QUESTAR GAS CO
Form 10-Q
August 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___ to ___

(Exact name of registrant as specified in its charter)	Commission File Number:	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Questar Corporation	001-08796	Utah	87-0407509
Questar Gas Company	333-69210	Utah	87-0155877
Questar Pipeline Company	000-14147	Utah	87-0307414

333 South State Street, P.O. Box 45433, Salt Lake City, Utah 84145-0433
(Address of principal executive offices)
Registrants' telephone number, including area code (801) 324-5900
Web site http://www.questar.com

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.

Questar Corporation	Yes [X]	No [ ]
Questar Gas Company	Yes [X]	No [ ]
Questar Pipeline Company	Yes [X]	No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Questar Corporation	Yes [X]	No [ ]
Questar Gas Company	Yes [X]	No [ ]
Questar Pipeline Company	Yes [X]	No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Do not check non-accelerated filer if a smaller reporting company (Check one).

Questar Corporation	Large accelerated filer [X]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]
Questar Gas Company	Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [X]	Smaller reporting company [ ]
Questar Pipeline Company	Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [X]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Questar Corporation	Yes [ ] No [X]
Questar Gas Company	Yes [ ] No [X]
Questar Pipeline Company	Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of June 30, 2015.

Questar Corporation	without par value	175,738,477
Questar Gas Company	$2.50 per share par value	9,189,626
Questar Pipeline Company	$1.00 per share par value	6,550,843

Questar Gas Company and Questar Pipeline Company, as wholly-owned subsidiaries of a reporting company, meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this form with the reduced disclosure format.

QUESTAR CORPORATION
QUESTAR GAS COMPANY
QUESTAR PIPELINE COMPANY
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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FILING FORMAT

This Quarterly Report on Form 10-Q is a combined report being filed by three separate registrants: Questar Corporation (Questar or the Company), Questar Gas Company and Questar Pipeline Company. Questar Gas Company and Questar Pipeline Company are wholly-owned subsidiaries of Questar. Separate financial statements for Wexpro Company have not been included since Wexpro is not a registrant. See Note 8 to the accompanying financial statements for a summary of operations by line of business. Information contained herein related to any individual registrant is filed by such registrant solely on its own behalf. Each registrant makes no representation as to information relating exclusively to the other registrants.

Item 1 of Part I of this Quarterly Report on Form 10-Q includes separate financial statements (i.e. statements of income, statements of comprehensive income, balance sheets and statements of cash flows, as applicable) for Questar Corporation, Questar Gas Company and Questar Pipeline Company. The notes accompanying the financial statements are presented on a combined basis for all three registrants. Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 2 of Part I is presented by line of business.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

QUESTAR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions, except per-share amounts)					
REVENUES						
Questar Gas	$141.7	$145.0	$516.5	$541.3	$936.1	$968.1
Wexpro	10.1	7.8	16.4	20.1	31.9	46.4
Questar Pipeline	46.5	48.1	93.3	96.1	187.4	190.3
Other	1.0	0.4	1.7	0.7	3.6	0.9
Total Revenues	199.3	201.3	627.9	658.2	1,159.0	1,205.7
OPERATING EXPENSES						
Cost of sales (excluding operating expenses shown separately)	(9.0)	(24.3)	122.8	123.9	185.2	217.4
Operating and maintenance	40.5	42.5	92.8	99.4	187.6	190.3
General and administrative	27.4	29.2	56.8	59.5	120.0	112.3
Production and other taxes	12.8	18.7	26.6	36.6	56.2	64.0
Depreciation, depletion and amortization	53.6	56.8	107.9	112.1	209.5	210.9
Abandonment and impairment	0.1	2.0	0.1	2.0	0.1	82.6
Total Operating Expenses	125.4	124.9	407.0	433.5	758.6	877.5
Net gain (loss) from asset sales	1.4	0.1	1.4	0.1	2.5	(0.2)
OPERATING INCOME	75.3	76.5	222.3	224.8	402.9	328.0
Interest and other income	1.5	1.2	2.9	3.0	6.5	6.8
Income from unconsolidated affiliate	1.0	0.9	1.9	1.8	3.6	3.6
Interest expense	(15.8)	(15.8)	(31.7)	(31.6)	(63.2)	(59.7)
INCOME BEFORE INCOME TAXES	62.0	62.8	195.4	198.0	349.8	278.7
Income taxes	(21.4)	(22.5)	(70.2)	(72.6)	(123.5)	(104.4)
NET INCOME	$40.6	$40.3	$125.2	$125.4	$226.3	$174.3
Earnings Per Common Share						
Basic	$0.23	$0.23	$0.71	$0.71	$1.29	$0.99
Diluted	0.23	0.23	0.71	0.71	1.28	0.99
Weighted-average common shares outstanding						
Used in basic calculation	176.4	175.8	176.3	175.7	176.1	175.7
Used in diluted calculation	176.6	176.1	176.5	176.1	176.4	176.1
Dividends per common share	$0.21	$0.19	$0.42	$0.37	$0.80	$0.73

See notes accompanying the financial statements

QUESTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Net income	$40.6	$40.3	$125.2	$125.4	$226.3	$174.3
Other comprehensive income (loss):						
Pension and other postretirement benefits	6.0	4.5	12.0	8.8	(93.7)	161.9
Interest rate cash flow hedge amortization	0.2	0.1	0.4	0.3	0.6	0.5
Commodity cash flow hedge	(0.3)	—	(0.3)	—	(0.3)	—
Income taxes	(2.2)	(1.8)	(4.6)	(3.6)	35.9	(62.3)
Net other comprehensive income (loss)	3.7	2.8	7.5	5.5	(57.5)	100.1
COMPREHENSIVE INCOME	$44.3	$43.1	$132.7	$130.9	$168.8	$274.4

See notes accompanying the financial statements

QUESTAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2015	June 30, 2014	Dec. 31, 2014
	(in millions)		
ASSETS			
Current Assets			
Cash and cash equivalents	$—	$—	$32.0
Accounts receivable, net	53.3	72.5	118.1
Unbilled gas accounts receivable	11.6	15.4	93.7
Gas stored underground	30.6	29.6	43.7
Materials and supplies	30.7	24.6	30.4
Current regulatory assets	57.1	59.0	79.6
Prepaid expenses and other	10.2	9.6	11.2
Deferred income taxes - current	8.3	14.5	5.8
Total Current Assets	201.8	225.2	414.5
Property, Plant and Equipment	6,057.2	5,789.9	5,961.5
Accumulated depreciation, depletion and amortization	(2,272.5)	(2,158.4)	(2,226.0)
Net Property, Plant and Equipment	3,784.7	3,631.5	3,735.5
Investment in unconsolidated affiliate	24.3	25.0	24.7
Noncurrent regulatory assets	23.7	18.5	25.0
Other noncurrent assets	50.4	51.0	50.0
TOTAL ASSETS	$4,084.9	$3,951.2	$4,249.7
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY			
Current Liabilities			
Checks outstanding in excess of cash balances	$2.5	$0.9	$—
Short-term debt	228.0	177.0	347.0
Accounts payable, accrued expenses and other	201.0	208.5	234.9
Current regulatory liabilities	2.6	13.6	13.4
Current portion of long-term debt and capital lease obligation	277.3	0.9	26.1
Total Current Liabilities	711.4	400.9	621.4
Long-term debt and capital lease obligation, less current portion	1,004.8	1,284.0	1,257.5
Deferred income taxes	715.6	711.0	715.6
Asset retirement obligations	70.6	69.4	69.3
Defined benefit pension plan and other postretirement benefits	125.1	78.5	185.7
Noncurrent regulatory liabilities	74.9	65.7	69.9
Customer contributions in aid of construction	27.4	30.1	29.2
Other noncurrent liabilities	46.3	42.1	54.9
COMMON SHAREHOLDERS' EQUITY			
Common stock	480.8	469.4	476.8
Retained earnings	1,021.8	936.4	970.7
Accumulated other comprehensive (loss)	(193.8)	(136.3)	(201.3)
Total Common Shareholders' Equity	1,308.8	1,269.5	1,246.2
TOTAL LIABILITIES AND COMMON SHAREHOLDERS' EQUITY	$4,084.9	$3,951.2	$4,249.7

