QUESTAR CORP
Form 10-Q
May 05, 2005

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 **MARCH 31, 2005**

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 Number 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** *(IRS Employer Identification Number)*
180 East 100 South **P.O. Box 45433** **Salt Lake City, Utah** *(Address of principal executive offices)*	**84145-0433** *(Zip code)*

(801) 324-5000
(Registrant s telephone number, including area code)

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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

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, 2005

Common Stock, without par value with attached Common Stock Purchase Rights	84,826,700 Shares

Questar Corporation

Form 10-Q for the Quarterly Period Ended March 31, 2005

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GLOSSARY OF COMMONLY USED TERMS

bbl

Barrel, which is equal to 42 U.S. gallons and is a common unit of measurement of crude oil.

basis

The difference between a reference or benchmark-commodity price and the corresponding sales price at various regional sales points.

bcf

One billion cubic feet, a common unit of measurement of natural gas.

bcfe

One billion cubic feet of natural gas equivalents. Oil volume is converted to natural gas equivalent using the ratio of one barrel of crude oil to 6,000 cubic feet of natural gas.

Btu

One British thermal unit a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.

cash-flow hedge

A derivative instrument that complies with Statement of Financial Accounting Standards (SFAS) 133, as amended, and is used to reduce the exposure to variability in cash flows from the forecasted physical sale of gas and oil production whereby the gains (losses) on the derivative transaction are anticipated to offset the losses (gains) on the forecasted physical sale.

cf

Cubic foot is a common unit of gas measurement. One standard cubic foot equals the volume of gas in one cubic foot measured at standard conditions a temperature of 60 degrees Fahrenheit and a pressure of 30 inches of mercury (approximately 14.73 pounds per square inch).

development well

A well drilled into a known producing formation in a previously discovered field.

dew point

A specific temperature and pressure at which hydrocarbons condense to form a liquid.

dry hole

A well drilled and found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of production exceed expenses and taxes.

dth

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

exploratory well

A well drilled into a previously untested geologic prospect to determine the presence of gas or oil.

finding costs

Finding costs are the sum of costs incurred for gas and oil exploration and development activities; including leasehold acquisitions, seismic, geological and geophysical, development and exploration drilling and asset-retirement obligations for a given period, divided by the total amount of estimated net-proved reserves added through discoveries, positive and negative revisions of previous estimates and purchases in-place for the same period. The Company expresses finding costs in dollars per Mcfe averaged over a five-year period.

futures contract

An exchange-traded legal contract to buy or sell a standard quantity and quality of a commodity at a specified future date and price.

gas

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

gross

Gross natural gas and oil wells or gross acres equal the total number of wells or acres in which the Company has a working interest.

heating-degree days

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

hedging

The use of derivative-commodity and interest-rate instruments to reduce financial exposure to commodity-price and interest-rate volatility.

Mbbl

One thousand barrels.

Mcf

One thousand cubic feet.

Mcfe

One thousand cubic feet of natural gas equivalents. Oil volume is converted to natural gas equivalent using the ratio of one barrel of crude oil to 6,000 cubic feet of natural gas.

Mdth

One thousand decatherms.

Mdthe

One thousand decatherm equivalents. Oil volume is converted to natural gas equivalent using the ratio of one barrel of crude oil to 6,000 cubic feet of natural gas.

MMbbl

One million barrels.

MMBtu

One million British thermal units.

MMcf

One million cubic feet.

MMcfe

One million cubic feet of natural gas equivalents.

MMdth

One million decatherms.

