INTRODUCTION AND BACKGROUND

During the calendar year 2006, national natural gas prices moderated somewhat from 2005. A number of factors have been cited as the cause. The heating demand months in 2006 were significantly warmer than normal. A slight growth in marketed natural gas production may have also played a role. Higher natural gas storage inventories (discussed later), the lack of severe hurricanes during 2006, and the return to productive capacity of supplies shut in due to extensive damage to the natural gas infrastructure from hurricanes Katrina and Rita in 2005[1] contributed to the moderation in prices.

The natural gas rotary rig count for the U.S. increased significantly during 2006. From the end of the last work week in 2005 to the end of the last work week in 2006, the rig count increased from 1,234 to 1,425, an increase of some 15 percent. The high weekly natural gas rig count during calendar year 2006 was 1,450 in late October. By the end of the last work week in March of 2007, the count had continued to grow to 1,472.[2]

Drilling costs continue to escalate. Although current drilling cost information is difficult to obtain, data from the American Petroleum Institute indicates that for onshore wells drilled to depths of 7,500 to 9,999 feet, the average real cost per well doubled from 2003 to 2004. Part of this increase can be attributed to the cost of materials such as steel, but undoubtedly, the higher natural gas price environment of recent years has created a situation where more dollars are bidding up the cost of exploration services such as contract drilling, seismic surveying, well logging, and well fracturing, which have limited availability because they require skilled labor and skilled professionals.

An increasing rig count does not necessarily translate into a proportional increase in proved developed reserves. In the lower 48 states, much of the conventional reserve base has been developed. New conventional discoveries are increasingly at greater depths and are less prolific. With the exception of some short term variability, it is expected that the long term trend of declining conventional production for the lower 48 states will continue. Non-conventional production from the lower 48 states such as coal-bed methane, tight sands, and shale, is expected to trend upward.[3]

The availability of interstate pipeline capacity has a direct effect on regional energy markets. The Alaska natural gas pipeline is not expected to begin transporting supplies to the lower 48 states for at least 10 more years. Just as the Kern River transmission system had an impact on the local market for natural gas, so too could the Rockies Express Pipeline (REX) sponsored by Kinder Morgan Energy Partners, Sempra Energy, and ConocoPhillips. This

[1] "Natural Gas Year-In-Review 2006," Energy Information Administration, Department of Energy, Office of Oil and Gas, March 2007.
[2] "North American Rotary Rig Count - US Oil and Gas Split," Baker Hughes Incorporated, http://www.bakerhughes.com.
[3] "Annual Energy Outlook 2007 With Projections to 2030," Energy Information Administration, Office of Integrated Analysis and Forecasting, U.S. Department of Energy, Washington D.C., February 2007, p. 93.

$4.4 billion pipeline project, one of the largest ever constructed in North America, extends 1,663 miles from Rio Blanco County, Colorado, to Monroe County, Ohio. Some 1.8 billion cubic feet of natural gas supplies from Wyoming and Colorado are expected to flow east on this system. The first two segments of REX are already in service (Meeker Hub in Colorado to the Wamsutter Hub in Wyoming to the Cheyenne Hub in Colorado). The final two legs, totaling 1,335 miles, REX-West and REX-East, have targeted in-service dates of December 2007 and January 2009 respectively. While the customers of Questar Gas have historically benefited from a very favorable basis differential to Henry Hub, increased regional demand created by this project will exert upward pressure on regional prices.

Nationally, natural gas storage inventories at the beginning of the 2006 calendar year were at a level above any of the previous five years. End-of-month inventories continued to exceed the five-year maximum for the entire year. Colder weather, particularly in the densely populated eastern states, during early 2007, brought the national inventory level down within the five year band. Towards the end of March 2007, the national storage inventory level bottomed out at approximately 1.5 trillion cubic feet, as the traditional natural gas injection season began.[4]

The service territory of Questar Gas also experienced cold weather in early 2007. During the latter part of January, temperatures recorded at the Salt Lake City International Airport were at or below freezing for 18 consecutive days, the second longest period on record. The mean monthly temperature during January of 2007 was 21.1 degrees Fahrenheit, 8.1 degrees below normal.[5] On January 15, 2007, Questar Gas delivered 952,121 decatherms to its firm customers exceeding the previous 24-hour record of 818,000 decatherms set in December of 2005. Although this was not a design peak day, the record firm sendout validated the peak-day demand and the system capacity used in the IRP process

These IRP processes take place on various levels and over various time periods. Questar Gas uses sophisticated linear programming software to model the availability of long term demand-side and supply-side resources over a 21-year time frame. Technical models are used by engineering groups to appropriately design, based on long term load forecasts, the size and configuration of the distribution system. The seasonal nature of the natural gas business lends itself to annual planning processes, particularly natural gas purchases. Monthly, weekly, and daily planning meetings are held to make shorter-term operating decisions. Questar Gas believes that its planning processes are valuable and concurs with the following description of integrated resource planning in the Utah Integrated Resource Planning Guidelines (Utah Guidelines).

> Integrated Resource Planning (IRP) is a process in which known resources are evaluated on a uniform basis, such that customers are provided quality natural gas services at the lowest cost to Questar Gas (QG) and its customers consistent with safe and reliable service. The IRP should also be consistent

[4] "Weekly Natural Gas Storage Report," Energy Information Administration, Department of Energy, March 29, 2007.

