COMPANY-OWNED GAS

Modeling Issues

Among the more critical findings each year in Questar Gas' IRP process are the production strategies for supplies owned by the Company. In recent years, these supply sources have contributed 40-50% of the total annual decatherm needs of Questar Gas' customers. These supplies, available under the terms and conditions of the Wexpro Agreement, are provided at cost-of-service, which historically has been below prevailing market prices. The Wexpro Agreement was approved by the UPSC and the PSCW in 1981 and was later affirmed by the Utah Supreme Court in 1983. This remarkably enduring resource has been highly beneficial to the customers of Questar Gas contributing to some of the lowest retail natural gas rates in the country. Fortunately, the current prognosis for the long term availability of this resource is good.

Company-owned gas supplies have not, however, been immune from inflationary forces in the relatively high natural-gas-price environment of recent years. Production taxes and royalties are based on market valuations. The current market generally determines how operating and maintenance costs are priced. Development drilling in particular is subject to inflation. Depending on the supply of, and the demand for, drilling rigs, crews and other essential field services, cost escalations can affect the level of capitalized costs that flow through the "Wexpro Operator Service Fee" to Questar Gas' customers. Capital cost escalation for new development drilling directly affects the levels of depreciation, return on investment and taxes that are all part of the cost-of-service methodology utilized under the Wexpro Agreement. More information on Wexpro's planned development-drilling programs is contained in the Future Resources section of this report.

Given the size and long-term availability of this resource, it is appropriate that Company-owned production is included in the IRP modeling process. A large amount of data must be compiled to provide the inputs to the SENDOUT modeling process. Required data elements include: reserve estimates, production, production decline parameters, depreciation and amortization rates, carrying costs, general and administrative costs, operating and maintenance costs, gathering costs, production taxes, royalties, income taxes, and oil revenue credits.

Questar Gas this year modeled 48 categories of Company-owned gas. These categories and the associated production profiles resulting from the SENDOUT modeling process exercise this year are contained in the Results Section of this report.

Producer Imbalances

Much of the production owned by Questar Gas comes from wells in which there are multiple working interest owners. As working interest partners in wells or groups of wells take production at rates that diverge from the owner's legal entitlements, an imbalance is created and accumulated. This imbalance is referred to as a producer-to-producer imbalance and needs to be monitored so that it does not become unmanageable. Where producer balancing agreements exist, rights to make up imbalances are defined (quantities and timing). Parties owed gas are generally referred to as being under-produced, and parties owing gas are referred to as being over-produced.

On December 31, 2005, Questar Gas' total net imbalance stood at an under-production level of approximately 1.2 billion cubic feet, a small portion of the total Company-owned gas produced in one year. As of December 31, 2006, the Company's total net producer imbalance was at approximately 0.15 billion cubic feet (over-produced). This unusually small imbalance level reflects the totality of offsetting field imbalances some of which are individually higher than this amount.

Over the last few years, Questar Gas has been recouping imbalance gas in the Trail and Ace fields. The Company is continuing to recoup small remaining imbalance volumes in the Trail and Ace fields. Two other fields are currently under consideration for the nomination of recoupment volumes also.

Future Resources

Wexpro's drilling budget continues to increase, primarily due to the inventory of opportunities available in the current drilling environment. Also affecting the budget are inflationary pressures being exerted on this industry (see the Introduction and Background section of this report). The preliminary 2007 Wexpro drilling plan is for 43 net wells at a cost of approximately $85 million. Over the next five years, between 25 and 45 net wells are planned to be drilled each year with Wexpro budget amounts of approximately $100 million per year. Areas with the most drilling activity are likely to be Bruff/Moxa Arch, Church Buttes, Birch Creek, Canyon Creek, Hiawatha, Mesa/Pinedale, Trail, Powder Wash, Jackknife Springs, and Ace.

New well projections and capital budgets are always subject to change. Among other things, economic conditions, ongoing success rates, partner approval, availability of resources (rigs, crews and services), access issues associated with environmentally sensitive areas, re-completion requirements, drainage issues and demand letters all have an impact on budgetary projections.