INTRODUCTION AND BACKGROUND

The year 2008 began with the West-Texas-Intermediate (WTI) crude-oil spot price near the $100 per barrel mark. By mid-April, WTI crude was above $117 per barrel. Although natural gas prices nationally have not maintained parity with oil on a Btu basis over the past year, they have increased significantly. It has not been uncommon recently to see, on a daily basis, double digits for the dollar price of natural gas for some or all of the prices at Henry Hub on the 18-month forward curve. And, quite remarkably, all of this occurred after the Rocky Mountain region saw some of the lowest prices in many years during the summer and fall of 2007. The lowest Questar Pipeline Company (Questar Pipeline) first of month (FOM) price during this time period was $1.36 for October of 2007. During 2007, after discussing the matter with Utah regulatory agencies, Questar Gas shut in production from some of its cost-of-service sources to take advantage of purchasing supplies during this low-purchase-gas-price environment. As a result, cost-of-service gas production, as a percentage of total supplies used to meet demand, was significantly lower than in recent years at a level of approximately 32 percent.

In part, the 2007 low-price environment in the Rocky Mountain region can be attributed to increased supplies developed in anticipation of the Rockies Express Pipeline (REX). Although several segments of REX have been in service for some time, the REX-West leg began flowing to an ANR Pipeline delivery point in Brown County, Kansas on January 12, 2008, increasing the potential capacity of REX to flow 1.4 billion cubic feet (Bcf) per day. Completion of the remaining 213 miles of the REX-West leg, extending to an interconnection point with Panhandle Eastern Pipeline Company in Audrain County, Missouri, has been delayed to mid May due to heavy and consistent rains. The REX-East leg is expected to be in service by June of 2009 when the capacity will reach 1.8 Bcf per day. REX-West flows have exerted upward pressure on regional prices since January 12, 2008.

On the drawing board are other pipeline projects and expansions which, if completed, are expected to draw production from the same supply areas utilized by Questar Gas. All are looking to capitalize on the expected future price basis with other geographic regions. Among the new projects which appear most likely to be built is the Ruby Pipeline Project. This 680-mile, 42-inch diameter pipeline from Opal, Wyoming to Malin, Oregon is anticipated to require approximately $2 billion dollars of investment capital. It is expected to have a capacity of 1.2 Bcf per day with the potential to increase to 2 Bcf per day.

The melt-down in the subprime mortgage market and the subsequent fallout on Wall Street will undoubtedly have an impact on the capital markets accessed by all players in the natural gas industry. Credit ratings across the board are being reevaluated in this new financial environment including working interest partners in fields where Questar Gas receives cost-of-service production. The cost and availability of capital directly affects the enthusiasm of producers to participate in development drilling projects. Also affected in a potentially constrained financial market are natural gas gathering, processing, storage, and transmission functions. It is not uncommon for investment banks to participate as financial

partners in large natural gas infrastructure projects. As the market capitalization of these investment companies declines, or, as was the case with Bear Stearns, almost entirely disappears, their involvement could be more constrained.[1]

Also affecting the current level of natural gas prices is the national storage picture. Since the beginning of 2008, levels in inventory have been lower than those at comparable times in 2007. Currently, national inventory totals are approximately equal to the previous five-year average, but substantially below the five-year high.

The complexity of the natural gas business combined with the dynamics of the natural gas commodity market creates the need for extensive planning processes. These processes occur within the Company on a daily, monthly, annual and multi-year basis. Questar Gas values these planning processes and agrees with the description of integrated resource planning as stated in the Modified 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 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.[2]

During the past year, initiatives have been undertaken by both the Wyoming and Utah Commissions to review the processes governing integrated resource planning in each state.

Wyoming

On December 5, 2007, the Wyoming Commission held an Integrated Resource Planning Technical Conference to discuss issues related to integrated resource planning by Wyoming utilities including current and historic practices, and the potential revision of Wyoming Commission requirements. Questar Gas participated in that conference and provided background information regarding its involvement in integrated resource planning in the state of Wyoming.

On January 11, 2008, Questar Gas attended, by invitation from the Wyoming Commission, a Commission open meeting. In addition to other Commission matters, discussions on integrated resource planning took place with several Wyoming utilities

[1] Bear Energy, a subsidiary company of Bear Stearns, is a joint venture partner in the proposed Ruby Pipeline Project. It is expected that JP Morgan, the new owner of Bear Stearns, will stand behind the financial commitment of Bear Energy.

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

including Questar Gas. During this meeting, Questar Gas discussed its IRP process and answered Wyoming Commission questions. The Wyoming Commission spoke favorably of the annual IRP filed by Questar Gas and requested that the Company continue to file its IRPs. The Wyoming Commission also expressed interest in the future consideration of DSM programs in the state of Wyoming.

On January 25, 2008, the Wyoming Commission issued a letter indicating that the 2007 IRP filed by Questar Gas be placed in the Commission's files with no further action being taken and that the docketed matter be closed. Questar Gas will schedule meetings with Wyoming regulatory agencies to discuss IRP matters as requested.