MMgal

One million U. S. gallons.

natural gas liquids

Liquid hydrocarbons that are extracted and separated from the natural gas

(NGL)

stream. NGL products include ethane, propane, butane, natural gasoline and heavier hydrocarbons.

net

Net gas and oil wells or net acres are determined by the sum of the fractional ownership working interest the Company has in those gross wells or acres.

production-

The production-replacement ratio is calculated by dividing the net-proved

replacement ratio

reserves added through discoveries, positive and negative revisions of previous estimates and purchases and sales in-place for a given period by the production for the same period, expressed as a percentage. The production-replacement ratio is typically reported on an annual basis.

proved reserves

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

proved-developed

Reserves that include proved developed-producing reserves

reserves

and proved-developed behind-pipe reserves. See 17 C.F.R. Section 4-10(a)(3).

proved-developed-

Reserves expected to be recovered from existing completion intervals in

producing reserves

existing wells.

proved-undeveloped

Reserves expected to be recovered from new wells on proved-undrilled acreage

reserves

or from existing wells where a relatively major expenditure is required for recompletion. See 17 C.F.R. Section 4-10(a)(4).

reservoir

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

wet gas

Unprocessed natural gas that contains a mixture of heavier hydrocarbons including ethane, propane, butane and natural gasoline.

working interest

An interest that gives the owner the right to drill, produce and conduct operating activities on a property and receive a share of any production.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27(a) of the Securities Act of 1933, as amended, and Section 21(e) of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding the Company s future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, could, expect, intend, estimate, anticipate, believe, forecast, or continue or the negative thereof or variations thereon or similar termin
Although these statements are made in good faith and are reasonable representations of Questar Corporation s (Questar or the Company) expected performance at the time, actual results may vary from management s stated expectations and projections due to a variety of factors.

Important assumptions and other significant factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements include, but are not limited to, the following:

<u>Questar subsidiaries find, produce and sell natural gas, oil and NGL</u>

Natural gas, oil and NGL prices are volatile and, therefore, Questar revenues, cash flow and earnings can be volatile. The Company cannot predict future natural gas, oil and NGL prices, which are subject to forces beyond its control such as:

- Domestic and foreign supply of and demand for natural gas and oil;
- Regional basis differential due to pipeline-capacity constraints;
- Domestic and global economic conditions;
- Weather;
- Domestic and foreign government regulations;
- The price and availability of alternative fuels; and
- The price and availability of drilling rigs and other materials and services.

Gas and oil prices are volatile

The Company uses financial contracts to hedge its exposure to volatile energy prices and to protect cash flow, returns on capital, net income and credit ratings from downward commodity-price movements. While hedging reduces the impact of declining prices, it may also limit future revenues from rising prices. Questar believes the Company s regulated businesses interstate natural gas transportation and retail gas distribution and its Wexpro subsidiary generate revenues that are not significantly sensitive to short-term fluctuations in energy prices.

Questar s profitability depends not only on prevailing prices for natural gas and oil, but also the Company s ability to find, develop and acquire gas and oil reserves that are economically recoverable. Substantial capital expenditures are required to find, develop and acquire gas and oil reserves to replace those depleted by production.

Estimating gas and oil reserves, production and future net cash flow is difficult

Questar Exploration and Production s proved natural gas and oil-reserve estimates are prepared annually by independent reservoir-engineering consultants. Gas and oil-reserve estimates are subject to numerous uncertainties inherent in estimating quantities of proved reserves, projecting future rates of production and timing of development expenditures. The accuracy of these estimates depends on the quality of available data and on engineering and geological interpretation and judgment. Reserve estimates are imprecise and will change as additional information becomes available. Estimates of economically recoverable reserves and future net cash flows prepared by different engineers, or by the same engineers at different times may vary significantly. Results of subsequent drilling, testing and production may cause either upward or downward revisions of previous estimates. In addition, the estimates of future net revenues from proved reserves and the present value of those reserves are based upon certain assumptions about production levels, prices and costs, which may change. The volumes considered to be commercially recoverable fluctuate with changes in prices and operating costs. The meaningfulness of such estimates depends on the accuracy of the assumptions upon which they were based. Actual results may differ materially from the estimated results.

