INTRODUCTION AND BACKGROUND

Energy markets have increasingly become more global over time. As world and national events affecting the natural gas industry unfold, Questar Gas, to the extent possible, incorporates these factors into its forecasting and planning processes. These processes occur within the Company on a daily, monthly, annual and multi-year basis.

With regard to the U.S. natural gas market this year, the words of William Shakespeare are appropriate, ". . . what's past is prologue . . ."[2] The following trends from recent years have all helped set the context for the upcoming gas supply year: a weak but improving national economy, Middle East tensions, European financial fears, increasing shale gas production, relatively moderate natural gas prices, record-setting storage inventories, declining long-haul pipeline utilization due to growing shale production, and, a growing share of the power generation market for natural gas.

Gross domestic product (the output of all goods and services produced in the U.S. economy) is the most commonly used indicator of economic health. Real gross domestic product (GDP) in the U.S. for the fourth quarter of 2011 increased at an annual rate of 3.0 percent. This was an improvement over the third quarter 2011 annual rate increase of 1.8 percent. For the year 2011, real GDP increased by a relatively weak, but positive, 1.7 percent.[3] The second estimate for real GDP for the first quarter of 2012 on an annual basis was an increase of 1.9 percent, a drop from the fourth quarter 2011 GDP increase. Positive contributions in the first quarter real GDP estimate were from personal consumption expenditures, exports, residential fixed investment, private inventory investment, and nonresidential fixed investment. Negative contributions were from federal government spending and state and local government spending.[4]

Despite the inherent methodological shortcomings of this statistic, the U.S. civilian unemployment rate has also been used as an indicator of economic health. Over the last ten years, the highest monthly U.S. unemployment rate was in October of 2009, when it reached 10.0 percent.[5] Since August of 2011, the unemployment rate has gradually declined from 9.1 percent to 8.2 percent in May of 2012. Again, this shows slow but positive improvement.[6]

Investment levels in the U.S. are increasingly affected by geopolitical factors. Among the most troublesome are; unrest in the Middle East and North Africa, tension surrounding a potential blockade of the Strait of Hormuz by Iran (where roughly 20 percent of world oil supplies pass), and concerns over debt restructurings in European countries. On a national level, the debt ceiling, the credit rating for U.S. long-term debt and polarization in

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[2] "The Tempest," William Shakespeare, Act 2, Scene 1.
[3] National Income and Product Accounts Gross Domestic Product, 4th quarter 2011 and annual 2011 (third estimate), U.S. Bureau of Economic Analysis, March 29, 2012.
[4] "Gross Domestic Product: First Quarter 2012 (Second Estimate), "News Release, Bureau of Economic Analysis, U.S. Department of Commerce, May 31, 2012.
[5] Labor Force Statistics from the Current Population Survey, Series ID LNS14000000, Bureau of Labor Statistics, United States Department of Labor, Data extracted on April 4, 2012.
[6] Economic News Release, The Employment Situation – May 2012, Bureau of Labor Statistics, United States Department of Labor, June 1, 2012.

Washington, driven by what appears to be an increasing divide in ideology, are also of concern.

On a brighter note, technological improvements in drilling in recent years have led to remarkable increases in natural gas reserves, particularly in shale gas plays.[7] On April 3, 2012, the American Gas Association (AGA) released a preliminary draft of its annual report of natural gas reserves. Proved U.S. natural gas reserves at the end of 2011 were estimated to be 300 trillion cubic feet (Tcf), a new record. The previous record was set in 1967 when proved reserves reached 293 Tcf. Proved reserves are generally those reserves which are estimated with reasonable certainty to be economically producible from known reservoirs.[8] Put in context, current U.S. natural gas production rates are in the range of 22 to 23 Tcf per year. The AGA specifically identified investment in onshore drilling opportunities in shale formations in the Lower-48 states as a significant factor in recent reserve increases.[9]

