

## **Environmental Review**

Questar Gas is committed to complying with environmental laws and regulations. The National Environmental Policy Act, the Endangered Species Act, the Clean Air Act, the Clean Water Act, and the National Historic Preservation Act are examples of several of the complex and ever-changing federal statutes with which Questar complies.

Federal, state and local agencies frequently place restrictions on Company activities. These requirements have become more stringent over time and can affect the location and construction of Questar Gas infrastructure. For example, the Endangered Species Act was developed to protect certain listed threatened and endangered species. A critical habitat designation for a protected species, such as the desert tortoise, can result in restrictions to federal, state and private land use and can delay or prohibit land access or development. Because Questar Gas infrastructure crosses many miles of federal and state lands that include the critical habitat of various listed plant and animal species, there can be a material impact on location of pipelines and construction schedules. Additionally, failure to obtain proper environmental permits could result in civil and criminal penalties, orders to stop work, application of corrective actions, and other costs and damages.

New and revised environmental policy is affecting industry, in general, and the natural gas industry specifically, and will result in additional costs to conduct business. The following regulations have had or could have important effects on the Company:

### *Potential Climate Change Regulation*

Federal and state courts and administrative agencies are considering the scope and scale of climate-change regulation under various laws pertaining to the environment, energy use and development, and greenhouse gas emissions. Although it is improbable that Congress will enact legislation to regulate greenhouse gas emissions in 2011, it is likely that such legislation will be passed in the future.

At this time the scope of these potential regulations is unclear and it is difficult to project the impact to the natural gas industry and the company. Natural gas is the cleanest fossil fuel and should be an important part of any climate change or clean energy solution. If new regulations recognize that the use of natural gas in high efficiency residential, commercial, transportation, industrial and electricity generation applications is a major key to the reduction of U.S. greenhouse gas emissions, then natural gas use will increase.

Company personnel participate on climate change task forces on a national level through the the American Gas Association and also at the state level to educate and advise legislators on the importance of this abundant domestic fuel.

Questar Gas has implemented “best management practices” to reduce greenhouse gas emissions from Company operations, such as:

1. Directed inspection and maintenance to repair or replace valves/components at surface facilities;
2. Customer meter maintenance and replacement programs;
3. Infrastructure replacement of aging feeder lines;
4. Blowdown avoidance during pipeline maintenance, when possible; and
5. Use of hot tapping technology to reduce gas loss and avoid shut downs.

*U.S. Environmental Protection Agency (EPA) Greenhouse Gas Reporting Rule*

The EPA has adopted this regulation for the measurement and reporting of greenhouse gases emitted from facilities emitting more than 25,000 metric tons/year of CO<sub>2</sub> equivalent (CO<sub>2e</sub>). Additionally, natural gas local distribution companies must report 2010 combustion emissions from their residential, commercial and industrial customers (except for downstream natural gas local distribution companies and industrial customers using more the 460 MMcf of natural gas annually.) The company will report emissions of approximately 7,687,820 metric tons of CO<sub>2e</sub> for the 2010 year. Reporting for 2011 emissions has been expanded to include measurement and reporting of greenhouse gas emissions attributable to methane venting and leaking. Questar Gas will continue to be responsible for reporting combustion emissions for all of its customers as described above, as well as for measurement and monitoring of Company gate station methane emissions and for estimating emissions from the distribution system. This will result in a significant increase in reported CO<sub>2e</sub> emissions for the company in the report submitted in 2012 for 2011 emissions. As a result of this reporting rule, Questar has implemented an emissions management software system. The company is prepared to report CO<sub>2e</sub> emissions for 2010 when EPA's reporting software is available to accept the information later this year.

The rule will essentially develop an "inventory" of CO<sub>2e</sub> emissions that could be used in future climate change initiatives, such as cap and trade, carbon tax, or other scenarios. Depending on how EPA rolls-out the new rule in the future, companies subject to the Greenhouse Gas Reporting Rule could be required to pay a fee based on the amount of CO<sub>2e</sub> emitted; this is already in place for other inventoried Clean Air Act emissions. Recognizing that Questar Gas is a regulated retail distributor of natural gas, the Company would anticipate full recovery of these costs, including the costs of conducting sampling and analysis to collect the data for reporting, to meet any climate change obligations.

*EPA National Ambient Air Quality Standards (NAAQS) Reductions*

EPA has plans to reduce the ozone standard, which fundamentally results in the need to reduce nitrogen oxide (NO<sub>x</sub>) and volatile organic carbon emission levels as well, since they are precursors to ozone. Several Utah counties, particularly those along the Wasatch Front and in the Uintah Basin, will likely be impacted by these reductions. The state will be required to revise the Clean Air Act-required State Implementation Plan and to identify ways to reduce emissions in the impacted areas. This could lead to a requirement for local fleets to use alternative fuel vehicles including natural gas powered

vehicles. This would result in the need for increased CNG station infrastructure, conversion of fleet vehicles, and increased use of dedicated natural gas vehicles, particularly in heavy duty vehicle fleets. It could also lead to installation of cleaner burning, natural gas fueled industrial equipment.

*EPA Reciprocating Internal Combustion Engines (RICE) Rule*

EPA promulgated the National Emissions Standards for Hazardous Air Pollutants (NESHAP) for RICE in August 2010, regulating engines as small as 100 horsepower for formaldehyde, acrolein and acetaldehyde. By rule, Questar Gas will have three years to verify compliance and, if needed, retrofit larger RICE with pollution control equipment. During the same time frame, the Company will need to prepare and implement maintenance management plans for all RICE.

Questar Gas will continue to comply with existing environmental rules and regulations that protect employees, the public, and the environment. Routine environmental situations, such as contaminated soils encountered during routine pipeline excavation in city streets, will continue to be properly mitigated while work continues in an efficient manner. Similarly, Company personnel will participate in rulemaking efforts to encourage the use of natural gas to be more environmentally efficient.