitions and diversify into oil or any thought processes on that?

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**Chuck Stanley** - Questar Corp. - COO

That's a great question. I begin to wonder if there are enough oil assets in the world for all of the (inaudible) E&P's to satisfy their appetite.

We have a couple of oil plays in our portfolio that we are working on. We are not quite ready to talk about in detail because of -- we are actively acquiring acreage. We also have a long-term oil project, in the Uintah Basin, in the shallow Green River sands and carbonate intervals, where we have one rig active right now drilling horizontal development wells, or actually re-entering old vertical wells and drilling horizontal laterals to target thin conventional reservoirs that we -- conventional meaning that we don't have to fracture simulate them, but we are seeing excellent results from that program. We're pushing the limits of that play into areas where there are no vertical wells and we are seeing encouragement there as well.

The other activity that we have in our portfolio, as I mentioned earlier, large processing plants under construction which are really a fundamental play on the differential between oil and gas prices, or in this case, natural gas liquids and gas prices in our Gas Management field services business. As we extract liquids from the gas stream that would otherwise be sold as methane, we enjoy the uplift in value associated with that processing business.

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**Vivek Pal** - Knight Capital - Analyst

Last question, is there potential for any compensation to the Questar entity for spinning off Wexpro. Because when you were doing the Quest -- the Market Resources bonds, you were showing them, Wexpro was part of the deal. Now it's not going be part of the deal. Is there potential for anything to make the bondholders feel better about investing in the company?



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**Richard Doleshek** - Questar Corp. - SVP & CFO

There is really no consideration for the distribution of Wexpro out of QMR to the corporate entity. It's just getting the right assets in the right location, and certainly if you tried to say what is the value of Wexpro, you'd get into lots of valuation issues. There is no consideration for Wexpro being distributed to Corp. before the E&P company's spun out.

**Vivek Pal** - Knight Capital - Analyst

Okay. And the change of control? That's -- it will be triggered if one of the agencies puts you to below investment grade, right? That's your compensation, I guess.

**Richard Doleshek** - Questar Corp. - SVP & CFO

That's correct. The change control provisions -- it's a two-step process. One is the shareholder of QMR and the second one is the downgrade.

**Vivek Pal** - Knight Capital - Analyst

Okay. Thank you.

**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Thanks.

**Operator**

Kevin Smith with Raymond James.

**Kevin Smith** - Raymond James - Analyst

Hi. Good morning gentlemen. Just a quick question. How many wells in the Pinedale do you have waiting on completion right now? How is that compared to last year?

**Chuck Stanley** - Questar Corp. - COO

I can't tell you the exact number that we have. Let's see -- about 25 wells, either waiting on completion or that we're working on. We work on wells, if you have been out, I can't remember if you have been on our field trip or not. We work on multiple wells simultaneously on a pad. That inventory is about the same as last year, in fact, it maybe a little less at this time of the year than it was last year we got started a little earlier on the completion schedule because the weather was better this year than it was last year in late March or early April. We were able to get out on the ground and start fracking the wells sooner than we did last year.

**Kevin Smith** - Raymond James - Analyst

When did you start fracking that wells in the Pinedale this year? Or are you planning on doing?

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**Chuck Stanley** - Questar Corp. - COO

We basically got out on the ground in early March. I can't remember if it was the first week or early in the second week, but in the first half of March we were out on the ground. Last year I don't believe we actually got on the ground until April sometime. Mid April.

**Kevin Smith** - Raymond James - Analyst

Got you. And then one other question. In the Granite Wash, can you talk about the difference between the Caldwell and the Cherokee formation? I'm not sure where they stack as far as depth. And what you expect on liquids?

**Chuck Stanley** - Questar Corp. - COO

The Cherokee is -- I'm sorry, the Caldwell is the shallowest of the Granite Wash horizons. And you're challenging my memory here. I wish I had a mid-continent geologist sitting beside me instead of a land man. Jay Neese is sitting here, he doesn't remember either. So you've got Caldwell and then immediately beneath it is the Cherokee, then you go down into a hundred other local names that I can't remember, especially when you put me on the spot like this, and then you get down into the Atoka washes, which are the deeper section. And there is a different name for every ranch and every farm out there depending on where the first well was drilled where that sand was recognized.

The shallower stuff is the liquids rich oily part. So the Caldwell being your shallowest, then the Cherokee, and there's two or three other zones that I can't remember the names of. And then you get down into the Atoka washes which are basically dry gas. There's very little liquids content. There's a slightly higher Btu content. It's not appreciable, it doesn't add a lot of uplift.

Over in Oklahoma, the Roxanne well that we just reached total depth on and our previous Roxanne well, those are drilled in what's called the Colony wash, which is a shallower granite wash section. Tends to be liquids rich. The Atoka section in Oklahoma is not as well developed. The primary target in Oklahoma is the shallower Colony wash interval. Does that help?

**Kevin Smith** - Raymond James - Analyst

Yes, that did. The Cherokee and Caldwell, as far as liquids contribution that you're expecting, may be a little bit less than Cherokee but not significantly less? Is that fair?

**Chuck Stanley** - Questar Corp. - COO

I think that the liquids content in the Caldwell and Cherokee are very similar. Relatively similar. As you go deeper in the section, into the Atoka section, which is where the two wells are currently drill ring targeting the Morrison and Methodist Home well, are targeting the Atokan section, that interval is 2,000 - 1,500 feet to 2,000 feet deeper and it is drier. Negligible free liquids and a lower BTU gas than the 1,400 BTU gas reported in the Purrier well.