Utah

On June 4, 2007, the Utah Commission, issued a Request for Comments in Docket No. 07-057-01, In the Matter of Questar Gas Company's Integrated Resource Plan for Plan Year: May 1, 2007 to April 30, 2008. The Utah Commission invited interested parties to: 1) comment on the appropriateness of the IRP, 2) recommend whether the Utah Commission should acknowledge the plan, and 3) comment on whether changes should be made to the approved IRP requirements, and if so, how. Comments were filed by the Utah Division of Public Utilities (Division) , the Utah Committee of Consumer Services (Committee), and the Company on September 4, 2007.

On December 14, 2007, the Utah Commission issued its Report and Order in Docket No. 07-057-01, In the Matter of the Filing of Questar Gas Company's Integrated Resource Plan for Plan Year: May 1, 2007 to April 30, 2008. The Utah Commission required Questar Gas to "continue with its current IRP approach and time lines," requested the inclusion of some additional information, and also requested that specific issues be addressed in the 2008 IRP. Most of these issues each addressed multiple topics. Exhibit 2.1 consists of a chart showing the issue number from the Order along with a description of each topic followed by references in this IRP document where that topic has been addressed.

On February 13, 2008, the Utah Commission held a technical conference on IRP standards and guidelines. During this meeting, discussion took place on IRP processes in Utah and potential modifications to the September 26, 1994, IRP Standards and Guidelines and to the modified guidelines filed April 17, 1998.

On April 3, 2008, the Utah Commission issued draft standards and guidelines governing IRPs for Questar Gas.[3] Comments by interested parties are due by May 30, 2008.

During the previous year Questar Gas held numerous planning and reporting meetings on a variety of IRP-related topics in Utah. Meetings were held to provide gas purchase updates and to discuss hedging/price-stabilization issues. Periodically, meetings have been held on DSM issues and the CET mechanism approved as a Pilot Program in Utah.

[3] "In the Matter of the Revision of Questar Gas Company's Integrated Resource Planning Standards and Guidelines, Request for Comments on Draft Standards and Guidelines, Docket No. 08-057-02, Issued: April 3, 2008.

The Demand-Side Resources section of this report will document these activities more fully. Other IRP-related meetings held this year in Utah are as follows:

On February 5, 2008, Questar Gas met with Utah regulatory agencies and interested stakeholders in an open-meeting forum where the following topics were discussed:

- SENDOUT modeling
- Use of the Monte Carlo method this year
- Comparison of current gas price forecasts
- 2007-08 hedging summary
- Usage per customer history
- Current natural gas price review
- Purchased gas request for proposal (RFP) (letter and schedule)
- December 14, 2007 Utah Commission Report and Order
- Clarification of IRP issues

On February 11, 2008, Questar Gas sent out its annual RFP for natural gas purchases. Responses were due on March 7, 2008. Although the responses contain market sensitive information, they are available for confidential review by regulatory agencies.

On April 1, 2008, a meeting was held with Utah Commission staff, the Division and the Committee. The following topics were discussed at this meeting:

- Monte Carlo modeling update
- Current natural gas price review
- Purchased-gas RFP responses
- Preliminary purchased-gas modeling recommendations
- Price stability plans
- 191 Account update

On May 13, 2008, a meeting has been scheduled to discuss this report and the final IRP modeling results with Utah regulatory agencies and interested stakeholders. That meeting has been scheduled from 10:30 a.m. to 11:30 a.m. in the Heber M. Wells Building in Salt Lake City, Utah.

During the course of the IRP process Questar Gas has maintained four main goals and objectives:

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.

For a number of years, Questar Gas has utilized a computer-based linear-programming modeling tool to evaluate both supply-side and demand-side resources. This software product, marketed under the name of "SENDOUT" was developed by New Energy Associates (headquartered in Atlanta, Georgia) and is currently maintained by Ventyx[4] who recently acquired New Energy Associates.

Questar Gas is utilizing the most recent release of SENDOUT, Version 12.1.1, which was installed during January 2008. Version 12.1.1 has the capability of performing Monte Carlo simulations, thereby better facilitating risk analysis. (See the Results section of this report for more information on linear programming, the Monte Carlo method, constraints and the SENDOUT model configuration.)

An annual IRP process dovetails well with the natural seasonal cycles of the gas industry. The need for end-of-calendar-year data, some of which is not finalized until mid-March, creates a tight timeframe, but ensures that Questar Gas is utilizing the most current and relevant information in its IRP filed in early May. The tens of thousands of required data input assumptions and numerous SENDOUT modeling output reports are voluminous. Nevertheless, the intent of this report is to summarize, in a readable fashion, the planning processes engaged in by the Company.

This report has been organized into the following sections: 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) cost-of-service gas including modeling issues, producer imbalances and future development prospects; 5) gathering, transportation and storage; 6) DSM resources; 7) the final modeling results; and 8) the general planning guidelines to be used in the implementation of the IRP from May of 2008 through April of 2009.[5]

4 Ventyx is a business solutions provider to global energy, utility, communications and other organizations with approximately 1,200 employees in more than 20 locations worldwide.

5 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, "psig" refers to pounds per square inch gauge, and "lf" refers to linear feet.