Drilling is a high-risk activity

Operating risks include: blow-outs; fire; unexpected drilling conditions such as uncontrollable flows of gas, oil, formation water or drilling fluids; abandonment costs; explosions; pipe, cement or casing failures; oil spills; natural gas leaks; pipeline ruptures; and discharges of toxic gases. The Company could incur substantial losses as a result of injury or loss of life; environmental damage; destruction of property; fines; or curtailment of operations. The Company maintains insurance against some, but not all, of these potential risks and losses.

Questar must comply with numerous regulations from the federal, state and local level

Questar is subject to federal, state and local environmental, health and safety laws and regulations. Environmental laws and regulations are complex, change frequently and tend to become more onerous over time. In addition to the costs of compliance, the Company may incur substantial costs to take corrective actions at both owned and previously owned facilities. Accidental spills and leaks requiring cleanup may occur in the ordinary course of business. As standards change, the Company may incur significant costs in cases where past operations followed practices that were considered acceptable at the time but that now require remedial work to meet current standards. Failure to comply with these laws and regulations may result in fines, significant costs for remedial activities, or injunctions.

Questar must comply with numerous and complex regulations governing activities on federal and state lands in the Rocky Mountain region, notably the National Environmental Policy Act, the Endangered Species Act and the National Historic Preservation Act. Federal and state agencies frequently impose conditions on the Company s activities. These restrictions tend to become more stringent over time, and can limit or prevent the Company from exploring for, finding and producing natural gas and oil on its Rockies leaseholds. Certain environmental groups oppose drilling on some of the Company s federal and state leases.

Various federal agencies within the U.S. Department of the Interior, particularly the Minerals Management Service and the Bureau of Indian Affairs, along with each Native American tribe, promulgate and enforce regulations pertaining to gas and oil operations on Native American tribal lands. These regulations include such matters as lease provisions, drilling and production requirements, environmental standards and royalty considerations. In addition, each Native American tribe is a sovereign nation having the right to enforce laws and regulations independent from federal, state and local statutes and regulations, as long as they do not supersede or conflict with federal law. These tribal laws and regulations include various taxes, fees, requirements to employ Native American tribal members, and other conditions that apply to lessees, operators and contractors conducting operations on Native American tribal lands. Finally, lessees and operators conducting operations on tribal lands are generally subject to the Native American tribal court system. One or more of these factors may increase Questar s costs of doing business on Native American tribal lands and have an impact on the viability of its gas and oil operations on such lands.

Questar Pipeline s natural gas-transportation and storage operations are regulated by the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. The FERC has authority to: set rates for natural gas transportation, storage and related services; set rules governing business relationships between the pipeline subsidiary and its affiliates; approve new pipeline and storage-facility construction; and establish policies and procedures for accounting, purchase, sale, abandonment and other activities. FERC policies may adversely affect Questar Pipeline profitability.

Both Questar Pipeline and Questar Gas must incur significant costs to comply with federal pipeline-safety regulations. Questar may also be affected by possible future regulations requiring the tracking, reporting and reduction of greenhouse-gas emissions.

State agencies regulate the distribution of natural gas

Questar Gas s natural gas-distribution business is regulated by the Public Service Commission of Utah (PSCU) and the Public Service Commission of Wyoming (PSCW). These commissions set rates for distribution services and establish policies and procedures for services, accounting, purchase, sale and other activities. PSCU and PSCW policies may adversely affect Questar Gas profitability.

Other factors may affect Questar s results

Other factors may affect Questar s results such as changes in general economic conditions; changes in regulation; availability and economic viability of gas and oil properties for sale or exploration; creditworthiness of counterparties; rate of inflation and interest rates; assumptions used in business combinations; weather and natural disasters; changes in customers credit ratings; competition from other forms of energy, other pipelines and storage facilities; effects of accounting policies issued periodically by accounting standard-setting bodies; terrorist attacks or acts of war; changes in the business or financial condition of the Company; changes in credit ratings; and availability of financing for Questar and its subsidiaries.