The AGA, in a news release on April 4, 2012, announced that current reserves information combined with resource assessments of future supply totaled 2,100 Tcf or greater. While the certainty of this estimate is much less than that for proved reserves alone, it is meaningful for future resource planning. At current production rates, this estimate, in round numbers represents 100 years of U.S. supply.[10]

The increase in proved reserves, driven primarily by drilling in shale gas plays, has implications for the pricing of natural gas. Current indications are that natural gas will be moderately priced for the foreseeable future. The Henry Hub natural gas futures forward curve in recent weeks has had prices through the fall shoulder months of 2012 increasing from the mid two-dollar to the upper two-dollar-per-decatherm range. For the winter of 2012/2013, Henry Hub futures' prices range from the low three-dollar to the mid three-dollar-per-decatherm range. The highest prices over the 36-month strip are in the low-four-dollar-per-decatherm range and occur predictably during the winter-heating season months.

Plentiful supplies of natural gas have resulted in record storage inventories. The U.S. Energy Information Administration reported that working gas in storage for the Lower-48 states at the end of the traditional winter heating season on March 30, 2012, set a new record of 2,479 billion cubic feet (Bcf). This level is only the second time Lower-48 inventories have exceeded the 2,000 Bcf mark at the end of March (the other occurrence was March of 1983 when the record was 2,148 Bcf). Compared with March of 2011, inventories this year were 887 Bcf higher. Compared with the five-year average for this time, stocks were 934 Bcf higher.

From 2006 through 2010, summer-to-winter natural gas price differentials were sufficiently wide that numerous storage projects were spawned in the U.S. A record for

[7] For a more in depth discussion of directional drilling, hydraulic fracturing, and the growth in shale gas production, see the Introduction and Background section of the Questar Gas Company Integrated Resource Plan, For Plan Year: June 1, 2011 to May 31, 2012, Submitted: June 6, 2011.
[8] For a more precise definition of proved reserves, see 17 CFR Section 210.4-10(a)(22).
[9] "Preliminary Findings Concerning 2011 Natural Gas Reserves," American Gas Association, Energy Analysis Policy Analysis Group, April 3, 2012.
[10] "U.S. Natural Gas Reserves at Record Levels," News Release, American Gas Association, April 4, 2012.

capacity additions to storage was set in 2010 with roughly 160 Bcf being placed in service. During 2011, capacity additions declined dramatically (a pullback of approximately 66 percent) due primarily to narrowing price spreads. Slow economic growth and tight credit markets were also factors. Expectations among most analysts are that, for the near future, annual additions to storage will be substantially less than the 2010 peak.[11]

Three relatively new natural gas storage projects in the vicinity of the operations of Questar Gas are the Magnum Gas Storage Project (Magnum), the Ryckman Creek Gas Storage Project (Ryckman), and the Clay Basin storage expansion project. The Magnum project involves the construction and operation of a high-deliverability, multi-cycle salt cavern storage facility and a 61 mile connecting header pipeline to be located in Millard, Juab and Utah counties, Utah. Total working gas capacity for the Magnum project is expected to be 42 Bcf. During January 2012, construction on the Magnum project was placed on hold. It appears that initial project facilities will be designed to store natural gas liquids instead of natural gas.

The Ryckman storage project involves the utilization of a partially depleted oil field located approximately 25 miles southwest of the Opal Hub in southwestern Wyoming. Working gas capacity planned for the first phase of the Ryckman project is 19 Bcf. On April 18, 2011, Questar Gas entered into a Firm Gas Storage Service Agreement with Ryckman for 2,500 MDth of storage capacity. It is not expected that the Ryckman storage facilities will be available for the injection of natural gas until late summer 2012, at the earliest.

Questar Pipeline Company (Questar Pipeline), during the fall of 2011, announced a non-binding open season to determine interest in an additional 8 Bcf of capacity at its Clay Basin storage facility. Questar Gas participated in this open season and performed some modeling analysis. Additional information on the Magnum, Ryckman and Clay Basin expansion projects and the involvement of Questar Gas with each is contained in the Storage Issues section of this report.

