

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
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FILER

**QUESTAR CORP**

CIK: **751652** | IRS No.: **870407509** | State of Incorporation: **UT** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-08796** | Film No.: **94527717**  
SIC: **4923** Natural gas transmission & distribution

Mailing Address  
*P.O. BOX 11150*  
*SALT LAKE CITY UT 84147*

Business Address  
*180 E FIRST SOUTH ST*  
*PO BOX 11150*  
*SALT LAKE CITY UT 84147*  
*8015345000*

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD  
ENDED MARCH 31, 1994

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD  
FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File No. 1-8796

QUESTAR CORPORATION

(Exact name of registrant as specified in its charter)

STATE OF UTAH  
(State or other jurisdiction of  
incorporation or organization)

87-0407509  
(I.R.S. Employer  
Identification No.)

P.O. Box 45433, 180 East First South, Salt Lake City, Utah 84145-0433  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (801) 534-5000

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 X No

Indicate the number of shares outstanding of each of the issuer's  
classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 30, 1994
Common Stock, without par value	40,256,423 shares

QUESTAR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

<TABLE>  
<CAPTION>

	3 Months Ended March 31,		12 Months Ended March 31,	
	1994	1993	1994	1993
	(In Thousands, Except Per Share Amounts)			
<S>	<C>	<C>	<C>	<C>
REVENUES	\$223,309	\$245,537	\$638,202	\$613,752
OPERATING EXPENSES				
Natural gas purchases	93,784	109,125	209,159	206,880
Operating and maintenance	41,935	44,107	166,663	159,103
Depreciation and amortization	21,875	20,092	88,541	75,749
Other taxes	10,240	8,639	33,644	27,623
TOTAL OPERATING EXPENSES	167,834	181,963	498,007	469,355
OPERATING INCOME	55,475	63,574	140,195	144,397
INTEREST AND OTHER INCOME	1,579	769	4,442	5,216
DEBT EXPENSE	(8,970)	(8,701)	(34,253)	(35,756)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	48,084	55,642	110,384	113,857
INCOME TAXES	16,991	19,621	30,848	34,928
INCOME FROM CONTINUING OPERATIONS	31,093	36,021	79,536	78,929
LOSS FROM DISCONTINUED OPERATIONS		(898)	(1,874)	(2,626)
NET INCOME	\$31,093	\$35,123	\$77,662	\$76,303
EARNINGS PER COMMON SHARE				
Income from continuing operations	\$0.77	\$0.90	\$1.97	\$1.97
Loss from discontinued operations		(0.02)	(0.05)	(0.06)
Net income	\$0.77	\$0.88	\$1.92	\$1.91
Dividends per common share	\$0.275	\$0.265	\$1.10	\$1.05
Average common shares outstanding	40,199	39,845	40,145	39,729

QUESTAR CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

<TABLE>  
<CAPTION>

	March 31, 1994	1993 (In Thousands)	December 31, 1993
<S>	<C>	<C>	<C>
<b>ASSETS</b>			
Current assets			
Cash and short-term investments	\$516		\$6,365
Accounts receivable	139,360	\$124,326	138,866
Inventories	20,781	14,473	29,928
Other current assets	9,727	13,413	11,384
Total current assets	170,384	152,212	186,543
Property, plant and equipment	2,126,011	1,901,677	2,024,394
Less allowances for depreciation and amortization	893,861	816,536	871,734
Net property, plant and equipment	1,232,150	1,085,141	1,152,660
Investment in discontinued operations	30,667	26,872	29,498
Other assets	48,448	38,722	48,986
	\$1,481,649	\$1,302,947	\$1,417,687
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Checks outstanding in excess of cash balances		\$2,180	
Short-term loans	\$119,300	14,000	\$78,300
Accounts payable and accrued expenses	114,311	97,373	119,064
Purchased-gas adjustments	42,468	45,901	25,727
Total current liabilities	276,079	159,454	223,091
Long-term debt	377,672	377,473	371,713
Other liabilities and deferred credits	45,910	13,577	45,632
Deferred income taxes and investment tax credits	150,085	162,527	167,784
Redeemable cumulative preferred stock	7,524	8,726	7,525
Common shareholders' equity			
Common stock	305,546	296,388	303,503
Retained earnings	379,651	346,207	359,637
Treasury stock, at cost	(34,016)	(32,986)	(34,396)
Note receivable from ESOP	(26,802)	(28,419)	(26,802)
Total common shareholders' equity	624,379	581,190	601,942
	\$1,481,649	\$1,302,947	\$1,417,687