The Company cannot predict these factors nor can it assess the impact, if any, of such factors on its financial position or its results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. Questar undertakes no obligation to update any forward-looking statement provided in this report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUESTAR CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	3 Months Ended March 31,	
	2005	2004
	(in thousands, except per share amounts)	
REVENUES		
Market Resources	$ 314,338	$ 234,054
Questar Pipeline	17,912	18,013
Questar Gas	343,690	306,879
Corporate and other operations	4,384	4,670
TOTAL REVENUES	680,324	563,616
OPERATING EXPENSES		
Cost of natural gas and other products sold	342,786	266,259
Operating and maintenance	85,849	78,429
Depreciation, depletion and amortization	58,825	52,269
Questar Gas rate-refund obligation		1,490
Exploration	1,373	1,087
Abandonment and impairment of gas, oil and other properties	1,405	4,406
Production and other taxes	26,385	22,886
TOTAL OPERATING EXPENSES	516,623	426,826
OPERATING INCOME	163,701	136,790
Interest and other income	2,651	1,824
Earnings from unconsolidated affiliates	1,546	1,310
Minority interest		(270)
Debt expense	(16,722)	(17,516)
INCOME BEFORE INCOME TAXES	151,176	122,138
Income taxes	56,005	46,005
NET INCOME	$ 95,171	$ 76,133

Earnings per common share		
Basic	$ 1.13	$ 0.91
Diluted	1.10	0.89
Weighted average common shares outstanding		
Used in basic calculation	84,417	83,374
Used in diluted calculation	86,728	85,168
Dividends per common share	$ 0.215	$ 0.205

See notes accompanying consolidated financial statements

QUESTAR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2005 (Unaudited)	December 31, 2004
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents		$ 3,681
Accounts receivable, net	$ 228,847	262,373
Unbilled gas accounts receivable	42,570	59,160
Hedging collateral deposits	83,420	
Fair value of hedging contracts	2,016	9,334
Inventories, at lower of average cost or market		
Gas and oil storage	27,461	66,944
Materials and supplies	23,700	18,993
Prepaid expenses and other	22,914	23,690
Purchased-gas adjustments	14,766	35,853
Total current assets	445,694	480,028
Property, plant and equipment	4,984,145	4,877,771
Less accumulated depreciation, depletion and amortization	1,944,244	1,893,111
Net property, plant and equipment	3,039,901	2,984,660
Investment in unconsolidated affiliates	33,744	33,229
Goodwill	71,260	71,260
Regulatory assets	31,838	32,120
Intangible pension asset	12,394	12,394
Fair value of hedging contracts		1,815

Other noncurrent assets	29,901	31,152
	$3,664,732	$3,646,658
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Checks in excess of cash balances	$ 4,348	
Short-term debt	37,000	$ 68,000
Accounts payable and accrued expenses	336,506	348,264
Questar Gas customer credit balances	7,949	24,771
Rate-refund obligations	14,361	25,343
Fair value of hedging contracts	194,604	64,179
Deferred income taxes - current	5,611	13,624
Total current liabilities	600,379	544,181
Long-term debt, less current portion	933,197	933,195
Deferred income taxes	472,156	532,809
Asset-retirement obligations	68,328	67,288
Pension liability and post-retirement benefits	50,112	47,919
Fair value of hedging contracts	61,247	14,471
Other long-term liabilities	71,284	67,237
COMMON SHAREHOLDERS EQUITY		
Common stock	364,896	358,017
Retained earnings	1,212,693	1,135,718
Accumulated other comprehensive loss	(169,560)	(54,177)
Total common shareholders equity	1,408,029	1,439,558
	$3,664,732	$3,646,658

See notes accompanying consolidated financial statements

QUESTAR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	3 Months Ended March 31,	
	2005	2004
	(in thousands)	
OPERATING ACTIVITIES		
Net income	$ 95,171	$ 76,133
Adjustments to reconcile net income to net cash provided from operating activities:		