See notes accompanying the financial statements

QUESTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	6 Months Ended June 30,	
	2015	2014
	(in millions)	
OPERATING ACTIVITIES		
Net income	$125.2	$125.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	111.3	116.4
Deferred income taxes	(7.2)	(4.6)
Abandonment and impairment	0.1	2.0
Share-based compensation	6.3	6.0
Net (gain) from asset sales	(1.4)	(0.1)
(Income) from unconsolidated affiliate	(1.9)	(1.8)
Distributions from unconsolidated affiliate and other	2.6	2.9
Changes in operating assets and liabilities	66.2	37.6
NET CASH PROVIDED BY OPERATING ACTIVITIES	301.2	283.8
INVESTING ACTIVITIES		
Property, plant and equipment	(127.3)	(134.4)
Questar Gas acquisition of gas distribution system	(11.4)	—
Cash used in disposition of assets	(1.8)	(1.7)
Proceeds from disposition of assets	1.1	0.8
NET CASH USED IN INVESTING ACTIVITIES	(139.4)	(135.3)
FINANCING ACTIVITIES		
Common stock issued	1.5	1.0
Common stock repurchased	(4.1)	(2.9)
Change in short-term debt	(119.0)	(99.0)
Checks outstanding in excess of cash balances	2.5	0.9
Capital lease obligation repaid	(0.6)	(0.5)
Dividends paid	(74.1)	(65.0)
Tax benefits from share-based compensation	—	1.0
NET CASH USED IN FINANCING ACTIVITIES	(193.8)	(164.5)
Change in cash and cash equivalents	(32.0)	(16.0)
Beginning cash and cash equivalents	32.0	16.0
Ending cash and cash equivalents	$—	$—

See notes accompanying the financial statements

QUESTAR GAS COMPANY
STATEMENTS OF INCOME
(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
REVENUES						
From unaffiliated customers	$141.7	$145.0	$516.5	$541.3	$936.1	$968.1
From affiliated company	—	—	—	—	—	0.2
Total Revenues	141.7	145.0	516.5	541.3	936.1	968.3
OPERATING EXPENSES						
Cost of natural gas sold (excluding operating expenses shown separately)	84.0	87.2	317.6	341.8	580.6	618.3
Operating and maintenance	24.8	26.3	57.9	66.1	114.3	122.0
General and administrative	12.8	12.9	26.2	26.7	52.3	52.8
Depreciation and amortization	13.6	13.6	27.1	26.8	53.9	52.0
Other taxes	5.1	4.8	9.7	9.9	17.6	17.8
Total Operating Expenses	140.3	144.8	438.5	471.3	818.7	862.9
Net gain from asset sales	—	0.1	—	0.1	—	0.1
OPERATING INCOME	1.4	0.3	78.0	70.1	117.4	105.5
Interest and other income	1.2	1.3	2.3	2.6	5.6	5.2
Interest expense	(7.1)	(7.0)	(14.2)	(14.1)	(28.3)	(25.0)
INCOME (LOSS) BEFORE INCOME TAXES	(4.5)	(5.4)	66.1	58.6	94.7	85.7
Income taxes	1.7	2.1	(25.1)	(22.3)	(34.8)	(32.4)
NET INCOME (LOSS)	$(2.8)	$(3.3)	$41.0	$36.3	$59.9	$53.3

See notes accompanying the financial statements

QUESTAR GAS COMPANY
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2015	June 30, 2014	Dec. 31, 2014
	(in millions)		
ASSETS			
Current Assets			
Cash and cash equivalents	$—	$—	$19.8
Notes receivable from Questar	—	3.0	—
Accounts receivable, net	29.6	45.5	66.4
Unbilled gas accounts receivable	11.6	15.4	93.7
Accounts receivable from affiliates	68.3	43.6	45.2
Gas stored underground	26.1	27.8	40.3
Materials and supplies	18.7	13.1	19.2
Current regulatory assets	56.3	55.1	78.3
Prepaid expenses and other	3.8	4.8	3.5
Deferred income taxes - current	—	2.9	—
Total Current Assets	214.4	211.2	366.4
Property, Plant and Equipment	2,455.4	2,269.0	2,352.3
Accumulated depreciation and amortization	(799.9)	(761.4)	(780.3)
Net Property, Plant and Equipment	1,655.5	1,507.6	1,572.0
Noncurrent regulatory assets	19.8	15.0	21.3
Other noncurrent assets	9.2	9.6	9.3
TOTAL ASSETS	$1,898.9	$1,743.4	$1,969.0
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY			
Current Liabilities			
Checks outstanding in excess of cash balances	$4.1	$4.8	$—
Notes payable to Questar	59.7	—	119.3
Accounts payable and accrued expenses	106.7	91.1	111.9
Accounts payable to affiliates	77.8	65.1	78.7
Dividends payable to Questar	—	—	9.0
Customer advances	18.0	9.2	29.4
Current regulatory liabilities	1.0	12.8	12.5
Deferred income taxes - current	3.9	—	6.3
Total Current Liabilities	271.2	183.0	367.1
Long-term debt	534.5	534.5	534.5
Deferred income taxes	378.1	340.5	377.5
Noncurrent regulatory liabilities	65.5	57.1	60.9
Customer contributions in aid of construction	27.4	30.1	29.2
Other noncurrent liabilities	2.5	3.0	2.8
COMMON SHAREHOLDER'S EQUITY			
Common stock	23.0	23.0	23.0
Additional paid-in capital	266.1	264.5	265.4
Retained earnings	330.6	307.7	308.6
Total Common Shareholder's Equity	619.7	595.2	597.0
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$1,898.9	$1,743.4	$1,969.0

See notes accompanying the financial statements

QUESTAR GAS COMPANY
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	6 Months Ended June 30, 2015	2014
	(in millions)	
OPERATING ACTIVITIES		
Net income	$41.0	$36.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29.9	29.4
Deferred income taxes	(1.8)	(0.2)
Share-based compensation	0.7	0.6
Net (gain) from asset sales	—	(0.1)
Changes in operating assets and liabilities	95.0	47.9
NET CASH PROVIDED BY OPERATING ACTIVITIES	164.8	113.9
INVESTING ACTIVITIES		
Property, plant and equipment	(88.3)	(87.8)
Acquisition of gas distribution system	(11.4)	—
Cash used in disposition of assets	(1.4)	(1.4)
Proceeds from disposition of assets	0.1	0.4
Affiliated-company property, plant and equipment transfers	(0.1)	—
NET CASH USED IN INVESTING ACTIVITIES	(101.1)	(88.8)
FINANCING ACTIVITIES		
Change in notes receivable from Questar	—	(3.0)
Change in notes payable to Questar	(59.6)	(17.7)
Checks outstanding in excess of cash balances	4.1	4.8
Dividends paid to Questar	(28.0)	(18.0)
NET CASH USED IN FINANCING ACTIVITIES	(83.5)	(33.9)
Change in cash and cash equivalents	(19.8)	(8.8)
Beginning cash and cash equivalents	19.8	8.8
Ending cash and cash equivalents	$—	$—

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
REVENUES						
From unaffiliated customers	$46.5	$48.1	$93.3	$96.1	$187.4	$190.3
From affiliated companies	17.8	17.7	37.2	37.0	73.9	76.5
Total Revenues	64.3	65.8	130.5	133.1	261.3	266.8
OPERATING EXPENSES						
Operating and maintenance	8.9	9.2	19.0	18.5	39.8	39.0
General and administrative	10.5	9.5	21.0	19.8	40.1	39.6
Depreciation and amortization	13.7	13.6	27.7	27.2	55.0	54.5
Asset impairment	—	—	—	—	—	80.6
Other taxes	2.1	2.4	4.4	4.7	8.8	9.1
Cost of sales (excluding operating expenses shown separately)	(0.2)	0.7	1.7	2.4	3.3	6.3
Total Operating Expenses	35.0	35.4	73.8	72.6	147.0	229.1
Net (loss) from asset sales	—	—	—	—	(0.5)	—
OPERATING INCOME	29.3	30.4	56.7	60.5	113.8	37.7
Interest and other income	0.2	0.1	0.4	0.4	1.2	1.6
Income from unconsolidated affiliate	1.0	0.9	1.9	1.8	3.6	3.6
Interest expense	(6.5)	(6.6)	(13.1)	(13.1)	(26.1)	(25.9)
INCOME BEFORE INCOME TAXES	24.0	24.8	45.9	49.6	92.5	17.0
Income taxes	(8.8)	(9.1)	(16.8)	(18.2)	(34.2)	(7.7)
NET INCOME	$15.2	$15.7	$29.1	$31.4	$58.3	$9.3

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Net income	$15.2	$15.7	$29.1	$31.4	$58.3	$9.3
Other comprehensive income (loss):						
Interest rate cash flow hedge amortization	0.2	0.1	0.4	0.3	0.6	0.5
Commodity cash flow hedge	(0.3)	—	(0.3)	—	(0.3)	—
Income taxes	—	—	(0.1)	(0.1)	(0.1)	(0.2)
Net other comprehensive income (loss)	(0.1)	0.1	—	0.2	0.2	0.3
COMPREHENSIVE INCOME	$15.1	$15.8	$29.1	$31.6	$58.5	$9.6