Fundamental to the market value of any natural gas storage facility is its ability to be used for price arbitrage.[12] The recent increase in shale gas production has lowered long-term prices and narrowed price volatility resulting in less favorable storage economics. The viability of new projects will depend on location relative to interstate pipelines, the supply of competing storage capacity, and the underlying cost structure of the facilities (including cushion gas).

The natural gas transmission grid continued to expand during 2011. The U.S. Energy Information Administration has estimated that 25 pipeline projects, in aggregate extending some 2,400 miles, were placed in service in 2011. Most of these projects were in areas where supply congestion has been problematic, namely California, Florida and the Northeast. Natural gas transmission capacity additions in 2011 totaled 13.7 Bcf per day. Over the last five years, only capacity additions in 2010 were lower.[13]

[11] "Gas Storage Boom May Have Run Its Course," Platts Gas Daily, December 12, 2011, Page 1.
[12] Storage can also be used to provide required supply deliverability that otherwise would not be available.
[13] "Natural Gas Pipeline Capacity Additions in 2011," Today in Energy, U.S. Energy Information Administration, February 17, 2012.

The availability of increasing volumes of shale gas, primarily from plays in the northeastern U.S., has altered, in ways never before seen, traditional flows on long-haul pipelines. The development of northeastern shale plays such as the Marcellus, Antrim, Devonian and the New Albany account for some 63 percent of Lower-48 shale gas resources.[14] A portion of the natural gas supplies that have traditionally flowed from the west to the east are now being displaced, so much so, that some long-haul pipelines have considered reversing direction of flow. The long-term impact on Rockies pricing remains to be seen.

In Questar Gas' service area, two pipeline projects have recently been placed in service, El Paso's Ruby Pipeline project and Questar Pipeline's Main Line (ML) 104 Extension project. On July 28, 2011, El Paso Corporation placed the Ruby Pipeline (Ruby) in service. The Ruby system extends from Opal, Wyoming to Malin, Oregon. The project is comprised of 680 miles of 42-inch diameter natural gas pipeline with a design capacity of approximately 1.5 Bcf per day. In less than two months, Ruby had ramped up to more than one half of its design capacity. By late November of 2011, Ruby flows exceeded 1.4 Bcf per day.

In spite of the displacement of Rockies gas due to growing shale gas supplies in the Northeast, prices at Opal have remained relatively strong as Rockies supplies have shifted to serve demand in the West Coast markets via Kern River, Ruby, and Northwest Pipeline.[15]

Traditional pipeline flows in the Northwest have also been impacted by the Ruby pipeline.[16] On March 27, 2012, TransCanada Corporation received permission from the FERC to effectively make its Gas Transmission Northwest (GTN) pipeline bidirectional by allowing firm northbound firm service to facilitate the transport of supplies from Ruby.[17]

Because of the proximity of the Ruby pipeline to the facilities of Questar Gas, the Company requested that Ruby install a tap valve just north of Brigham City, Utah. Additional information on the Ruby Pipeline Project is contained in the System Capabilities and Constraints section and the Transportation Issues section of this report.

Another regional pipeline project in Questar Gas' service territory was placed in service during the previous year. Questar Pipeline placed its ML 104 Extension Project in service on November 11, 2011. The ML 104 Extension Project extends the existing ML 104 eastward through the construction of 23.5 miles of 24-inch diameter pipeline. This line parallels Questar Pipeline's ML 40 from the Green River block valve to the Fidlar Compressor Station allowing for greater access to natural gas supplies in the Uinta Basin.

[14] "Review of Emerging Resources" U.S. Energy Information Administration, U.S. Department of Energy, Independent Statistics and Analysis, July 2011.
[15] "West to Use Gas Displaced by Marcellus: Bentek," Platts Gas Daily, January 9, 2012, Page 1.
[16] "GTN Pipeline in Northwest Becomes Bidirectional," Platts Gas Daily, April 12, 2012, Page 1.
[17] Federal Energy Regulatory Commission, Office of Energy Market Regulation, Memo From Nils Nichols, Director, Division of Pipeline Regulation, to John A. Roscher, Director of Rates and Tariffs, GTN, Docket No. RP12-485, March 27, 2012.