**Kevin Smith** - Raymond James - Analyst

Perfect. Thank you very much.

**Operator**

(Inaudible)

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**Ross Payne** - Wachovia Bank - Analyst

Hello?

**Chuck Stanley** - Questar Corp. - COO

Hello.

**Ross Payne** - Wachovia Bank - Analyst

Yes, this is Ross Payne. Quick question for you. As you looked to right size the balance sheet, it looks like the regulated Questar is perhaps under levered. Does it make sense to throw some more debt onto it and throw some cash towards the E&P operations so it can grow quicker?

**Richard Doleshek** - Questar Corp. - SVP & CFO

Yes, Ross, it's Richard. Again we are trying to make sure we get the capitalization right in -- and the primary objective with regard to regulated companies is to make sure we keep or maintain -- keep or increase their credit ratings because their cost of capital is very, very important. And so we are going to make sure we don't over-lever those guys when the spin occurs. We are still working on the final capital structures. That will be one of the details that we announce when the Board finally approves the transaction.

**Ross Payne** - Wachovia Bank - Analyst

Okay, and on the Questar Resources side, are you amending or you redoing a bank facility? And do you anticipate that to be secured or unsecured?

**Richard Doleshek** - Questar Corp. - SVP & CFO

We are amending that credit facility. It's contemplated that it will be unsecured on the go forward basis. We are trying to keep all the debt structure at QMR on an unsecured basis.

**Ross Payne** - Wachovia Bank - Analyst

Okay. The 150 that's coming due in 2011, you expect that to be a bond deal or financed through the bank facility?

**Richard Doleshek** - Questar Corp. - SVP & CFO

Our guess is that we would refinance the maturing long-term indebtedness with long-term indebtedness. We'll be happy to get rid of that piece of paper. It's a 7.5% coupon, and so that's the highest piece of cost of debt in QMR's debt structure today.

**Ross Payne** - Wachovia Bank - Analyst

Finally, you may have a shot with S&P, how hard are you going to fight for that? And how realistic is it in your opinion?

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**Richard Doleshek** - Questar Corp. - SVP & CFO

Again, the conversations that we've had with the agencies have been very constructive, they certainly understand what our position is in terms of what the leverage of the companies looks like. We are going to make our best effort and our best case with regard to having a resource base at the E&P company that we don't need to make acquisitions, we can grow it on its own. And then the piece that they probably haven't focused on is the gas processing business, how much of that is fee driven, how much of that is liquids driven. When we go talk to them we will make sure they understand that it's not just a drill and develop company. It's got another leg to it, and that does support the credit structure. So, we will work hard to get them to see it our way. We will see what happens.

**Ross Payne** - Wachovia Bank - Analyst

Great. Good luck, thanks.

**Richard Doleshek** - Questar Corp. - SVP & CFO

Thanks.

**Operator**

Follow-up question from the line of Gil Yang of Bank of America.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Chuck, looking at slide six from your presentation today. In the Cana, you went from 26,000-acres up to 29,000 acres net. And, so it's roughly a 10%, 12% increase in acreage, something like that. But your unbooked location count went up by 25%. What happened there? Was there any de-risking? Or is there just some funny working interest issue there?

**Chuck Stanley** - Questar Corp. - COO

Part of it is just the ongoing de-risking as we drill more wells and get a better sense for the gas in place and ultimate recovery on a per section basis. We've are feeling more comfortable that the ultimate spacing out here will probably be eight wells per 640-acre-unit.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay. So can you boil the 1,900 locations down to -- is that 80 acres? That -- that math doesn't work either. But it's sort of, some of it's 80 and some of it's 160 and depending on which region, how much of each you get is total number of locations?

**Chuck Stanley** - Questar Corp. - COO

I think the other source of confusion here, we're going to have to address this is, 1,900 is a gross location count.

**Gil Yang** - Bank of America Merrill Lynch - Analyst

Right.

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**Chuck Stanley** - Questar Corp. - COO

(Inaudible) net acres is a net acreage amount. So there's really -- It's impossible for you to do the empirical relationship that you are trying to do between gross location count. We may have a 1% interest in a section and have a 1% interest in a gross location. So the proportionality of increase in net acreage and locations is -- shouldn't be obvious because it isn't obvious to you. There is no direct relationship between the net acreage increase and number of gross locations.

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**Gil Yang** - Bank of America Merrill Lynch - Analyst

I would agree that it may differ by a little bit, but they shouldn't be off by -- they should be pretty close, I would think. The changes should be -- proportionally, the changes should be pretty close.

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**Chuck Stanley** - Questar Corp. - COO

Depends on how many net acres there are in a unit. You could have one net acre in a unit and basically have -- add eight gross locations but only have 1/640th of an interest in that unit. So again, the proportionality is not necessarily a given.

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**Gil Yang** - Bank of America Merrill Lynch - Analyst

Okay. I understand. Maybe we could talk about it offline a bit. Thanks.

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**Operator**

(Operator Instructions) At this time, you have no further audio questions. I will turn the call back over to Mr. Keith Rattie for any closing remarks.

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**Keith Rattie** - Questar Corp. - Chairman, President & CEO

Well, thank you, Operator. We appreciate everyone listening in today. You can get a replay of this call on our web site, [www.questar.com](http://www.questar.com). We also are available to answer any of your questions. Thanks for your interest in Questar.

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**Operator**

Thank you for your participation, this does conclude today's conference call. You may now disconnect.

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