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2015	June 30, 2014	Dec. 31, 2014
	(in millions)		
ASSETS			
Current Assets			
Cash and cash equivalents	$1.0	$6.3	$7.4
Notes receivable from Questar	34.0	53.8	40.1
Accounts receivable, net	17.0	17.5	17.9
Accounts receivable from affiliates	47.1	37.3	39.2
Gas stored underground, at lower of average cost or market	4.5	1.8	3.4
Materials and supplies, at lower of average cost or market	7.4	7.2	6.9
Current regulatory assets	0.8	3.9	1.3
Prepaid expenses and other	2.8	2.9	4.3
Deferred income taxes - current	2.1	1.8	1.9
Total Current Assets	116.7	132.5	122.4
Property, Plant and Equipment	1,843.6	1,801.2	1,827.7
Accumulated depreciation and amortization	(697.8)	(651.3)	(673.9)
Net Property, Plant and Equipment	1,145.8	1,149.9	1,153.8
Investment in unconsolidated affiliate	24.3	25.0	24.7
Noncurrent regulatory and other assets	10.7	10.9	10.8
TOTAL ASSETS	$1,297.5	$1,318.3	$1,311.7
LIABILITIES AND COMMON SHAREHOLDER'S EQUITY			
Current Liabilities			
Accounts payable, accrued expenses and other	$21.8	$36.7	$21.7
Accounts payable to affiliates	9.1	24.7	5.8
Dividends payable to Questar	—	—	16.0
Current regulatory liabilities	1.6	0.8	0.9
Current portion of long-term debt	25.1	—	25.1
Total Current Liabilities	57.6	62.2	69.5
Long-term debt, less current portion	433.6	458.8	433.7
Deferred income taxes	240.7	228.2	241.4
Noncurrent regulatory and other liabilities	16.0	16.2	15.9
COMMON SHAREHOLDER'S EQUITY			
Common stock	6.6	6.6	6.6
Additional paid-in capital	352.7	350.5	351.4
Retained earnings	212.8	218.5	215.7
Accumulated other comprehensive (loss)	(22.5)	(22.7)	(22.5)
Total Common Shareholder's Equity	549.6	552.9	551.2
TOTAL LIABILITIES AND COMMON SHAREHOLDER'S EQUITY	$1,297.5	$1,318.3	$1,311.7

See notes accompanying the financial statements

QUESTAR PIPELINE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	6 Months Ended June 30,	
	2015	2014
	(in millions)	
OPERATING ACTIVITIES		
Net income	$29.1	$31.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28.9	28.4
Deferred income taxes	(1.1)	(0.5)
Share-based compensation	1.3	1.0
(Income) from unconsolidated affiliate	(1.9)	(1.8)
Distributions from unconsolidated affiliate and other	2.4	2.7
Changes in operating assets and liabilities	(5.9)	16.2
NET CASH PROVIDED BY OPERATING ACTIVITIES	52.8	77.4
INVESTING ACTIVITIES		
Property, plant and equipment	(17.1)	(17.2)
Cash used in disposition of assets	(0.4)	(0.3)
Proceeds from disposition of assets	0.1	0.1
Affiliated-company property, plant and equipment transfers	0.1	—
NET CASH USED IN INVESTING ACTIVITIES	(17.3)	(17.4)
FINANCING ACTIVITIES		
Change in notes receivable from Questar	6.1	(24.4)
Dividends paid to Questar	(48.0)	(32.0)
NET CASH USED IN FINANCING ACTIVITIES	(41.9)	(56.4)
Change in cash and cash equivalents	(6.4)	3.6
Beginning cash and cash equivalents	7.4	2.7
Ending cash and cash equivalents	$1.0	$6.3

See notes accompanying the financial statements

QUESTAR CORPORATION
QUESTAR GAS COMPANY
QUESTAR PIPELINE COMPANY
NOTES ACCOMPANYING THE FINANCIAL STATEMENTS
(Unaudited)

The notes accompanying the financial statements apply to Questar Corporation, Questar Gas Company and Questar Pipeline Company unless otherwise noted.

Note 1 - Nature of Business

Questar Corporation is a Rockies-based integrated natural gas company with three principal complementary and wholly-owned lines of business:

- Questar Gas Company (Questar Gas) provides retail natural gas distribution in Utah, Wyoming and Idaho.
- Wexpro Company (Wexpro) develops and produces natural gas from cost-of-service reserves for Questar Gas customers.
- Questar Pipeline Company (Questar Pipeline) operates interstate natural gas pipelines and storage facilities in the western United States and provides other energy services.

Questar is headquartered in Salt Lake City, Utah. Shares of Questar common stock trade on the New York Stock Exchange (NYSE:STR).

Note 2 - Basis of Presentation of Interim Financial Statements

The interim financial statements contain the accounts of Questar and its wholly-owned subsidiaries. The financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP), the instructions for Quarterly Reports on Form 10-Q and SEC Regulations S-X and S-K. All significant intercompany accounts and transactions have been eliminated in consolidation.

The financial statements reflect all normal, recurring adjustments and accruals that are, in the opinion of management, necessary for a fair presentation of financial position and results of operations for the interim periods presented. Interim financial statements do not include all of the information and notes required by GAAP for audited annual financial statements. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The preparation of financial statements and notes in conformity with GAAP requires that management make estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities, and disclosure of contingent assets and liabilities. Actual results could differ from estimates. The results of operations for the three, six and 12 months ended June 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Certain reclassifications were made to prior year information to conform to the current year presentation.

Questar and Questar Pipeline use the equity method to account for an investment in an unconsolidated affiliate where they do not have control, but have significant influence. The investment in the unconsolidated affiliate on the Condensed Consolidated Balance Sheets equals Questar Pipeline's proportionate share of equity reported by the unconsolidated affiliate. The investment is assessed for possible impairment when events indicate that the fair value of the investment may be below Questar Pipeline's carrying value. When such a condition is deemed to be other-than-temporary, the carrying value of the investment is written down to its fair value, and the amount of the write-down is included in the determination of net income. White River Hub, LLC, a limited liability company and FERC-regulated transporter of natural gas, is the sole unconsolidated affiliate. Questar Pipeline owns 50% of White River Hub, LLC, and is the operator.

In March 2015, Questar Gas purchased Eagle Mountain City's municipal natural gas system for $11.4 million. The city has over 6,500 natural gas customers.

Questar Gas obtains the majority of its gas supply from Wexpro's cost-of-service production and pays Wexpro an operator service fee based on the terms of the Wexpro Agreement and the Wexpro II Agreement (Wexpro agreements). Questar Gas also obtains transportation and storage services from Questar Pipeline. These intercompany revenues and expenses are eliminated in the Questar Consolidated Statements of Income by reducing revenues and cost of sales. The underlying costs of Wexpro's production and Questar Pipeline's transportation and storage services are disclosed in other categories in the Consolidated

Statements of Income, including operating and maintenance expense and depreciation, depletion and amortization expense. During the second and third quarters of the year, a significant portion of the natural gas from Wexpro production is injected into underground storage. This gas is withdrawn from storage as needed during the heating season in the first and fourth quarters. The cost of natural gas sold is credited with the value of natural gas as it is injected into storage and debited as it is withdrawn from storage. The reported balance in consolidated cost of sales may be a negative amount during the second and third quarters because of the entries to record injection of gas into storage and the elimination of intercompany transactions. The details of Questar's consolidated cost of sales are as follows:

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Questar Gas						
Gas purchases	$2.2	$3.9	$43.2	$96.6	$83.1	$169.6
Operator service fee	75.5	94.4	160.3	183.5	326.5	331.1
Transportation and storage	18.1	18.6	40.3	40.7	79.2	80.7
Gathering	5.6	4.8	11.0	9.7	22.3	19.4
Royalties	6.9	18.3	18.8	35.6	43.3	58.5
Storage (injection) withdrawal, net	(16.7)	(21.6)	14.2	11.4	1.7	(8.6)
Purchased-gas account adjustment	(8.9)	(32.5)	27.3	(38.1)	19.6	(37.1)
Other	1.3	1.3	2.5	2.4	4.9	4.7
Total Questar Gas cost of natural gas sold	84.0	87.2	317.6	341.8	580.6	618.3
Elimination of Questar Gas cost of natural gas sold - affiliated companies	(93.2)	(112.5)	(197.2)	(220.7)	(399.9)	(407.7)
Total Questar Gas cost of natural gas sold - unaffiliated parties	(9.2)	(25.3)	120.4	121.1	180.7	210.6
Questar Pipeline						
Total Questar Pipeline cost of sales	(0.2)	0.7	1.7	2.4	3.3	6.3
Other cost of sales	0.4	0.3	0.7	0.4	1.2	0.5
Total cost of sales	$(9.0)	$(24.3)	$122.8	$123.9	$185.2	$217.4

Note 3 - Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period, which includes vested undistributed restricted stock units (RSUs) and vested undistributed deferred RSUs. Diluted EPS includes the potential increase in the number of outstanding shares that could result from the exercise of in-the-money stock options, the vesting of RSUs with forfeitable dividend equivalents and the distribution of performance shares that are part of the Company's Long-Term Stock Incentive Plan (LTSIP), less shares repurchased under the treasury stock method. Restricted shares and RSUs with nonforfeitable dividends or dividend equivalents are participating securities for the computation of basic EPS under the two-class method. The application of the two-class method has an insignificant impact on the calculation of Questar's basic and diluted EPS. A reconciliation of the components of basic and diluted shares used in the EPS calculation follows:

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Weighted-average basic common shares outstanding	176.4	175.8	176.3	175.7	176.1	175.7
	0.2	0.3	0.2	0.4	0.3	0.4

Potential number of shares issuable under the Company's LTSIP						
Weighted-average diluted common shares outstanding	176.6	176.1	176.5	176.1	176.4	176.1

Note 4 - Accumulated Other Comprehensive Income

Comprehensive income, as reported in Questar's Condensed Consolidated Statements of Comprehensive Income, is the sum of net income as reported in the Questar Consolidated Statements of Income and net other comprehensive income (loss) (OCI). OCI includes recognition of the under-funded position of pension and other postretirement benefit plans, interest rate and commodity-based cash flow hedges, changes in the fair value of long-term investment, and the related income taxes. Income or loss is recognized when the pension and other postretirement benefit (OPB) costs are accrued, as the Company records interest expense for hedged interest payments, as the Company reaches settlement of commodity-based hedges and when the long-term investment is sold.

