COST-OF-SERVICE GAS

COS Modeling Factors

Since 1981, Questar Gas' customers have benefitted from cost-of-service natural gas production supplied pursuant to the Wexpro Agreement.[1] This low-cost supply source has been the major contributing factor in keeping Questar Gas' rates among the lowest in the nation. Natural gas is a relatively volatile-priced commodity and the prices for natural gas purchased on the open market have ranged over a fairly wide band over time. Natural gas under the Wexpro Agreement is provided according to a cost-of-service methodology. Although some components of the cost-of-service methodology are subject to price volatility and inflation, the overall cost of this production over the long term has been more stable and lower priced than market gas.

Historically, this resource has provided between one third and one half of the Company's total supplies. Even though the properties underlying the Wexpro agreement are finite, developmental drilling has helped to maintain these production levels. During the calendar year 2008, cost-of-service supplies comprised approximately 49 percent of the total utilized by Questar Gas. Wexpro anticipates that there will be many more years of production from these wells, due in part to technological improvements in drilling and production methods.

Although the total costs remitted to Questar Gas through the monthly Wexpro invoice declined from calendar year 2006 to 2007, they were up in 2008. The magnitude of recent drilling programs and increased levels of cost-of-service production are the reason for this increase. Production levels for cost-of-service gas increased significantly from 2007 to 2008. Production taxes and royalties are a function of the volumes produced. They are also a function of market prices which, during 2008, were relatively high. An additional contributing factor is the increase in drilling costs that has occurred over the last few years. More information on Wexpro's planned development-drilling programs is contained in the Future Resources section of this report.

Among the most important results of the SENDOUT modeling process each year is a determination of the appropriate production profiles for cost-of-service gas. This year, Questar Gas modeled 52 categories of cost-of-service production. These categories have been created to naturally group wells which have common attributes including factors such as geography, economics and operational constraints. A large amount of data must be compiled to provide the inputs to the SENDOUT modeling process. Questar Gas has relied on the expertise of Wexpro personnel in assembling the data elements needed to model each category. Some of those data elements are: reserve estimates, production decline parameters, depreciation and amortization rates, carrying costs, general and administrative costs,

[1] "The Wexpro Stipulation and Agreement," Executed October 14, 1981, Approved October 28, 1981, by Public Service Commission of Wyoming and December 31, 1981, by Public Service Commission of Utah; Parties: Mountain Fuel Supply Company, Wexpro Company, Utah Department of Business Regulations, Division of Public Utilities, Utah Committee of Consumer Services, and Staff of Wyoming Public Service Commission.

operating and maintenance costs, production taxes, royalties, income taxes, and oil revenue credits. The recent decline in oil prices will result in lower oil revenue credits accruing to the customers of Questar Gas early in the planning horizon. The probability curves and median levels of production for cost-of-service gas resulting from the SENDOUT modeling process this year are contained in the Results section of this report.

Producer Imbalances

In most of the wells where Questar Gas receives cost-of-service gas, there are multiple working interest partners. Each of these partners generally has the right to nominate its legal entitlements from a well subject to restrictions as defined in the operating agreement and/or gas balancing agreement governing that well. As the individual owners in a well each nominate supplies to meet their various marketing commitments, imbalances between the various owners are created. Imbalances are a natural occurrence in wells with multiple working interest owners. There are no fields or wells with multiple owners having individual marketing arrangements where an imbalance doesn't exist. No individual working interest owner can control, in the short term, the level of producer imbalances associated with a well because they do not have control over the volumes that their partners are nominating. Anytime allocated wellhead volumes differ from legal entitlements for any one party an imbalance is created for all the parties in the well. Further complicating matters is the fact that it is not uncommon for the market of a working interest owner to be lost unexpectedly, either in part or in full, for a variety of reasons. This can happen without the knowledge of the other parties for a significant period of time, and will contribute to an imbalance.

For some wells with multiple working interest partners, contract-based producer-balancing provisions exist. These provisions generally allow for parties that are under-produced to nominate recoupment volumes from parties that are over-produced. Given the time lag in the accounting flow of imbalance information, delays of several months can occur. Also complicating the process is the fact that advance notice of several weeks is typically required before imbalance recoupment can begin to be nominated.