Depreciation, depletion and amortization	60,235	54,724
Deferred income taxes	2,105	14,867
Amortization of nonvested shares	865	576
Abandonment and impairment of gas oil and other properties	1,405	4,406
Earnings from unconsolidated affiliates, net of cash distributions	568	(1,166)
Net gain from asset sales	(59)	
Other	180	270
	160,470	149,810
Changes in operating assets and liabilities	5,071	36,811
NET CASH PROVIDED FROM OPERATING ACTIVITIES	165,541	186,621
INVESTING ACTIVITIES		
Capital expenditures		
Purchase of property, plant and equipment	(128,261)	(68,886)
Other investments	(1,083)	
Total capital expenditures	(129,344)	(68,886)
Proceeds from disposition of assets	1,427	895
NET CASH USED IN INVESTING ACTIVITIES	(127,917)	(67,991)
FINANCING ACTIVITIES		
Common stock issued	6,288	9,146
Common stock repurchased	(2,743)	(1,813)
Long-term debt repaid	(2)	(54,998)
Decrease in short-term debt	(31,000)	(71,500)
Checks in excess of cash balances	4,348	4,086
Dividends paid	(18,196)	(17,139)
Other		(317)
NET CASH USED IN FINANCING ACTIVITIES	(41,305)	(132,535)
Change in cash and cash equivalents	(3,681)	(13,905)
Beginning cash and cash equivalents	3,681	13,905
Ending cash and cash equivalents	$ -	$ -

See notes accompanying financial statements

NOTES ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation of Interim Consolidated Financial Statements

The accompanying Questar interim consolidated financial statements have not been audited by an independent registered public accounting firm, with the exception of the condensed consolidated balance sheet at December 31, 2004, which was derived from the audited consolidated financial statements at that date. The unaudited consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The interim consolidated 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. The preparation of consolidated financial statements and notes in conformity with GAAP requires that management make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from estimates. All significant intercompany accounts and transactions were eliminated in consolidation. Certain reclassifications were made to the 2004 financial statements to conform with the 2005 presentation.

The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005, due to the volatility of gas and oil sales prices, the seasonal nature of the gas-distribution business and other risk factors discussed in the Forward-Looking Statements section of this report. Interim consolidated financial statements do not include all of the information and notes required by GAAP for audited annual consolidated financial statements. For further information please refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K as amended for the year ended December 31, 2004.

Note 2 Rate-Refund Obligations

<u>Gas-Processing Dispute</u>

On August 1, 2003, the Utah Supreme Court issued an order reversing an August 2000 decision made by the PSCU concerning certain natural gas-processing costs incurred by Questar Gas to manage the heat content of its gas supply. The court ruled that the PSCU did not comply with its statutory responsibilities and regulatory procedures when approving a stipulation in Questar Gas s 1999 general rate case. The stipulation permitted Questar Gas to collect $5.0 million per year, a portion of the processing costs, through May 2004. The Committee of Consumer Services, a Utah state agency, appealed the PSCU s decision, arguing that the PSCU had failed to explicitly address whether the costs were prudent.

As a result of the court s order, Questar Gas recorded a liability for a potential refund to gas-distribution customers. A total liability of $29.0 million includes revenue received for processing costs and interest from June 1999 through September 2004.

On August 30, 2004, the PSCU ruled that Questar Gas failed in 1999 to prove that its decision to contract for gas processing with an affiliate was prudent. The PSCU rejected the stipulation, denied the request for rate recovery and ordered the refund of gas-processing costs previously collected in rates. Because Questar Gas had previously accrued a liability for the refund, the order did not have a material impact on 2004 earnings. Questar Gas reduced its rates on September 1, 2004, to eliminate the collection of gas-processing costs and on October 1 began refunding previously collected costs, plus interest, over a 12-month period. As of March 31, 2005, Questar Gas had a refund liability of $9.2 million.