[5] "Climatic Summary for Salt Lake City/Utah," Salt Lake City Climate Data for January 2007, National Weather Service, Salt Lake City UT, February 5, 2007.

> with the long-run public interest and the financial requirements of a healthy utility. This process should result in the selection of the optimal set of resources given expectations relating to costs, risk, uncertainty and technical feasibility. The IRP will provide the operating plan for the upcoming gas supply year.[6]

One of the most beneficial aspects of Questar Gas's IRP process is the input received during meetings with regulatory agencies and interested stakeholders. The Utah Guidelines specify that regular meetings be held on an annual basis. These meetings facilitate the open and informal exchange of information that provides for more efficient communication than usually takes place in more formal litigated settings.

Numerous meetings on many different topics have been held during the preceding year. Monthly gas purchase updates and hedging/price-stabilization meetings will be referenced in the Purchased Gas section of this report. Numerous meetings have been held on demand-side management issues and the Conservation Enabling Tariff mechanism approved as a Pilot Program in Utah. These will be discussed in the Demand-Side Resources section of this report. Other IRP-related meetings held this year in Utah are as follows.

On February 6, 2007, an open meeting was held with Utah regulatory agencies and interested stakeholders where the following topics were discussed:

- Planned schedule of annual IRP events
- Base case IRP modeling assumptions including DSM
- Kern River rate case
- Interstate pipeline capacity under contract
- Natural gas price update
- Discussion of hedging issues with regard to price stabilization
- Plans to issue the purchased-gas RFP

The request for proposal (RFP) for natural gas purchases was sent out by the Company on February 9, 2007, and responses were due back on March 9, 2007. On March 26, 2007, four representatives from the Utah Division of Public Utilities (DPU) and the Utah Committee of Consumer Services (CCS) met with Questar Gas personnel to review the responses. On April 3, 2007, a meeting was held with Utah regulatory agencies to discuss the purchased-gas RFP. Due to market-sensitive information, this meeting was closed to the general public. The following topics were discussed at this meeting:

- IRP calendar update
- Current natural gas price review
- Purchased-gas RFP responses
- Preliminary purchased-gas modeling results

[6] "Proposed IRP Guidelines for Questar Gas Company," Utah Public Service Commission, Docket No. 97-057-06, April 17, 1998 (Utah Guidelines).

- Comparison of RFP results with previous year
- Contracting issues
- Price stability plans

A meeting to discuss this report and the final IRP modeling results has been scheduled on May 15, 2007, from 10:30 a.m. to 11:30 a.m. in the Heber M. Wells Building in Salt Lake City, Utah. Questar Gas will schedule meetings with Wyoming regulatory agencies to discuss IRP matters as requested.

For many years, Questar Gas has maintained four goals and objectives that govern the IRP process. They are:

1. To project future customer requirements.

2. To analyze alternatives for meeting customer requirements from a system capacity and gas-supply source standpoint.

3. To develop a plan that will provide customers with the most reasonable costs over the long term that are consistent with reliable service, stable prices, and are within the constraints of the physical system and available gas supply resources.

4. To use the guidelines derived from the IRP process as a basis for creating a flexible framework for guiding day-to-day as well as longer-term gas supply decisions.

To facilitate the analysis of numerous and complex demand-side and supply-side relationships, Questar Gas uses, as it has for many years, a computer based modeling system. This linear-programming software tool was developed and is maintained by New Energy Associates, LLC, based in Atlanta, Georgia. This modeling tool is sold under the name of "SENDOUT," and will be referred to as such in the remainder of this report.

This report is the seventeenth annual IRP to be filed with Utah and Wyoming regulatory agencies. The time spread between the availability of historical data, the analysis of supply-side and demand-side resources, and the determination of, and commitment for, these resources is very narrow. Nevertheless, the seasonal nature of the natural gas distribution business lends itself to such a cycle. Inasmuch as the data input and output reports are large and complicated, Questar Gas has attempted to summarize these results into this document. The following sections of this report will be used as a framework in presenting the underlying assumptions and outlining the final plan results: 1) Questar Gas's customer and gas demand forecast; 2) the capabilities and constraints of Questar Gas's distribution system; 3) the local market for natural gas, the purchased gas RFP, associated modeling issues, and price stabilization topics; 4) Company-owned gas including modeling issues, producer imbalances, and future development prospects; 5) gathering, transportation and storage; 6) demand-side management issues; 7) the final modeling results; and 8) the

general guidelines to be used in the implementation of the IRP during the 2006-2007 gas supply planning year.[7]

[7] Throughout this report, "Dth" refers to decatherms, "MDth" refers to thousands of decatherms, "Dth/D" refers to decatherms per day, "MDth/D" refers to thousands of decatherms per day, "Btu" refers to British thermal units, "MMBtu" refers to millions of British thermal units, "cf" refers to cubic feet, "Mcf" refers to thousands of cubic feet, "MMcf" refers to millions of cubic feet, "Bcf" refers to billions of cubic feet, "Tcf" refers to trillions of cubic feet, "Mcf/D" refers to thousands of cubic feet per day, "MMcf/D" refers to millions of cubic feet per day, "psi" refers to pounds per square inch, and "psig" refers to pounds per square inch gauge.