Over the past year, producer-imbalance recoupment has taken place in fields where Questar Gas is entitled to receive cost-of-service production. Exhibit 6.1 shows the monthly volumes nominated for recoupment during calendar year 2008 and for the first two months of 2009.

During the first part of 2008, Questar Gas recouped natural gas volumes against its working interest partner in the Canyon Creek Field. This imbalance makeup helped to minimize an under-produced position in that field that was created during the summer and fall of 2007. Cost-of-service supplies were shut in at that time to take advantage of the availability of low-cost purchased-gas supplies.

Wells in the Church Buttes field are designated by the pricing category in which they fall under definitions contained in the Natural Gas Policy Act of 1978. During 2008, Questar

Gas nominated recoupment in Categories 1, 2 and 3 during 2008 as shown in Exhibit 6.1 due to an under-produced position in each of these three categories.

Recoupment has been taking place for wells in the Ace field as shown in Exhibit 6.1. Questar Gas has also been recouping against its working-interest partners in the Trail field.

Questar Gas has had an overproduced position in Hiawatha Deep Well No. 1, and an under-produced position in Hiawatha Deep Well No. 3. In early 2008, the Company began nominating recoupment in the Hiawatha Deep Well No. 3 and was recouped against by its working interest partner in Well No. 1. The net effect is that imbalance levels in both wells will be lessened and the volumes will offset to some extent in the determination of the field total. Exhibit 6.1 shows monthly recoupment volumes for both Hiawatha Deep wells.

Questar Gas has been over-produced in the Mesa/Pinedale, Trail, Moxa and Dry Piney fields. For selected wells in these fields, the working interest partners of Questar Gas have nominated imbalance recoupment as can be seen in Exhibit 6.1.

As of December 31, 2008, Questar Gas had a total net producer imbalance level for all of the fields from which it receives cost-of-service production of less than one Bcf. This aggregate level is relatively small when compared with total amount of cost-of-service gas received each year by the Company under the Wexpro Agreement.

The Wexpro "Hydrocarbon Monitor," established by the Wexpro Agreement, reviews producer imbalances as part of its responsibilities. In a recent audit report, the Hydrocarbon Monitor concluded that total producer imbalance levels had been reasonable.[2]

Future Resources

Wexpro plans on maintaining its long-term drilling plans thereby continuing to benefit the customers of Questar Gas. Planned net wells for 2009 are down slightly from 2008. Wexpro's preliminary 2009 drilling plan calls for 36 net wells at a cost of approximately $134 million.

Over the next five years, between 27 and 37 net wells are planned to be drilled each year with Wexpro budget amounts ranging from approximately $134 million to $187 million per year. Given the prevailing uncertainty in the financial markets and natural gas markets, these longer-term estimates could vary in the future. Drilling activity in 2009 is expected to be focused primarily in the following areas: Mesa/Pinedale, Bruff/Moxa Arch, Church Buttes, and several fields in the Vermillion Basin.

Plans, forecasts, and budgets for drilling development wells under the Wexpro Agreement are always subject to change. Many factors including economic conditions, ongoing success rates, partner approval, availability of resources (rigs, crews and services), access issues associated with environmentally sensitive areas, re-completion requirements,

[2] Wexpro Hydrocarbon Auditor Review, Evans Consulting Company, April, 2008.

drainage issues and demand letters all have an impact on drilling and capital budget projections.

Of continuing interest are developments in the Pinedale Anticline Project Area (PAPA) in Sublette County, Wyoming. The customers of Questar Gas benefit from the receipt of cost-of-service production from this field under the Wexpro Agreement. Partners in the PAPA filed, with the Bureau of Land Management (BLM), a Revised Draft Supplemental Environmental Impact Statement (RDSEIS). The partners in the PAPA proposed to the BLM that with appropriate environmental mitigation actions and operational safeguards, year-round access to develop these resources would be in the public interest. The Pinedale Anticline, according to the BLM, has been estimated to contain 21 Tcf of natural gas reserves which would make it one of the largest gas fields in the United States.

In September of 2008, the BLM issued the Supplemental Environmental Impact Statement Record of Decision providing for year-round access for developmental activities in specific, concentrated areas. The BLM also incorporated the environmental mitigation measures volunteered by the partners in the RDSEIS (see the Introduction and Background section of this report).