In response to a Questar Gas petition, the PSCU clarified that its order did not preclude recovery of ongoing and certain past-processing costs. Ongoing processing costs are approximately $6.0 million per year. Questar Gas has requested ongoing rate coverage for gas-processing costs in its pass-through filings, but is not currently collecting these costs in rates. The PSCU has conducted several technical conferences to determine what actions should be taken to manage the heat content of the gas supply. On January 31, 2005, Questar Gas filed a rate request with the PSCU to recover $5.7 million per year of gas-processing costs through its gas-balance account. Questar Gas filed expert testimony supporting the rate request on April 15, 2005, and hearings before the PSCU are scheduled for October 2005.

Fuel-Gas Reimbursement

During the fourth quarter of 2004, the FERC issued an order to Questar Pipeline in a case involving the annual fuel-gas reimbursement percentage (FGRP). The FERC previously granted Questar Pipeline s request to increase the FGRP effective January 1, 2004. In its order, the FERC approved the FGRP but also ruled that Questar Pipeline is required to credit to transportation customers proceeds from the sale of natural gas liquids recovered from its hydrocarbon dew point facilities at the Clay Basin storage field in northeastern Utah. Questar Pipeline has filed a request for rehearing with the FERC. Questar Pipeline believes that any credit to customers should be reduced by the plant s cost of service. Until the issue is resolved, Questar Pipeline will continue to accrue a potential liability equal to any liquid revenues from the dew point plant. As of March 31, 2005, Questar Pipeline had reduced revenues by $5.2 million as a potential credit to customers, including $0.5 million recorded in the first quarter of 2005.

Questar Pipeline made an annual FGRP filing with the FERC on November 30, 2004, requesting an increase in the FGRP to 2.6%. On December 30, 2004, the FERC approved the request on an interim basis subject to refund and final resolution of the 2004 FGRP proceeding. Several shippers have filed comments with the FERC protesting the FGRP level.

Note 3 Asset-Retirement Obligations (ARO)

Questar recognizes ARO in accordance with SFAS 143 Accounting for Asset Retirement Obligations. SFAS 143 addresses the financial accounting and reporting of the fair value of legal obligations associated with the retirement of tangible long-lived assets. The Company s ARO applies primarily to plugging and abandonment costs associated with gas and oil wells and certain other properties. The fair value of abandonment costs are estimated and depreciated over the life of the related assets. ARO are adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate.

Changes in asset-retirement obligations were as follows:

	2005	2004
	(in thousands)	
Balance at January 1,	$67,288	$61,358
Accretion	1,025	939
Additions	399	427
Retirements and properties sold	(384)	(2)
Balance at March 31,	$68,328	$62,722

Wexpro activities are governed by a long-standing agreement with the states of Utah and Wyoming (the Wexpro Agreement). The accounting treatment of reclamation activities associated with ARO for properties administered under the Wexpro Agreement is spelled out in a guideline letter between Wexpro and the Utah Division of Public Utilities and the staff of the PSCW. Pursuant to the stipulation, Wexpro collects and deposits in trust certain funds related to estimated ARO costs. The funds are used to satisfy retirement obligations as the properties are abandoned. At March 31, 2005, approximately $3.1 million was held in this trust invested in a short-term bond index fund.

Note 4 Earnings Per Share (EPS)

Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the accounting period. Diluted EPS includes the potential increase in the number of outstanding shares that could result from the exercise of in-the-money stock options plus an estimated number of nonvested restricted shares.

	3 Months Ended March 31,	
	2005	2004
	(in thousands)	
Weighted-average basic common shares outstanding	84,417	83,374
Potential number of shares issuable from exercising		

stock options and from vesting restricted shares	2,311	1,794
Weighted-average diluted common shares outstanding	86,728	85,168