</TABLE>

QUESTAR CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>  
<CAPTION>

	3 Months Ended March 31,	
	1994	1993
	(In Thousands)	
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	\$31,093	\$35,123
Depreciation and amortization	22,915	21,173
Deferred income taxes and investment tax credits	(11,285)	(4,717)
Loss from discontinued operations		898
	42,723	52,477
Change in operating assets and liabilities	19,677	24,938
NET CASH PROVIDED FROM OPERATING ACTIVITIES	62,400	77,415
INVESTING ACTIVITIES		
Capital expenditures		
Purchase of property, plant and equipment	(114,930)	(19,179)
Investment in discontinued operations	(1,169)	(800)
Other investments	(63)	(153)
Total capital expenditures	(116,162)	(20,132)
Proceeds from disposition of property, plant and equipment	9,611	413
CASH USED IN INVESTING ACTIVITIES	(106,551)	(19,719)
FINANCING ACTIVITIES		
Issuance of common stock	2,612	3,225
Purchase of treasury stock	(189)	(362)
Redemption of preferred stock	(1)	
Issuance of long-term debt	13,000	102,000
Repayment of long-term debt	(7,041)	(105,121)
Increase (decrease) in short-term loans	41,000	(56,000)
Payment of dividends	(11,211)	(10,744)
Other	132	138
CASH USED IN FINANCING ACTIVITIES	38,302	(66,864)
CHANGE IN CASH AND SHORT-TERM INVESTMENTS, AND CHECKS OUTSTANDING IN EXCESS OF CASH BALANCES	(\$5,849)	(\$9,168)

</TABLE>

QUESTAR CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

March 31, 1994

## Note A - Basis of Presentation

The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Due to the seasonal nature of the business, the results of operations for the three-month period ended March 31, 1994, are not necessarily indicative of the results that may be expected for the year ended December 31, 1994. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1993.

## Note B - Discontinued Operations

In October 1993, Questar reached an agreement with Nextel Communications to sell Questar's entire interest in Questar Telecom for approximately 3.9 million shares of Nextel common stock. This sale is expected to close in the first half of 1994. Since Questar Telecom represented all of Questar's specialized mobile radio operations, these operations have been disclosed as discontinued operations on Questar's financial statements. Prior financial statements have been reclassified to present the discontinued operations as a single line on both the income statement and balance sheet. Losses subsequent to September 1993 have been deferred until the sale is recorded since the Company expects to report a gain on the transaction.

## Note C - Acquisitions of Oil and Gas Properties

The Company completed two acquisitions of oil and natural gas reserves for \$95,591,000 in the first quarter of 1994. These acquisitions added a net 113.5 Bcfe of oil and natural gas reserves. Questar borrowed \$50 million under a bridge-loan agreement with a bank to finance a portion of the oil and gas reserve acquisitions. This loan expires December 31, 1994, and is expected to be repaid with proceeds from borrowing under an expansion of the existing production-based credit facility. Other sources of funds for the reserve acquisitions included \$15 million short-term and \$6 million long-term borrowings under the E&P group's production-based credit facility, and other short-term bank and commercial paper borrowings.

## Note D - Accounting for Postemployment Benefits

Effective January 1, 1994, the Company recorded a liability for postemployment disability and health care benefits in compliance with the Statement of Financial Accounting Standards No. 112. The effect on net income was not significant since the majority of the \$3,268,000 liability was offset with a regulatory asset because both Questar Pipeline and Mountain Fuel expect to include these costs in future rates.

QUESTAR CORPORATION AND SUBSIDIARIES  
MANAGEMENT'S ANALYSIS  
March 31, 1994

Exploration and Production Operations --

Celsius Energy, Universal Resources and Wexpro (E&P group) conduct the Company's exploration and production operations. Following is a summary of financial results and operating information.