More information about this project and the capacity that Questar Gas holds on it is contained in the Transportation Issues section of this report.

The 2011 hurricane season (June through November) ended, marking the sixth straight year with no major storms of Category 3 strength or higher on U.S. shores. Hurricane Irene was the only hurricane to hit the U.S. during 2011. Natural gas production facilities in the Gulf of Mexico largely escaped hurricane impacts during 2011.[18]

Moderately priced and clean burning natural gas has had an impact on the electric-power-generation market. Over the past 60 years, the share electricity holds of end-use energy deliveries in the U.S. (excluding the transportation sector) has grown from 4 percent to 29 percent.[19] While coal is still the largest single fuel used in the generation of electricity, its share has been shrinking at the same time natural gas has been gaining. The U.S. Energy Information Administration's Annual Energy Outlook for 2012 (early release reference case) shows coal's share of the electric generation mix shrinking from 45 percent to 39 percent between 2010 and 2035. Over the same time period, natural gas is forecasted to grow from 24 percent to 27 percent.[20]

During November of 2011, Governor Mead of Wyoming and Governor Herbert of Utah, in conjunction with a number of other states, signed a Memorandum of Understanding (MOU) to ". . . recognize the benefits and unique attributes of clean burning natural gas. . ." and to acknowledge " . . .the significant opportunity compressed natural gas (CNG) presents to save State and taxpayer dollars by encouraging an energy future that utilizes domestic energy resources to fuel our nation's transportation needs." The MOU also recognized ". . . the need for continued development and expansion of CNG fueling infrastructure. . ."[21]

Questar Gas is a national leader in the promotion of natural gas vehicles (NGV). Utah currently has just under 100 NGV filling stations, 25 of which are public access stations. Nationally, there are over 1,000 NGV filling stations. Questar Gas' public stations in Utah saw over a 14 percent increase in sales volumes from 2010 to 2011. The stations for 2011 sold 4.7 million gallons. There has been a 47 percent increase in refueling capacity in the State of Utah over the last 12 months resulting in border-to-border stations on both a north-south axis and an east-west axis. The current Questar Gas pump price is approximately $1.49 per gallon equivalent.[22]

Questar Gas will upgrade 2 CNG filling stations in 2012, and also add a new public access station in Moab. In addition, the Company continues to convert its fleet to operate on CNG. Currently, approximately 50 percent of the fleet is running on CNG.

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[18] "For Sixth Year, No Major Hurricanes Hit U.S.," Platts Energy Trader, November 29, 2011, Page 12.
[19] "Electricity's Share of U.S. Delivered Energy Has Risen Significantly Since 1950," Today In Energy, U.S. Energy Information Administration, March 2, 2012.
[20] "Annual Energy Outlook 2012 Early Release," U.S. Energy Information Administration, U.S. Department of Energy, January 23, 2012, Figure 3, Page 2.
[21] Memorandum of Understanding , Governor Mary Fallin, State of Oklahoma, November 9, 2011; Governor John Hickenlooper, State of Colorado, November 9, 2011; Governor Matthew H. Mead, State of Wyoming, November 9, 2011; Governor Tom Corbett, State of Pennsylvania, November 9, 2011; Governor Gary R. Herbert, State of Utah, November 16, 2011.
[22] Carl Galbraith, Director, Questar Gas Company, Business Development. April 26, 2012.

The increase in shale gas production in recent years has focused attention on the environmental impacts of drilling for this resource. In particular, some allege that the use of hydraulic fracturing has resulted in the contamination of drinking water.