Details of the changes in the components of consolidated accumulated other comprehensive income (loss) (AOCI), net of income taxes, as reported in Questar's Condensed Consolidated Balance Sheets, are shown in the tables below. The tables also disclose details of income taxes related to each component of OCI.

3 Months Ended June 30, 2015	Pension and OPB	Interest rate cash flow hedges	Commodity cash flow hedges	Long-term investment	Total
	(in millions)				
AOCI at beginning of period	$(175.2)	$(22.4)	$—	$0.1	$(197.5)
OCI before reclassifications	—	—	(0.3)	—	(0.3)
Reclassified from AOCI(1)	6.0	0.2	—	—	6.2
Income taxes					
OCI before reclassifications	—	—	0.1	—	0.1
Reclassified from AOCI(2)	(2.2)	(0.1)	—	—	(2.3)
Total income taxes	(2.2)	(0.1)	0.1	—	(2.2)
Net other comprehensive income (loss)	3.8	0.1	(0.2)	—	3.7
AOCI at end of period	$(171.4)	$(22.3)	$(0.2)	$0.1	$(193.8)

3 Months Ended June 30, 2014	Pension and OPB	Interest rate cash flow hedges	Long-term investment	Total
	(in millions)			
AOCI at beginning of period	$(116.4)	$(22.8)	$0.1	$(139.1)
Reclassified from AOCI(1)	4.5	0.1	—	4.6
Income taxes				
Reclassified from AOCI(2)	(1.8)	—	—	(1.8)
Total income taxes	(1.8)	—	—	(1.8)
Net other comprehensive income	2.7	0.1	—	2.8
AOCI at end of period	$(113.7)	$(22.7)	$0.1	$(136.3)

6 Months Ended June 30, 2015	Pension and OPB	Interest rate cash flow hedges	Commodity cash flow hedges	Long-term investment	Total
	(in millions)				
AOCI at beginning of period	$(178.9)	$(22.5)	$—	$0.1	$(201.3)
OCI before reclassifications	—	—	(0.3)	—	(0.3)
Reclassified from AOCI[1]	12.0	0.4	—	—	12.4
Income taxes					
OCI before reclassifications	—	—	0.1	—	0.1
Reclassified from AOCI[2]	(4.5)	(0.2)	—	—	(4.7)
Total income taxes	(4.5)	(0.2)	0.1	—	(4.6)
Net other comprehensive income (loss)	7.5	0.2	(0.2)	—	7.5
AOCI at end of period	$(171.4)	$(22.3)	$(0.2)	$0.1	$(193.8)

6 Months Ended June 30, 2014	Pension and OPB	Interest rate cash flow hedges	Long-term investment	Total
	(in millions)			
AOCI at beginning of period	$(119.0)	$(22.9)	$0.1	$(141.8)
Reclassified from AOCI[1]	8.8	0.3	—	9.1
Income taxes				
Reclassified from AOCI[2]	(3.5)	(0.1)	—	(3.6)
Total income taxes	(3.5)	(0.1)	—	(3.6)
Net other comprehensive income	5.3	0.2	—	5.5
AOCI at end of period	$(113.7)	$(22.7)	$0.1	$(136.3)

[1] Interest rate cash flow hedge amounts are included in their entirety as charges to interest expense on the Consolidated Statements of Income.
[2] Income tax reclassifications related to interest rate cash flow hedge amounts are included in their entirety as credits to income taxes on the Consolidated Statements of Income.

Pension and other postretirement benefit AOCI reclassifications are included in the computation of net periodic pension and postretirement benefit costs. See Note 9 for additional details.

Comprehensive income, as reported in Questar Pipeline's Condensed Consolidated Statements of Comprehensive Income, is the sum of net income as reported in the Questar Pipeline Consolidated Statements of Income and net OCI. OCI includes interest rate and commodity-based cash flow hedges and the related income taxes. Income or loss is recognized as the company records interest expense for hedged interest payments and as the company reaches settlement of commodity-based hedges. Disclosures above regarding interest rate and commodity-based cash flow hedges, including related income taxes and income statement reclassification effects, apply to Questar Pipeline.

Note 5 - Asset Retirement Obligations

Questar records an asset retirement obligation (ARO) along with an increase to the carrying value of the related property, plant and equipment when there is a legal obligation associated with the retirement of a tangible long-lived asset. Questar's AROs apply primarily to abandonment costs associated with gas and oil wells, production facilities and certain other properties. The Company has not recorded AROs on a majority of its long-lived transportation and distribution assets because the Company does not have a legal obligation to restore the area surrounding abandoned assets. The fair value of retirement costs is estimated by Company personnel based on abandonment costs of similar properties available to field operations and depreciated over the life of the related assets. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. Income or expense resulting from the settlement of ARO liabilities is included in net gain (loss) from asset sales on the Consolidated Statements of Income. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate. Changes in Questar's AROs from the Condensed Consolidated Balance Sheets were as follows:

	6 Months Ended June 30,	
	2015	2014
	(in millions)	
AROs at beginning of year	$69.3	$67.7
Accretion	1.7	1.7
Liabilities incurred	0.5	0.5
Revisions in estimated cash flows	5.7	0.4
Liabilities settled	(6.6)	(0.9)
AROs at end of period	$70.6	$69.4

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

Note 6 - Fair Value Measurements

Questar complies with the accounting standards for fair value measurements and disclosures. The standards establish a fair value hierarchy. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Fair value accounting standards also apply to certain nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis.

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

	Hierarchy Level of Fair Value Estimates	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		June 30, 2015 (in millions)		June 30, 2014		Dec. 31, 2014	
Financial assets							
Cash and cash equivalents	1	$—	$—	$—	$—	$32.0	$32.0
Long-term investment	1	16.7	16.7	15.6	15.6	15.7	15.7
Financial liabilities							
Checks outstanding in excess of cash balances	1	2.5	2.5	0.9	0.9	—	—
Short-term debt	1	228.0	228.0	177.0	177.0	347.0	347.0
Long-term debt, including current portion	2	1,244.3	1,320.5	1,246.1	1,367.0	1,245.2	1,356.1

The long-term investment is recorded at fair value and consists of money market and short-term bond index mutual funds held in Wexpro's trust (see Note 5). The fair value of the long-term investment is based on quoted prices for the underlying funds. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using the Company's current credit risk-adjusted borrowing rates.

The Questar Condensed Consolidated Balance Sheet includes a nonrecurring fair value measurement at June 30, 2014 related to the impairment of Wexpro's investment in the Brady field. The asset's fair value of zero is based on Wexpro's assessment that the field has reached the end of its productive life and will no longer generate positive cash flows. This is a Level 3 fair value measurement because the inputs are unobservable. See Note 11 for additional information.

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

	Hierarchy Level of Fair Value Estimates	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		June 30, 2015		June 30, 2014		Dec. 31, 2014	
		(in millions)					
Financial assets							
Cash and cash equivalents	1	$—	$—	$—	$—	$19.8	$19.8
Notes receivable from Questar	1	—	—	3.0	3.0	—	—
Financial liabilities							
Checks outstanding in excess of cash balances	1	4.1	4.1	4.8	4.8	—	—
Notes payable to Questar	1	59.7	59.7	—	—	119.3	119.3
Long-term debt	2	534.5	581.5	534.5	602.0	534.5	607.2

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

Questar Pipeline
The following table discloses the carrying amount, estimated fair value and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to Questar Pipeline's financial statements in this Quarterly Report:

	Hierarchy Level of Fair Value Estimates	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		June 30, 2015		June 30, 2014		Dec. 31, 2014	
		(in millions)					
Financial assets							
Cash and cash equivalents	1	$1.0	$1.0	$6.3	$6.3	$7.4	$7.4
Notes receivable from Questar	1	34.0	34.0	53.8	53.8	40.1	40.1
Financial liabilities							
Long-term debt, including current portion	2	458.7	487.6	458.8	507.7	458.8	495.5

The carrying amounts of notes receivable from Questar approximate fair value because of their short maturities and market-based interest rates. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using Questar Pipeline's current credit risk-adjusted borrowing rates.