<TABLE>

<CAPTION>

	3 Months Ended March 31,		12 Months Ended March 31,	
	1994	1993	1994	1993
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
FINANCIAL RESULTS				
Revenues				
From unaffiliated customers	\$66,061	\$57,670	\$226,060	\$191,545
From affiliates	19,844	14,347	64,275	56,022
Total revenues	\$85,905	\$72,017	\$290,335	\$247,567
Operating income	\$15,081	\$11,446	\$53,022	\$44,648
Net income	10,477	8,281	38,521	29,780

OPERATING STATISTICS

Production volumes -				
Natural gas (in million cubic feet)	7,858	7,581	32,576	26,496
Oil and natural gas liquids (in thousands of barrels)	512	429	2,058	2,014
Production revenue				
Natural gas (per thousand cubic feet)	\$2.10	\$1.87	\$1.91	\$1.70
Oil and natural gas liquids (per barrel)	12.85	18.04	15.44	18.58
Gas marketing volumes (in thousands of decatherms)	21,739	18,546	68,336	66,026

</TABLE>

Natural gas production volumes increased 4% in the first quarter of 1994 over the same quarter of 1993 because of the acquisition of natural gas reserves and cold weather in the eastern United States, which increased demand from the mid-continent producing area.

The E&P group received revenue of \$2.10 per Mcf of gas production in the first quarter of 1994 compared with \$1.87 in the first quarter of 1993. The price of natural gas increased because of strong demand for gas throughout the eastern United States.

Oil and natural gas liquid production increased 19% in the first quarter of 1994 over the 1993 quarter due to the completion of several natural gas liquid processing plants that were not on line in the first quarter of 1993. The increased production was offset by reduced oil and natural gas liquid prices, which were down 29% from the 1993 quarter to \$12.85 per barrel.

Universal Resources completed two acquisitions of oil and natural gas reserves for \$95,591,000 in the first quarter of 1994. These acquisitions

added a net 113.5 Bcfe of oil and natural gas reserves, or a 45% increase over the nonutility reserves at December 31, 1993. Because of these acquisitions, the E&P group expects to increase production volumes during the remainder of 1994.

Gas marketing volumes increased 17% in the first quarter of 1994 over the first quarter of 1993 as a result of increased national demand for natural gas.

#### Natural Gas Transmission Operations --

Questar Pipeline conducts the Company's natural gas transmission, gathering and storage operations. Following is a summary of financial results and operating information.

<TABLE>

<CAPTION>

	3 Months Ended March 31,		12 Months Ended March 31,	
	1994	1993	1994	1993
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
FINANCIAL RESULTS				
Revenues				
From unaffiliated customers	\$8,587	\$10,033	\$39,908	\$41,645
From affiliates	19,163	68,118	81,319	169,248
Total revenues	\$27,750	\$78,151	\$121,227	\$210,893
Operating income	\$11,663	\$14,738	\$46,176	\$48,113
Net income	5,508	7,382	21,401	22,849
OPERATING STATISTICS				
Natural gas volumes (in thousands of decatherms)				
Transportation				
For Mountain Fuel	36,860	13,259	88,662	35,432
For other customers	31,203	38,871	141,520	168,153
Total transportation	68,063	52,130	230,182	203,585
Sales for resale to Mountain Fuel				
Total system throughput	68,063	73,169	233,480	245,870
Gathering				
For Mountain Fuel	12,065	20,989	35,508	44,252
For other customers	11,783	7,590	52,529	31,020
Total gathering	23,848	28,579	88,037	75,272
Natural gas revenues (per decatherm)				
Transportation	\$0.23	\$0.23	\$0.24	\$0.22
Sales for resale		2.70	7.57	3.22
Gathering	0.23	0.22	0.22	0.24

</TABLE>

Questar Pipeline began operating under Federal Energy Regulatory Commission (FERC) Order 636 effective September 1, 1993. At that time Questar Pipeline unbundled its transportation, gathering and storage services and eliminated its sales-for-resale function. Under the Order

636 operating environment, firm transportation and gathering volumes do not have a significant impact on current operating results since 94% of the cost of service is recovered in the demand component of rates using the straight fixed-variable rate design. Since this demand component is collected equally each month of the year, revenues collected using the straight fixed-variable rate design in the high-volume first quarter are less than those collected under the rate design in effect during the first quarter of 1993. The straight fixed-variable rate design should result in increased revenues during the second and third quarters of 1994, compared to the same quarters of 1993.