Hydraulic fracturing has been used to stimulate production from oil and gas wells since the late 1940's and is closely monitored by state regulatory agencies. When the casing of an oil or gas well is cemented, formations containing drinking water are isolated from those producing hydrocarbons. These formations are typically thousands of feet apart. In 1995, the Administrator of the Environmental Protection Agency (EPA) wrote with regard to the enforcement of the Safe Drinking Water Act in Alabama, "There is no evidence that the hydraulic fracturing at issue has resulted in any contamination or endangerment of underground sources of drinking water (USDW) . . . Moreover, given the horizontal and vertical distance between the drinking water well and the closest methane gas production wells, the possibility of the contamination or endangerment of USDW's in the area is remote."[23] In 2004, the EPA conducted a study to assess the potential for contamination of underground drinking water from the injection of hydraulic fracturing fluids into coal bed methane (CBM) wells. In its final report, the EPA stated, "Based on the information collected and reviewed, EPA has concluded that the injection of hydraulic fracturing fluids into CBM wells poses little or no threat to USDWs and does not justify additional study at this time."[24]

The natural gas industry continues to maintain that there are no confirmed cases of groundwater contamination by the migration of hydraulic fracturing fluids through thousands of feet of geologic formations to shallower aquifers. Over one million hydraulic fracturings have taken place in North America over the past 60 years without water supplies being polluted.[25] If there is any potential for contamination from hydraulic fracturing, it is much more likely to occur from the improper handling of fluids above ground before the fracturing process, or, after the fracturing process when produced fluids are being disposed of. Such surface spills can be quickly identified, stopped, contained and cleaned up before drinking water contamination can occur. In the words of Bill Johnson, Chief Executive Officer of Progress Energy (an east coast electric utility company serving some 3.1 million customers), "Fracking is not a new thing . . . we ought to be able to do it right, to make sure that there are no environmental impacts from it. It's like any other natural resource - - if we're going to use it, if we're going to extract it, we have to do it the right way. If we pay enough time and attention and look at the science and look at the equipment they use and the methods, we should be able to do this safely."[26]

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[23] Correspondence, dated May 5, 1995, from Carol M. Browner, Administrator of the United States Environmental Protection Agency, to David A. Ludder, Esq., General Counsel, Legal Environmental Assistance Foundation, Inc.

[24] "Evaluation of Impacts to Underground Sources of Drinking Water by Hydraulic Fracturing," U.S. Environmental Protection Agency, EPA 816-R-04-003, June 2004, Page ES-1. The acronym "USDW" refers to "underground sources of drinking water."

[25] American Petroleum Institute, Hydraulic Fracturing, April 3, 2012, http://www.api.org/~/media/Files/Policy/Exploration/HYDRAULIC_FRACTURING_PRIMER.ashx.

[26] Marketplace Morning Report for Monday, February 13, 2012, Interview of William D. Johnson, Chairman, President and Chief Executive Officer of Progress Energy, Inc. by Jeremy Hobson.

Wexpro II Concept

For over 30 years, the customers of Questar Gas have benefited from supplies delivered at cost-of-service to the Company pursuant to the Wexpro Agreement (Wexpro Agreement).[27] Since the fall of 2011, Questar Gas and Wexpro Company (Wexpro) have been discussing, with regulatory agencies in Utah and Wyoming, the possibility of Wexpro acquiring oil and gas properties or undeveloped leases for the mutual benefit of the customers of Questar Gas and Wexpro under an agreement similar to the Wexpro Agreement.[28] This potential arrangement (referred to as the Wexpro II Agreement) would incorporate terms and conditions of the Wexpro Agreement.