Note 7 - Derivatives and Hedging

Questar and its subsidiaries may enter into derivative instruments to manage exposure to changes in current and future market interest rates. Questar Pipeline entered into forward starting swaps totaling $150.0 million in the second and third quarters of 2011 in anticipation of issuing $180.0 million of notes in December 2011. Settlement of these swaps required payments of $37.3 million in the fourth quarter of 2011 because of declines in interest rates. These swaps qualified as cash flow hedges and the settlement payments are being amortized to interest expense over the 30-year life of the debt. See the Condensed Consolidated Statements of Comprehensive Income and Note 4 for details regarding reclassifications of AOCI related to deferred interest rate cash flow hedge losses to interest expense for the three and six months ended June 30, 2015 and June 30, 2014.

Reclassifications into earnings of amounts reported in AOCI will continue while interest expense is recorded for the hedged interest payments through maturity in 2041. Pre-tax net losses of $0.5 million are expected to be reclassified from AOCI to the Consolidated Statements of Income in the next 12 months. There was a $0.3 million derivative liability outstanding at June 30, 2015, and no derivative assets or liabilities outstanding June 30, 2014 or December 31, 2014.

Note 8 - Operations by Line of Business

Questar's three principal complementary lines of business include Questar Gas, which provides retail natural gas distribution in Utah, Wyoming and Idaho; Wexpro, which develops and produces natural gas from cost-of-service reserves for Questar Gas customers; and Questar Pipeline, which operates interstate natural gas pipelines and storage facilities and provides other energy services. Line-of-business information is presented according to senior management's basis for evaluating performance and considering differences in the nature of products, services and regulation, among other factors.

Following is a summary of operations by line of business:

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Revenues from Unaffiliated Customers						
Questar Gas	$141.7	$145.0	$516.5	$541.3	$936.1	$968.1
Wexpro	10.1	7.8	16.4	20.1	31.9	46.4
Questar Pipeline	46.5	48.1	93.3	96.1	187.4	190.3
Other	1.0	0.4	1.7	0.7	3.6	0.9
Total	$199.3	$201.3	$627.9	$658.2	$1,159.0	$1,205.7
Revenues from Affiliated Companies						
Questar Gas	$—	$—	$—	$—	$—	$0.2
Wexpro	75.6	94.9	160.4	184.0	326.7	331.7
Questar Pipeline	17.8	17.7	37.2	37.0	73.9	76.5
Total	$93.4	$112.6	$197.6	$221.0	$400.6	$408.4
Operating Income (Loss)						
Questar Gas	$1.4	$0.3	$78.0	$70.1	$117.4	$105.5
Wexpro	41.8	45.8	83.5	94.3	172.5	180.8
Questar Pipeline	29.3	30.4	56.7	60.5	113.8	37.7
Corporate and other	2.8	—	4.1	(0.1)	(0.8)	4.0
Total	$75.3	$76.5	$222.3	$224.8	$402.9	$328.0
Net Income (Loss)						
Questar Gas	$(2.8)	$(3.3)	$41.0	$36.3	$59.9	$53.3
Wexpro	27.9	30.1	55.6	61.9	116.5	117.8
Questar Pipeline	15.2	15.7	29.1	31.4	58.3	9.3
Corporate and other	0.3	(2.2)	(0.5)	(4.2)	(8.4)	(6.1)
Total	$40.6	$40.3	$125.2	$125.4	$226.3	$174.3

Note 9 - Employee Benefits

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

Questar is subject to and complies with minimum-required and maximum-allowed annual contribution levels for its qualified pension plan, as determined by the Employee Retirement Income Security Act and the Internal Revenue Code. The 2015 estimated net cost for the qualified pension plan is $19.0 million. The projected 2015 qualified pension plan funding is $69.0 million.

The Company also has a nonqualified pension plan that covers a group of management employees in addition to the noncontributory qualified pension plan. The nonqualified pension plan provides for defined benefit payments upon retirement of the management employee, or to the spouse upon death of the management employee, above the benefit limit defined by the Internal Revenue Service (IRS) for the qualified plan. The nonqualified pension plan is unfunded; benefits are paid from the Company's general funds. The 2015 estimated net cost for the nonqualified pension plan is $3.9 million.

Components of the qualified and nonqualified net periodic pension cost are listed in the table below:

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Service cost	$3.4	$3.0	$6.8	$6.0	$12.6	$12.8
Interest cost	8.1	8.3	16.2	16.7	32.9	31.8
Expected return on plan assets	(11.7)	(10.7)	(23.3)	(21.3)	(45.6)	(40.3)
Prior service cost	—	0.2	—	0.3	0.3	0.8
Recognized net actuarial loss	5.7	4.0	11.4	7.9	18.9	23.1
Net pension cost	$5.5	$4.8	$11.1	$9.6	$19.1	$28.2

The Company currently estimates a $2.1 million net cost for postretirement benefits other than pensions in 2015, before accretion of a regulatory liability. Net periodic postretirement benefit cost components are listed in the table below:

	3 Months Ended June 30,		6 Months Ended June 30,		12 Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
	(in millions)					
Service cost	$0.1	$0.1	$0.3	$0.3	$0.6	$0.6
Interest cost	0.9	1.0	1.8	2.0	3.6	3.8
Expected return on plan assets	(0.8)	(0.7)	(1.6)	(1.5)	(3.1)	(2.8)
Recognized net actuarial loss	0.3	0.3	0.6	0.6	0.7	2.2
Accretion of regulatory liability	0.2	0.2	0.4	0.4	0.8	0.6
Net postretirement benefit cost	$0.7	$0.9	$1.5	$1.8	$2.6	$4.4

Note 10 - Contingencies

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

A liability is recorded for a loss contingency when its occurrence is probable and its amount can be reasonably estimated. If some amount within a range of possible outcomes appears to be a better estimate than any other amount within the range, that amount is recorded. Otherwise, the minimum amount in the range is recorded. Disclosures are provided for contingencies reasonably likely to occur, which would have a material adverse effect on Questar's, Questar Gas's or Questar Pipeline's financial position, results of operations or cash flows. Some of the claims involve highly complex issues relating to liability, damages and other matters subject to substantial uncertainties and, therefore, the probability of liability or an estimate of loss cannot be reasonably determined.

Litigation

On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. The case, entitled Questar Gas Company v. QEP Field Services Company, was filed in the Third District Court in Salt Lake County, Utah. Questar Gas believes certain charges of QEP Field Services Company for gathering services exceed the amounts contemplated under a Gas Gathering Agreement, effective September 1, 1993, pertaining to certain gas produced by Wexpro Company under the Wexpro Agreement. Questar Gas is alleging breach of contract by QEP Field Services Company and is seeking an accounting, damages and a declaratory judgment relating to the services and charges under the Gas Gathering Agreement. The charges under the Gas Gathering Agreement are included in Questar Gas's rates as part of its purchased-gas costs. QEP Field Services Company filed an answer and counterclaim alleging that Questar Gas breached the Agreement by failing to allow QEP Field Services to gather and process gas from certain wells located in two fields in the state of Wyoming.

On August 13, 2013, QEP Field Services Company assigned its interest in the Gas Gathering Agreement to QEPM Gathering I, LLC, a subsidiary of the general partner of the master limited partnership QEP Midstream Partners. Plaintiffs have filed an amended complaint naming QEP Midstream Partners, LP; QEP Midstream Partners GP, LLC; QEP Midstream Partners Operating, LLC; and QEPM Gathering I, LLC (QEP MLP Entities). QEP Field Services and Tesoro Logistics LP (Tesoro) entered into a Membership Interest Purchase Agreement dated October 19, 2014, to transfer QEP Field Services' interest in the QEP MLP Entities and related assets and liabilities of QEP Field Services to Tesoro, including control of this legal action. Tesoro closed on the transaction for QEP's midstream business on December 2, 2014.

On December 2, 2014, the court issued a memorandum decision granting two motions for partial summary judgment for breach of contract filed by Questar Gas. The court found QEP Field Services Company breached the Gas Gathering Agreement by overcharging Questar Gas in its gathering rates. The court also denied two motions for partial summary judgment filed by QEP Field Services to reduce or limit contract damages. The court also denied cross-motions for partial summary judgment filed by both parties relating to another claim of breach of contract. The issues raised by the cross-motions, QEP Field Services' counterclaim and damages on all claims are currently reserved for trial. Trial has been scheduled for April 2016.

While Questar Gas intends to vigorously pursue its legal rights, the claims and counterclaims involve complex legal issues and uncertainties that make it difficult to predict the outcome of the case and therefore management cannot determine at this time whether this litigation may have a material adverse effect on its financial position, results of operations or cash flows.

In February 2015, a trial was held in the case of Rocky Mountain Resources and Robert N. Floyd v. QEP Energy Company and Wexpro Company, Ninth Judicial District, County of Sublette, State of Wyoming, Case No. 2011-7816. Plaintiffs allege they are entitled to a 4% overriding royalty interest (ORRI) in a so-called replacement state oil and gas lease ultimately assigned to Wexpro and QEP Energy Company (QEP) in the Pinedale Field. Wexpro and QEP believe the former state leases subject to the ORRI expired and a new lease was issued by the State of Wyoming unburdened by the 4% ORRI. A jury decision was reached on February 13, 2015, that awarded the Plaintiffs $14.1 million from Wexpro and $16.2 million from QEP. Wexpro and QEP plan to file an appeal of the case to the

Wyoming Supreme Court. Wexpro has accrued its estimate of liability in the case. Any additional royalties will be recovered from Questar Gas's customers.