Deliveries to Mountain Fuel (including transportation and sales for resale) were higher in the periods ended March 31, 1994, due to gas transported to storage reservoirs. Transportation for other customers was lower in the 1994 periods because Order 636 rate design changes reduced volumes for interruptible customers.

Gathering volumes for Mountain Fuel decreased in the first quarter of 1994; however, gathering for other customers increased. In April 1994, the FERC approved a gathering agreement between Questar Pipeline and Mountain Fuel, which will allocate 60% of the gathering cost of service to the demand component of rates and 40% to the commodity component. Gathering revenues will be increased in the second quarter of 1994, retroactive to September 1, 1993.

#### Natural Gas Distribution --

Mountain Fuel conducts the Company's natural gas distribution operations. Following is a summary of financial results and operating information.

<TABLE>

<CAPTION>

	3 Months Ended March 31,		12 Months Ended March 31,	
	1994	1993	1994	1993
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
FINANCIAL RESULTS				
Revenues				
From unaffiliated customers	\$148,318	\$177,522	\$371,021	\$379,651
From affiliates	697	461	2,402	3,745
Total revenues	\$149,015	\$177,983	\$373,423	\$383,396
Operating income	\$27,776	\$36,734	\$37,551	\$48,974
Net income	15,098	20,465	19,702	26,806

#### OPERATING STATISTICS

Natural gas volumes (in thousands of decatherms)

Residential and commercial sales	30,138	36,433	73,074	73,194
Industrial sales	2,217	1,738	6,993	5,440
Transportation for industrial customers	13,271	17,014	49,362	53,694
Total deliveries	45,626	55,185	129,429	132,328

Natural gas revenue (per decatherm)				
Residential and commercial	\$4.54	\$4.56	\$4.53	\$4.67
Industrial sales	3.23	4.08	3.11	3.64
Transportation for industrial customers	0.12	0.10	0.12	0.11
Heating degree days				
Actual	2,307	3,167	5,213	5,649
Normal	2,743	2,963	5,583	5,803
Number of customers at end of period	553,507	533,881		

Heating degree days were 16% warmer than normal in the first quarter of 1994 compared with 7% colder than normal in the first quarter of 1993. This resulted in a 17% decrease in natural gas volumes sold to residential and commercial customers. The effect of warmer weather was partially offset by a 3.7% increase in the number of customers.

Volumes delivered to industrial customers decreased 17% in the first quarter of 1994 compared with the same quarter of 1993. Natural gas demand for electric generation and some other customers was lower because of the warmer weather. Usage by several major metal and chemical customers was also lower during the quarter.

Mountain Fuel's allowed return on equity for Utah operations was reduced from 12.1% to 11% effective January 1, 1994, by the Public Service Commission of Utah in a general rate case order. The Company also changed the way that revenues for residential and commercial customers are recorded from an "as-billed" to an "as-delivered" basis. This had the effect of decreasing earnings in the first quarter of 1994 by approximately \$2 million, and is expected to increase earnings for the remainder of the year.

#### Discontinued Operations -

In October 1993, Questar reached an agreement with Nextel Communications to sell Questar's entire interest in Questar Telecom for approximately 3.9 million shares of Nextel common stock. This sale is expected to close in the first half of 1994. Since Questar Telecom represented all of Questar's specialized mobile radio operations, these operations have been disclosed as discontinued operations on Questar's financial statements. Prior financial statements have been reclassified to present the discontinued operations as a single line on both the income statement and balance sheet. Losses subsequent to September 1993 have been deferred until the sale is recorded since the Company expects to report a gain on the transaction.

#### Consolidated Results of Operations --

Consolidated revenues decreased in the first quarter of 1994 compared with the first quarter of 1993 because of reduced natural gas deliveries by Mountain Fuel and other factors noted in the natural gas transmission and natural gas distribution sections. These decreases were partially offset

by increased exploration and production revenues from natural gas production and marketing. Consolidated revenues increased in the 12 months ended March 31, 1994, compared with the prior year period primarily because of increased natural gas production and prices by the E&P group.

Natural gas purchases were lower in the first quarter of 1994 compared with the first quarter of 1993 because of reduced deliveries by Mountain Fuel. Natural gas purchases were higher in the 12 months ended March 31, 1994, compared with the same 1993 period because of increased natural gas marketing by the E&P group and higher sales volumes by Mountain Fuel.