Wyoming IRP Process

Questar Gas has been involved in integrated resource planning for nearly two decades in the State of Wyoming. As directed in an order issued by the Wyoming Commission in 1992, the Company has been required to prepare and file integrated resource plans.[29]

More recently, on February 3, 2009, the Wyoming Commission issued an order initiating a rulemaking pertaining to integrated resource planning. The rule was proposed to ". . . give the Commission a more formalized process for requiring the filing of integrated resource plans, in some cases, and reviewing such plans."[30] The order initiated a formal proceeding to consider promulgating the following rule:

> Rule 253: Integrated Resource Planning
>
> Any utility serving in Wyoming required to file an integrated resource plan (IRP) in any jurisdiction, shall file that IRP with the Wyoming Public Service Commission. The Commission may require any utility serving in Wyoming to prepare and file an IRP when the Commission determines it is in the public interest. Commission advisory staff shall review the IRP as directed by the Commission and report its findings to the Commission in open meeting. The review may be conducted in accordance with guidelines set from time to time as conditions warrant.[31]

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[27] For more information on the Wexpro Agreement, see the Cost-of-Service Gas section of this report.
[28] Meetings on the Wexpro II concept were held with Wyoming regulatory agencies in person or by telephone on November 9, 2011, January 26, 2012, February 14, 2012, March 28, 2012, and April 26, 2012. In Utah, meetings were held on October 25, 2011, January 18, 2012, March 26, 2012, and April 26, 2012.
[29] "In the Matter of the Application of Mountain Fuel Supply Company to File its Integrated Resource Plan as Directed by the Commission in Docket No. 30010-GI-90-8," Findings, Conclusions and Order, Docket No. 30010-GI-91-14, May 21, 1992.
[30] Before the Public Service Commission of Wyoming, "In the Matter of the Proposed Adoption of Chapter 2, Section 253 of the Commission Procedural Rules and Special Regulations Regarding Integrated Resource Planning," Order Initiating Rulemaking, Docket No. 90000-107-XO-09 (Record No. 12032, February 3, 2009).
[31] Ibid.

A hearing on the proposed rule was held in Cheyenne, Wyoming on May 12, 2009, where Questar Gas articulated the position that it was generally in agreement with Rule 253. After deliberations, the Wyoming Commission approved Rule 253 as noticed. Proposed IRP Guidelines were also issued with the Wyoming Commission Order. These guidelines were not part of Rule 253.

On June 7, 2010, the Wyoming Commission sent out natural gas IRP guidelines to natural gas utilities with a request for comments to be made on or before July 22, 2010. The Wyoming Commission indicated that these guidelines were not part of a rulemaking and were informal in nature.[32] Following the receipt of comments, the Wyoming Commission, on January 24, 2011, notified all Wyoming natural gas utilities that the natural gas IRP guidelines were accepted by the Commission at its open meeting of December 16, 2010.[33]

Questar Gas' 2011 IRP was filed with the Wyoming Commission on September 19, 2011.[34] Notice was issued by the Wyoming Commission that the document was available for review with written comments to be filed on or before December 5, 2011, with Questar Gas reply comments due on or before January 5, 2012.

At a Wyoming Commission Regular Open Meeting on November 22, 2011, Commission Counsel introduced the matter of the receipt of Questar Gas' 2011 IRP and reported that public notice had been issued along with a comment period. It was expected that the IRP would be presented to the Wyoming Commission in January of 2012. Questar Gas responded to Wyoming Commission questions about the IRP.

On January 30, 2012, Wyoming Commission staff filed a report on Questar Gas' 2011 IRP with the Wyoming Commission.[35] The Wyoming Commission placed the matter of Questar Gas' IRP on the agenda of its Regular Open Meeting that was held on February 2, 2012. At that meeting, representatives of Questar Gas summarized the IRP and answered questions from the Wyoming Commission. The Wyoming Commission accepted Questar Gas' IRP for filing.

[32] Correspondence from The Public Service Commission of Wyoming; Alan B. Minier, Chairman; Steve Oxley, Deputy Chairman, and Kathleen "Cindy" Lewis, Commissioner; to Barrie McKay, Manager of State Regulatory Affairs, Questar Gas Company, dated June 7, 2010.

[33] Correspondence from The Public Service Commission of Wyoming; Alan B. Minier, Chairman; Steve Oxley, Deputy Chairman, and Kathleen "Cindy" Lewis, Commissioner; To All Wyoming Natural Gas Utilities, dated January 24, 2011.