Note 11 - Asset Impairments

During the second quarter of 2014, Wexpro recorded a pre-tax abandonment and impairment charge of $2.0 million for its share of the remaining investment in the Brady field. Wexpro concluded that the field had reached the end of its productive life because it was no longer economical to produce natural gas and oil. In the second quarter of 2015, Wexpro sold its share of the Brady field and recognized a gain of $1.4 million.

During the third quarter of 2013, Questar Pipeline updated its five-year forecast for the eastern segment of Southern Trails Pipeline, which resulted in revised projections of higher operating expenses, including right-of-way and pipeline safety costs. Current and projected market rates for natural gas transportation between the San Juan Basin and California markets did not cover these increasing operating expenses. Because of changes in expected cash flows in the third quarter of 2013 and the lack of progress in selling or recontracting this pipeline, Questar Pipeline recorded a noncash impairment of its entire investment in the eastern segment of Southern Trails Pipeline of $80.6 million, or $52.4 million after income taxes. Questar Pipeline used a probability-weighted discounted cash flow analysis that included significant inputs such as Questar Pipeline's cost of capital and assumptions regarding future transportation rates and operating costs.

Note 12 - Accounting Developments

In July 2015, the Financial Accounting Standards Board (FASB), issued Accounting Standards Update (ASU) 2015-11, Inventory (Topic 330). The ASU states that inventory should be measured at the lower of cost and net realizable value. The guidance will be effective beginning January 1, 2017 and will be applied prospectively. The Company is currently evaluating the ASU's effect on its financial position, results of operations and cash flows.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (Topic 820). The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and it removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The guidance will be effective beginning January 1, 2016 and early adoption is permitted. The new guidance must be applied retrospectively to all periods presented. The Company is currently evaluating the ASU's effect on its disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30). The ASU simplifies the presentation of debt issuance costs by requiring that the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The guidance will be effective beginning January 1, 2016 and early adoption is permitted. The new guidance must be applied retrospectively for each prior period presented. The Company is currently evaluating the ASU's effect on its financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU replaces most of the existing revenue guidance with a single set of principles, including changes in recognition and disclosure requirements. The revised effective date will be January 1, 2018 and early adoption is permitted beginning January 1, 2017. The new guidance must be applied retrospectively for each prior period presented or via a cumulative effect upon the date of initial application. The Company is currently evaluating the ASU's effect on its financial position, results of operations or cash flows, as well as which transition approach it will take.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following information updates the discussion of Questar's financial condition provided in its 2014 Form 10-K and analyzes the changes in the results of operations between the three, six and 12 months ended June 30, 2015 and 2014. For definitions of commonly used terms found in this Quarterly Report, please refer to the "Glossary of Commonly Used Terms" provided in Questar's 2014 Form 10-K.

RESULTS OF OPERATIONS

Following are comparisons of net income by line of business:

	3 Months Ended June 30,			6 Months Ended June 30,			12 Months Ended June 30,		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
	(in millions, except per-share amounts)								
Questar Gas	$(2.8)	$(3.3)	$0.5	$41.0	$36.3	$4.7	$59.9	$53.3	$6.6
Wexpro	27.9	30.1	(2.2)	55.6	61.9	(6.3)	116.5	117.8	(1.3)
Questar Pipeline[(1)]	15.2	15.7	(0.5)	29.1	31.4	(2.3)	58.3	9.3	49.0
Corporate and other	0.3	(2.2)	2.5	(0.5)	(4.2)	3.7	(8.4)	(6.1)	(2.3)
Net income	$40.6	$40.3	$0.3	$125.2	$125.4	$(0.2)	$226.3	$174.3	$52.0
Add: after-tax asset impairment charge[(1)]	—	—	—	—	—	—	—	52.4	(52.4)
Adjusted earnings	$40.6	$40.3	$0.3	$125.2	$125.4	$(0.2)	$226.3	$226.7	$(0.4)
Earnings per share - diluted	$0.23	$0.23	$—	$0.71	$0.71	$—	$1.28	$0.99	$0.29
Add: diluted loss per share attributable to impairment[(1)]	—	—	—	—	—	—	—	0.29	(0.29)
Adjusted earnings per share - diluted	$0.23	$0.23	$—	$0.71	$0.71	$—	$1.28	$1.28	$—
Weighted-average diluted shares	176.6	176.1	0.5	176.5	176.1	0.4	176.4	176.1	0.3

[(1)] Third quarter 2013 impairment of the eastern segment of Questar Pipeline's Southern Trails Pipeline.

Management believes that the above non-GAAP financial measures, indicated by the word "Adjusted" in their captions, provide an indication of the Company's ongoing results of operations because of the impairment charge's infrequent and nonrecurring nature (see Note 11).

QUESTAR GAS

Questar Gas reported a net loss of $2.8 million in the second quarter of 2015 compared to a net loss of $3.3 million in the second quarter of 2014. Questar Gas net income was $41.0 million in the first half of 2015 compared to $36.3 million in the first half of 2014. Net income was $59.9 million in the 12 months ended June 30, 2015, compared to $53.3 million in the year-earlier period. Questar Gas, because of the seasonal nature of its business, typically reports income in the first and fourth quarters of the year and losses in the second and third quarters of the year.

Following is a summary of Questar Gas financial and operating results:

	3 Months Ended June 30,			6 Months Ended June 30,			12 Months Ended June 30,		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
	(in millions)								
Net Income (Loss)									
Revenues									
Residential and commercial sales	$124.9	$124.4	$0.5	$481.1	$500.8	$(19.7)	$856.0	$889.0	$(33.0)
Industrial sales	6.3	7.0	(0.7)	12.4	13.7	(1.3)	28.6	28.5	0.1
Transportation for industrial customers	4.7	4.3	0.4	10.0	8.6	1.4	19.3	16.4	2.9
Service	1.3	1.3	—	2.7	2.8	(0.1)	4.7	4.8	(0.1)
Other	4.5	8.0	(3.5)	10.3	15.4	(5.1)	27.5	29.6	(2.1)
Total Revenues	141.7	145.0	(3.3)	516.5	541.3	(24.8)	936.1	968.3	(32.2)
Cost of natural gas sold	84.0	87.2	(3.2)	317.6	341.8	(24.2)	580.6	618.3	(37.7)
Margin	57.7	57.8	(0.1)	198.9	199.5	(0.6)	355.5	350.0	5.5
Other Operating Expenses									
Operating and maintenance	24.8	26.3	(1.5)	57.9	66.1	(8.2)	114.3	122.0	(7.7)
General and administrative	12.8	12.9	(0.1)	26.2	26.7	(0.5)	52.3	52.8	(0.5)
Depreciation and amortization	13.6	13.6	—	27.1	26.8	0.3	53.9	52.0	1.9
Other taxes	5.1	4.8	0.3	9.7	9.9	(0.2)	17.6	17.8	(0.2)
Total Other Operating Expenses	56.3	57.6	(1.3)	120.9	129.5	(8.6)	238.1	244.6	(6.5)
Net gain from asset sales	—	0.1	(0.1)	—	0.1	(0.1)	—	0.1	(0.1)
OPERATING INCOME	1.4	0.3	1.1	78.0	70.1	7.9	117.4	105.5	11.9
Interest and other income	1.2	1.3	(0.1)	2.3	2.6	(0.3)	5.6	5.2	0.4
Interest expense	(7.1)	(7.0)	(0.1)	(14.2)	(14.1)	(0.1)	(28.3)	(25.0)	(3.3)
Income taxes	1.7	2.1	(0.4)	(25.1)	(22.3)	(2.8)	(34.8)	(32.4)	(2.4)
NET INCOME (LOSS)	$(2.8)	$(3.3)	$0.5	$41.0	$36.3	$4.7	$59.9	$53.3	$6.6
Operating Statistics									
Natural gas volumes (MMdth)									
Residential and commercial sales	13.9	14.5	(0.6)	51.0	58.4	(7.4)	90.6	105.1	(14.5)
Industrial sales	0.9	1.0	(0.1)	1.8	2.1	(0.3)	4.0	4.4	(0.4)
Transportation for industrial customers	18.8	18.1	0.7	36.4	38.6	(2.2)	79.1	73.5	5.6
Total industrial	19.7	19.1	0.6	38.2	40.7	(2.5)	83.1	77.9	5.2
Total deliveries	33.6	33.6	—	89.2	99.1	(9.9)	173.7	183.0	(9.3)
Natural gas revenue (per dth)									
Residential and commercial sales	$9.03	$8.61	$0.42	$9.44	$8.58	$0.86	$9.45	$8.46	$0.99
Industrial sales	6.55	6.35	0.20	6.87	6.48	0.39	7.38	6.64	0.74
Transportation for industrial customers	0.25	0.24	0.01	0.27	0.22	0.05	0.24	0.22	0.02
(Warmer) than normal temperatures	(19%)	(16%)	(3%)	(23%)	(16%)	(7%)	(21%)	(9%)	(12%)
Temperature-adjusted usage per customer (dth)	14.8	17.2	(2.4)	60.0	67.2	(7.2)	101.7	111.3	(9.6)
	979	954	25						

