

PURCHASED GAS

Local Market Environment

Monthly index prices for natural gas delivered into Questar Pipeline's system during the 2007 calendar year averaged \$3.69 per Dth. This was lower than the previous year which averaged \$5.36 per Dth, a reduction of \$1.67 per Dth.

The price for gas on Questar Pipeline during the 2006-2007 heating season (November-March) averaged \$5.40 per Dth compared to the price for gas on Questar Pipeline during the 2007-2008 heating season (November-March) which averaged \$6.03 per Dth, reflecting an increase of \$0.63 per Dth.

Historically, Rockies indices have been noticeably lower than the NYMEX. That trend continues, however, in recent months prices in the Rockies have increased and are more in line with the NYMEX due to several components, most notably the reduction of transportation constraints. Prices across the country are currently at the highest levels seen in recent history and the future indications show expectations of this to continue at least for the short term.

Modeling Issues

One of the most important results of the IRP modeling process each year is a determination of the characteristics of the portfolio of natural gas purchase contracts to be utilized by Questar Gas. Each year, the Company issues a request for proposals (RFP) to potential suppliers on upstream interconnecting interstate pipelines. On February 11, 2008, Questar Gas sent out this year's RFP to 48 prospective suppliers. The RFP sought proposals for both base load and peaking supplies on the two major interstate pipeline systems interconnected with Questar Gas; Questar Pipeline and Kern River. The RFP required that base load supplies have availabilities of 365, 180, 150, 120 and 90 days. Multi-year winter-heating-season proposals were sought with terms ranging from two to five years. Proposals for peaking supplies were sought on both pipeline systems having availabilities of two or three months to meet the greatest winter-heating season demands on Questar Gas' system.

Reliability of supplies is a critical issue for Questar Gas. The RFP required that all purchased gas proposals accepted by Questar Gas have, in the underlying confirmation letters, language specifying a \$15.00 per Dth penalty for failure to perform. All proposals were also required to have language ensuring creditworthiness and language specifying the minimum advance notice required before nomination deadlines or gas flow.

The due date for responses to the purchased-gas RFP was March 7, 2008. Proposals for 121 gas supply packages were received from 18 potential suppliers. As part of the RFP requirements, submissions are required to specify if the same gas supply is offered under multiple proposals. This year supplies offered under base-load proposals totaled 1,129,500

Dth/d, up 344,500 Dth/d from the 785,000 Dth/d offered last year. Peaking supplies offered on Questar Pipeline's system totaled 515,000 Dth/d, which was the same volume as last year. Peaking supplies offered on Kern River totaled 572,500 Dth/d and were 107,500 Dth/d below last year's level of 680,000 Dth/d.

Each spring, following the receipt of all the proposals, Questar Gas reviews all the purchased-gas packages offered and extracts all the information needed as data inputs to the SENDOUT model. The pricing mechanisms utilized for each package must be identified and linked to the appropriate index price in the model. Also, the availability of receipt and delivery point capacity on the interstate pipeline system utilized must be resolved. To the extent that the same underlying gas supplies have been offered in different natural-gas price and term packages, they must be marked to prevent the modeling of more gas than is actually available.

Questar Gas includes in its modeling process each year the availability of supplies that can be purchased from the Company's interruptible transportation customers in the State of Utah. As a condition to receiving interruptible transportation service, the Company's Utah Tariff allows for the purchase of these supplies during periods of interruption for the benefit of Questar Gas' firm sales customers. Upon notice by the Company, interruptible transportation customers are required to nominate levels of this resource as specified by the Company. The Company can purchase these supplies at the interconnecting upstream pipeline receipt point and use its own transportation capacity, or the purchase can take place at Questar Gas' city gates. The tariff specifies a predetermined pricing mechanism for payment for these supplies. Questar Gas has planned on the availability of 30,000 Dth/d of this resource for its SENDOUT modeling process this year, the same level assumed last year.

The levels of purchased-gas packages selected from the SENDOUT modeling process this year are shown in the Results section of this report. The median purchased-gas volumes by month for the upcoming gas-supply year are shown in Exhibits 9.41 to 9.52 along with each probability distribution. Commitments to purchase were made with suppliers on April 4, 2008.

Price Stabilization

During the winter of 2000-2001, the Committee, Division and Utah Commission developed a working depth of knowledge from the instruction provided by the Company and seminars from outside consultants.

On May 31, 2001, the Utah Commission approved a Stipulation submitted May 1, 2001, in Docket Nos. 00-057-08 and 00-057-10 proposing price stabilization measures be used in conjunction with natural gas purchases during the winter months (October – March). Pursuant to the Stipulation, the Company proceeded to hedge portions of its natural gas portfolio each winter.

For the October 2007 – March 2008 time period, the Company hedged 30% of its base load gas supplies. This translates to 12 Bcf being hedged at \$5.61/MMBtu.

The Company has begun its hedging program for the 2008-2009 heating season and will continue to hedge and meet with the Division, Committee and the Utah Commission to discuss stabilization options and recommendations.