[34] Due to an oversight on the part of Questar Gas, this document was filed with the Wyoming Commission several months after it was completed.

[35] Memorandum to Chairman Minier, Deputy Chairman Oxley and Commissioner Lewis, from Don Biedermann and Dave Lucero, January 30, 2012, Docket No. 30010-112-GA-11 (Record No. 12954), " In the Matter of the Filing of Questar Gas Company of its Integrated Resource Plan (IRP) for June 1, 2011 to May 31, 2012."

Utah IRP Process

Over the past few years in the State of Utah, new IRP standards and guidelines have been implemented. This implementation process has included numerous discussions between IRP stakeholders in public meetings and the submission of extensive comments.

On March 31, 2009, the Utah Commission issued its Report and Order on Standards and Guidelines for Questar Gas Company (2009 IRP Standards) to be effective starting with the Company's 2010 IRP.[36] Following the filing of the Company's 2009 IRP (which was not required to meet the new 2009 IRP Standards due to the shortness of time), the Utah Commission requested comments from all interested parties on the IRP process in general.[37]

The Division of Public Utilities (Division), the Office of Consumer Services (the Office), and the Company all filed comments. On March 22, 2010, the Utah Commission issued an order providing guidance on Questar Gas' 2009 IRP and clarifying the requirements of the 2009 IRP Standards (Clarification Order).[38] For a number of issues, the remarks filed by the parties in response to the request for comments were so disparate that the Utah Commission directed the Company to include discussions of these matters in 2010 IRP meetings in an attempt to reach a consensus among all interested parties. Three IRP technical conferences were held during the summer of 2010, specifically to clarify the 2009 IRP Standards and resolve outstanding issues.

On June 6, 2011, the Company filed its 2011 IRP. On June 21, 2011, the Utah Commission issued an action request for the Division to review and comment on the 2011 IRP. The Division filed its comments on August 25, 2011, reviewing all the sections in the 2011 IRP.[39] The Division concluded that the Company had met the 2009 IRP Guidelines.

Also on August 25, 2011, the Office filed its comments on the Company's 2011 IRP.[40] The Office focused its comments on four areas of the IRP; 1) Wexpro production, 2) the SENDOUT model, 3) gathering and processing issues, and 4) reliance on Questar Pipeline capacity.

On December 16, 2011, the Utah Commission issued its Report and Order on the 2011 IRP.[41] The Utah Commission commended the Company for its continued efforts in improving the IRP process and enhancing the information contained therein. The Utah

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[36] "In the Matter of the Revision of Questar Gas Company's Integrated Resource Planning Standards and Guidelines," Report and Order on Standards and Guidelines for Questar Gas Company, Docket No. 08-057-02, Issued: March 31, 2009.

[37] "In the Matter of Questar Gas Company's Integrated Resource Plan for Plan Year: May 1, 2009 to April 30, 2010," Request For Comments, Docket No. 09-057-07, Issued: May 11, 2009.

[38] "In the Matter of Questar Gas Company's Integrated Resource Plan for Plan Year: May 1, 2009 to April 30, 2010," Report and Order, Docket No. 09-057-07, Issued: March 22, 2010.

[39] Action Request Response From the Division of Public Utilities to the Utah Public Service Commission, Questar Gas Company's 2011-12 Report, Docket No. 11-057-06, August 25, 2011.

[40] Memorandum from The Office of Consumer Services to The Public Service Commission of Utah, Comments Re: Questar Gas Company's 2011 IRP, Docket No. 11-057-06, August 25, 2011.

[41] In the Matter of Questar Gas Company's Integrated Resource Plan for Plan Year: June 1, 2011 to May 31, 2012, Report and Order, Docket No. 11-057-06, Issued: December 16, 2011.