Customers at June 30, (in thousands)

Margin Analysis

Questar Gas margin (revenues minus gas costs) decreased $0.1 million in the second quarter of 2015 compared to the second quarter of 2014, decreased $0.6 million in the first half of 2015 compared to the first half of 2014 and increased $5.5 million in the 12 months ended June 30, 2015, compared to the 12 months ended June 30, 2014. Following is a summary of major changes in Questar Gas margin:

	3 Months 2015 vs. 2014	6 Months 2015 vs. 2014	12 Months 2015 vs. 2014
	(in millions)		
Customer growth	$0.6	$3.6	$6.0
Transportation	0.3	1.5	3.6
Change in general-service rates	0.4	11.3	21.2
Infrastructure-replacement cost recovery	0.5	(5.6)	(13.6)
Energy-efficiency program cost recovery	(2.2)	(10.9)	(12.5)
Recovery of gas-cost portion of bad-debt costs	—	—	0.8
Other	0.3	(0.5)	—
Increase (decrease)	$(0.1)	$(0.6)	$5.5

At June 30, 2015, Questar Gas served 978,674 customers, up 2.6% from 953,810 at June 30, 2014. The increase includes the purchase of Eagle Mountain City's natural gas system for $11.4 million on March 5, 2015. The acquisition added over 6,500 natural gas customers. The customer growth rate without the acquisition was 1.9%. Customer growth increased the margin by $0.6 million in the second quarter of 2015, $3.6 million in the first half of 2015 and $6.0 million in the 12 months ended June 30, 2015.

Transportation service revenues increased the margin during the three-, six- and 12-month periods ended June 30, 2015. The second quarter and first half increases were due to new transportation rates and higher customer growth. The 12 month increase was due to higher deliveries for electric generation and new transportation rates.

Effective March 1, 2014, Questar Gas increased its rates in Utah by $7.6 million annually as a result of a general rate case filed in Utah in July 2013. The order in this rate case authorized an allowed return on equity of 9.85%. Questar Gas has an infrastructure cost-tracking mechanism that allows the company to place into rate base and earn on capital expenditures associated with a multi-year natural gas infrastructure-replacement program upon the completion of each project. The Utah general rate case reset the recovery of costs under the infrastructure-replacement program into general rates until Questar Gas invested $84 million in new pipelines. This dollar threshold was met in November 2014. Thereafter, Questar Gas was able to recover program capital expenditures through the infrastructure-replacement mechanism. Questar Gas margin from the infrastructure-replacement program was $0.5 million higher in the second quarter of 2015 than the second quarter of 2014, $5.6 million lower in the first half of 2015 and $13.6 million lower in the 12 months ended June 30, 2015 compared to the 12 months ended June 30, 2014.

In December 2014, Questar Gas held hearings on a general rate case in Wyoming. The Wyoming Public Service Commission (PSCW) ordered an increase in annualized revenues of $1.5 million and an authorized return on equity of 9.5%. The change in rates was effective March 1, 2015.

As described above in the Utah and Wyoming rate cases, the change in general-service rates, excluding the infrastructure-replacement program, increased the margin by $0.4 million in the second quarter of 2015, $11.3 million in the first half of 2015 and $21.2 million in the 12 months ended June 30, 2015 when compared to the same prior year periods.

Lower recovery of energy-efficiency program costs decreased Questar Gas margin during the three-, six- and 12-month periods ended June 30, 2015. Energy-efficiency program costs are incurred to promote energy conservation by customers. Changes in the margin contribution from energy-efficiency program revenues are offset by equivalent changes in program expenses.

Questar Gas benefits from a conservation enabling (revenue decoupling) tariff. Under this tariff, Questar Gas is allowed to earn a specified revenue for each general-service customer per month. Differences between the allowed revenue and the amount billed to customers are recovered from customers or refunded to customers through future rate changes. Because of this tariff, changes in usage per customer do not impact the company's margin. In addition, a weather-normalization adjustment of customer bills offsets the revenue impact of temperature variations.

Cost of Natural Gas Sold

Cost of natural gas sold decreased 4% in the second quarter of 2015, 7% in the first half of 2015 and 6% in the 12 months ended June 30, 2015, compared to the same periods of 2014. The decreases in the three, six and 12 months ended June 30, 2015 were primarily due to lower volumes resulting from warmer weather. Questar Gas accounts for purchased-gas costs in accordance with procedures authorized by the Public Service Commission of Utah (PSCU) and the PSCW. Purchased-gas costs that are different from those provided for in present rates are accumulated and recovered or credited through future rate changes. As of June 30, 2015, Questar Gas had a $12.0 million under-collected balance in the purchased-gas adjustment account representing costs incurred in excess of amounts recovered from customers.

Other Expenses

Operating and maintenance expenses decreased 6% in the second quarter of 2015, 12% in the first half of 2015 and 6% in the 12 months ended June 30, 2015, compared to the same periods of 2014. These decreases included lower energy-efficiency program costs of $2.2 million, $10.9 million and $12.5 million for the three-, six- and 12-month periods, respectively. The energy-efficiency program costs are for the company's energy-efficiency program and are recovered from customers through periodic rate changes. Excluding energy-efficiency program charges, operating and maintenance expenses increased 3% in the second quarter of 2015 compared to the second quarter of 2014, 6% in the first half of 2015 and 6% in the 12 months ended June 30, 2015, compared to the prior year periods. The second quarter and first half increases were primarily due to higher employee-related costs. The 12 month increase was due to higher system integrity management costs, higher bad debt expense and higher employee-related costs.

General and administrative expenses decreased 2% in the first half of 2015 and was essentially flat in the three- and 12-months ended June 30, 2015, compared to the prior year periods. The decrease was due to lower insurance costs. Operating, maintenance, general and administrative expenses per customer, exclusive of energy-efficiency program costs, were $143 in the 12 months ended June 30, 2015, compared to $142 in the 12 months ended June 30, 2014.

Other taxes were 6% higher in the second quarter, 2% lower in the first half of 2015 and essentially flat in the 12 months ended June 30, 2015, compared to year-earlier periods. The second quarter increase was primarily due to changes in estimated property tax assessments.

Depreciation and amortization expense was essentially unchanged in the second quarter and first half of 2015 and increased 4% in the 12 months ended June 30, 2015, compared to the 2014 periods. The higher expense was caused by plant additions driven by customer growth and infrastructure replacements.

WEXPRO

Wexpro reported net income of $27.9 million in the second quarter of 2015 compared to $30.1 million in the second quarter of 2014, a 7% decrease. Wexpro earned $55.6 million in the first half of 2015 compared to $61.9 million in the first half of 2014. Wexpro earned $116.5 million for the 12 months ended June 30, 2015, compared to $117.8 million for the year-earlier period.

Following is a summary of Wexpro financial and operating results:

	3 Months Ended June 30,			6 Months Ended June 30,			12 Months Ended June 30,		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
	(in millions)								
Net Income									
Revenues									
Operator service fee	$74.6	$93.8	$(19.2)	$159.1	$183.4	$(24.3)	$326.2	$331.7	$(5.5)
Oil and NGL sales	3.7	8.4	(4.7)	6.4	18.2	(11.8)	18.2	39.0	(20.8)
Natural gas sales	3.1	0.4	2.7	7.0	2.4	4.6	8.3	7.4	0.9
Other	4.3	0.1	4.2	4.3	0.1	4.2	5.9	—	5.9
Total Revenues	85.7	102.7	(17.0)	176.8	204.1	(27.3)	358.6	378.1	(19.5)
Operating Expenses									
Operating and maintenance	5.8	6.9	(1.1)	14.1	14.2	(0.1)	29.4	27.8	1.6
Gathering and other handling	0.4	—	0.4	0.8	0.4	0.4	0.8	1.2	(0.4)
General and administrative	8.9	8.3	0.6	18.0	16.1	1.9	34.5	30.2	4.3
Production and other taxes	5.3	11.2	(5.9)	11.5	21.3	(9.8)	27.8	35.5	(7.7)
Depreciation, depletion and amortization	24.5	28.5	(4.0)	49.7	55.8	(6.1)	94.4	100.1	(5.7)
Exploration	0.3	—	0.3	0.5	—	0.5	2.1	—	2.1
Abandonment and impairment	0.1	2.0	(1.9)	0.1	2.0	(1.9)	0.1	2.0	(1.9)
Oil and NGL income sharing	—	—	—	—	—	—	—	0.2	(0.2)
Total Operating Expenses	45.3	56.9	(11.6)	94.7	109.8	(15.1)	189.1	197.0	(7.9)
Net gain (loss) from asset sales	1.4	—	1.4	1.4	—	1.4	3.0	(0.3)	3.3
OPERATING INCOME	41.8	45.8	(4.0)	83.5	94.3	(10.8)	172.5	180.8	(8.3)
Interest and other income	0.4	0.1	0.3	0.8	0.4	0.4	1.5	2.6	(1.1)
Interest expense	(0.1)	—	(0.1)	(0.1)	—	(0.1)	(0.2)	(0.1)	(0.1)
Income taxes	(14.2)	(15.8)	1.6	(28.6)	(32.8)	4.2	(57.3)	(65.5)	8.2
NET INCOME	$27.9	$30.1	$(2.2)	$55.6	$61.9	$(6.3)	$116.5	$117.8	$(1.3)
Operating Statistics									
Production volumes									
Natural gas - cost-of-service deliveries (Bcf)	14.3	17.7	(3.4)	29.3	36.2	(6.9)	56.6	65.2	(8.6)
Natural gas - sales (Bcf)	1.2	0.1	1.1	2.4	0.5	1.9	2.7	1.9	0.8
Oil and NGL (Mbbl)	106	143	(37)	233	309	(76)	511	615	(104)
Natural gas average sales price (per Mcf)	$2.62	$3.82	$(1.20)	$2.86	$4.49	$(1.63)	$3.05	$3.96	$(0.91)
Oil and NGL average sales price (per bbl)	$46.52	$89.42	$(42.90)	$41.03	$86.77	$(45.74)	$57.15	$87.17	$(30.02)
Investment base at June 30, (in millions)	$629.5	$674.5	$(45.0)						