Operating and maintenance expenses were 5% lower in the first quarter of 1994 compared with the first quarter of 1993. The decrease was a result of a credit received by the E&P group from the recovery of injected gas in the Powell field and lower variable costs due to lower natural gas transmission throughput and natural gas distribution deliveries.

Operating and maintenance expenses increased 5% in the 12 months ended March 31, 1994, compared with the 1993 period because of increased customers and service territory for Mountain Fuel, the recording of postretirement medical and life insurance benefits on an accrual basis, increased natural gas production by the E&P group and new activities required of Questar Pipeline and Mountain Fuel as a result of restructuring under FERC Order 636.

Depreciation and amortization increased in the periods ended March 31, 1994, because of increased natural gas and oil production and increased investment in property, plant and equipment by all lines of business. Other taxes were higher in the periods ended March 31, 1994, because of the increased production volumes.

The effective income tax rate was 35.3% in both the first quarter of 1994 and 1993. The Company recognized \$2,260,000 of tight-sands gas production tax credits in the 1994 period and \$1,709,000 in the 1993 period.

Effective January 1, 1994, the Company recorded a liability for postemployment disability and health care benefits in compliance with the Statement of Financial Accounting Standards No. 112. The effect on net income was not significant since the majority of the \$3,268,000 liability was offset with a regulatory asset because both Questar Pipeline and Mountain Fuel expect to include these costs in future rates.

#### Liquidity and Capital Resources --

Net cash provided from operating activities was \$62,400,000 for the first quarter of 1994 compared with \$77,415,000 for the same period of 1993. The decrease was due to lower net income, a larger reduction in deferred income taxes and lower sources of cash from changes in working capital accounts.

Capital expenditures were \$116,162,000 in the first quarter of 1994, compared with \$20,132,000 in the first quarter of 1993. Capital expenditures for the calendar year 1994 are estimated as follows:

<TABLE>

<CAPTION>

	(In Millions)
<S>	<C>
Exploration and production	\$160.0
Natural gas transmission	70.9
Natural gas distribution	51.4
Other operations	17.7
	\$300.0

</TABLE>

The first quarter capital expenditures included purchases of oil and gas reserves and related properties by Universal Resources as follows:

<TABLE>  
<CAPTION>

	(In Thousands)
<S>	<C>
Purchase of properties from Petroleum Inc.	\$21,804
Purchase of Amax Oil and Gas Northern Division properties from Union Pacific Resources Corporation	88,087
Exercise of option to purchase Amax's Colorado properties by the Southern Ute Indian Tribe	(14,300)
	\$95,591

</TABLE>

Questar borrowed \$50 million under a bridge-loan agreement with a bank to finance a portion of the oil and gas reserve acquisitions. This loan expires December 31, 1994, and is expected to be repaid with proceeds from borrowing under an expansion of the existing production-based credit facility. Other sources of funds for the reserve acquisitions included \$15 million short-term and \$6 million long-term borrowings under the E&P group's production-based credit facility, and other short-term bank and commercial paper borrowings.

Questar plans to finance the remaining 1994 capital expenditures with cash flow from operations, borrowings under an expanded production-based credit facility, additional \$17 million of medium-term notes to be issued by Mountain Fuel and short-term borrowings. In addition, Questar may issue common stock, or sell or monetize a portion of its investment in Nextel common stock to fund capital expenditures.

Short-term borrowings at March 31, 1994, consisted of the following:

<TABLE>  
<CAPTION>

	(In Thousands)
<S>	<C>
Bridge loan to finance reserve acquisitions	\$50,000
Production-based credit facility	15,000
Other bank loans	5,200
Commercial paper	49,100
	\$119,300

</TABLE>

The Company had the capacity at March 31, 1994, to borrow an additional \$81,400,000 under existing short-term credit lines with banks.

PART II  
OTHER INFORMATION

Questar Corporation has nothing to disclose in this section of the report.

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 CORPORATION  
(Registrant)

May 11, 1994

/s/ W. F. Edwards  
W. F. Edwards  
Senior Vice President and Chief  
Financial Officer (Duly authorized  
officer and principal financial  
officer)