Revenues

Wexpro earned a 17.6% after-tax return on its average investment base for the 12 months ended June 30, 2015, compared to a return of 18.8% for the 12 months ended June 30, 2014. The decline in return was due to the addition of the Wexpro II investment, which earns a lower return on the acquisition cost. Pursuant to the Wexpro agreements, Wexpro recovers its costs and receives an after-tax return on its investment base. Wexpro currently earns a return of 19.76% on gas development drilling and a return of 7.65% on acquisition costs of Wexpro II properties. Wexpro's investment base includes its costs of acquired properties and commercial wells and related facilities, adjusted for working capital, deferred income taxes and accumulated depreciation, depletion and amortization. Property acquisition costs only pertain to properties that have been approved under the Wexpro II Agreement by the PSCU and PSCW (the Commissions). The investment base decreased by 7% in the 12 months ended June 30, 2015. The decrease was due to depreciation, depletion and amortization recorded during the period, offset by deferred income taxes and investment in commercial wells. Until natural gas prices increase, Wexpro's ability to grow its investment base will be limited and its is likely that the investment base will continue to decrease due to depreciation, depletion and amortization amounts exceeding continued investment.

Market prices for natural gas have declined significantly resulting in Wexpro's cost-of-service price exceeding the market price. Consequently, Wexpro has scaled back its gas development drilling program in 2015 and limited its investment to the completion of wells drilled in 2014. Wexpro generally designs its annual drilling program to provide cost-of-service production that is, on average, at or below the current 5-year Rockies-adjusted NYMEX forward price curve. Based on current natural gas market prices it would be difficult for new drilling under existing Wexpro and Wexpro II agreements to meet this standard.

For future drilling investment, Wexpro is exploring options that could allow Wexpro to invest in developmental drilling within the next few years. These options may include lowering the return earned on future development drilling under both the Wexpro and Wexpro II agreements. These options would not alter the return currently earned on Wexpro's existing investment base.

Following is a summary of changes in the Wexpro investment base:

	12 Months Ended June 30,	
	2015	2014
	(in millions)	
Beginning investment base	$674.5	$546.9
Property acquisitions	—	103.7
Successful development wells and related equipment	36.1	132.0
Depreciation, depletion and amortization	(88.2)	(93.6)
Change in deferred income taxes	7.1	(14.5)
Ending investment base	$629.5	$674.5

Wexpro produced 14.3 Bcf of cost-of-service natural gas for Questar Gas during the second quarter of 2015, down 19% from the second quarter of 2014. Wexpro produced 29.3 Bcf of cost-of-service in the first half of 2015 compared to 36.2 in the first half of 2014. Wexpro produced 56.6 Bcf of cost-of-service gas in the 12 months ended June 30, 2015, compared to 65.2 Bcf in the 12 months ended June 30, 2014. The decline in production is a result of fewer wells completed in 2015. Wexpro natural gas production currently provides the majority of Questar Gas's annual supply requirements.

Wexpro agreed to manage the combined production from the original Wexpro properties and the Trail acquisition to 65% of Questar Gas's annual forecasted demand. Beginning in June 2015 through May 2016 and for each subsequent 12-month period, if the combined annual production exceeds 65% of the forecasted demand and the cost-of-service price is greater than the Questar Gas purchased-gas price, an amount equal to the excess production times the excess price will be credited back to Questar Gas customers. Wexpro may also sell production to manage the 65% level and credit back to Questar Gas customers the higher of market price or the cost-of-service price times the sales volumes.

Revenues from oil and natural gas liquids (NGL) sales decreased 56% in the second quarter of 2015, 65% in the first half of 2015 and 53% in the 12 months ended June 30, 2015, compared to the year-earlier periods. Volumes decreased because Wexpro sold certain oil properties in 2014. Market prices for oil and NGL were also significantly lower in the 2015 periods.

Revenues from natural gas sales increased in the 2015 periods due to the Canyon Creek acquisition as described below. Wexpro sells production from this property at market prices.

Other revenues consist primarily of gains on the sale of property that were credited back to Questar Gas customers through reductions of the operator service fee. The sales of the Brady field and Spearhead Ranch and Powell Pressure Maintenance oil fields are described below.

Expenses

Operating and maintenance expenses were down 16% in the second quarter of 2015, essentially flat for the first half of 2015 and increased 6% for the 12 month period ended June 30, 2015, compared to prior year periods. The decrease in the second quarter was largely due to lower workover costs. The increase for the 12 months ended was primarily due to higher workover and labor costs. Declining natural gas production resulted in lease operating expense per Mcfe of $0.42 in the first half of 2015 compared to $0.37 in the first half of 2014.

General and administrative expenses were higher in the three-, six- and 12-month periods ended June 30, 2015, compared to prior year periods. The increases were due to higher employee and corporate allocated costs.

Production and other taxes were lower in the three-, six- and 12-month periods ended June 30, 2015, compared to prior year periods. The variability in production and other taxes is due to changes in the production volumes and the prices of natural gas, oil and NGL.

Depreciation, depletion and amortization expense decreased 14% in the second quarter of 2015, 11% in the first half of 2015 and 6% in the 12 months ended June 30, 2015, compared to the 2014 periods. The decreases were due to lower production volumes and lower investment in natural gas properties, wells and facilities.

Sale of Assets

During the second quarter of 2014, Wexpro recorded a pre-tax abandonment and impairment charge of $2.0 million for its share of the remaining investment in the Brady field. Wexpro concluded that the field had reached the end of its productive life because it was no longer economical to produce natural gas and oil. In the second quarter of 2015, Wexpro sold its share of the Brady field, recognized a gain of $1.4 million and credited $3.8 million back to Questar Gas customers through a reduction in the operator service fee.

In the third quarter of 2014, Wexpro sold its investment in the Spearhead Ranch and Powell Pressure Maintenance oil fields in central Wyoming. Wexpro recorded a gain of $1.5 million on this sale and credited $1.8 million back to Questar Gas customers through a reduction in the operator service fee.

Acquisition of Producing Properties and Inclusion in Wexpro II

In December 2014, Wexpro acquired an additional interest in its existing Wexpro-operated assets in the Canyon Creek Unit of southwestern Wyoming's Vermillion Basin for approximately $52.4 million. Essentially, this is a "bolt-on" acquisition to the company's current Canyon Creek assets, which are governed by the 1981 Wexpro Agreement. Under the terms of the Wexpro II Agreement, this property must be submitted to the Commissions to be considered for cost-of-service treatment for the benefit of Questar Gas customers.

In September 2013, Wexpro acquired an additional interest in natural gas-producing properties in the Trail Unit of southwestern Wyoming's Vermillion Basin. In the first quarter of 2014, the Commissions approved a stipulation for inclusion of these properties in the Wexpro II Agreement, effective February 1, 2014.

QUESTAR PIPELINE

Questar Pipeline reported second quarter 2015 net income of $15.2 million, compared with net income of $15.7 million in the second quarter of 2014. Questar Pipeline earned $29.1 million in the first half of 2015, down from $31.4 million in the first half of 2014. Questar Pipeline earned $58.3 million and $9.3 million in the 12 months ended June 30, 2015 and 2014, respectively. The significantly lower earnings for the 12 months ended June 30, 2014 were due primarily to a $52.4 million after-tax write-down of the eastern segment of Southern Trails Pipeline in the third quarter of 2013.

Following is a summary of Questar Pipeline financial and operating results:

	3 Months Ended June 30,			6 Months Ended June 30,			12 Months Ended June 30,	
	2015	2014	Change	2015	2014	Change	2015	2014