Commission also agreed with the comments of the Division and made a determination that the Company's 2011 IRP generally satisfied the 2009 Standards and Guidelines. The Utah Commission in its comments provided some recommendations and guidance including; 1) encouragement for "the parties to meet with the goal of enhancing understanding of the SENDOUT model," 2) direction for the Company to conduct an analysis of the System-Wide Gathering Agreement with QEP Field Services and to include the results in the 2012 IRP, 3) a requirement for further discussion and clarification of the Company's collaborations with its upstream transportation providers, 4) further discussion of the Company's modeling review of the distribution of purchased gas packages between Kern River Gas Transmission (KRGT) and Questar Pipeline, and 5) a demonstration that "the Company's pipeline decisions are the most cost effective."

Over the past year, Questar Gas has scheduled technical conferences and meetings to respond to specific issues as ordered by the Utah Commission, to receive input for the IRP process, and to report on the progress of the Company's planning effort. On February 22, 2012, an IRP Kickoff Meeting was held in conjunction with the development of the 2012 IRP. Issues discussed include:

- 2012 IRP meeting schedule.
- Shut-in of cost-of-service production.
- Hedging plans for 2012.
- Update of the Lake Side 2 power project negotiations.
- Making supplies available to industrial customers at the weighted average cost of gas.
- Long-term capacity planning.
- Review of Rockies production, pipeline flows and pricing.
- Review of Questar Gas transportation contracts.
- Use of the Questar Gas Electronic Mapping System to facilitate emergency response.

On February 23, 2012, Questar Gas sent out its annual request for proposal (RFP) for natural gas purchases. Responses were due on March 7, 2012.

A public technical conference was held on March 27, 2012, with Utah regulatory agencies. Topics discussed included:

- Per-unit cost of cost-of-service gas based on recent pass-through rate cases.
- Per-unit cost of cost-of-service gas for 2011 based on accounting data.
- Modeling review of the distribution of purchased gas packages between KRGT and Questar Pipeline.
- SENDOUT model setup.
- Cost-of-service gas well groupings.
- Fixed and variable cost inputs to the SENDOUT Model.
- Cost-of-service gas carrying-cost logic.
- Simulation process.
- Modeling constraints.

- Distribution non-gas (DNG) Action Plan update.
- Completed 2011-2012 major high pressure projects.
- Major 2012 DNG Action Plan projects.

On April 18, 2012, a closed meeting with Utah regulatory agencies was held to discuss the following topics, which involved confidential market sensitive information:

- Responses to the Company's purchased-gas request for proposals.
- Purchased-gas modeling results and recommendations.
- Invitation for review of purchased-gas proposals.
- Review of historical peak-day demand versus firm upstream capacity.
- Review of the percentage of peak-day demand covered with firm transportation.
- Recommendation for future coverage levels.
- Review of current firm transportation capacity options available.
- Update of gathering issues.

A public meeting has been planned for June 21, 2012, to discuss the 2012 IRP with Utah regulatory agencies and interested stakeholders.

Over the previous year, the Company has participated in a number of Utah IRP meetings to address specific issues as ordered by the Utah Commission. The Company welcomes discussion and open dialogue and will schedule additional technical conferences to answer questions and resolve any remaining issues. The Company believes that the in-depth discussion of highly technical and complex issues can more appropriately take place in a technical conference format where dialogue can take place with interested parties rather than in this summary IRP document which has a broader readership with more general interests.

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 distribution system standpoint, an upstream capacity standpoint, a gas-supply source standpoint and taking into consideration the inter-day load profile of each source;

3. To develop a plan using stochastic data, stochastic methods, and risk management programs 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; and

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, including decisions associated with cost-of-service gas, purchased gas, gathering, processing, upstream transportation, and storage.

The Company utilizes a number of models as part of its IRP processes. The complexity of the systems being analyzed necessitates the use of computer-based tools. Modeling tools are an integral part of the forecasting, gas network analysis, energy efficiency analysis, and resource selection processes. In each section of this report where the Company has referred to modeling tools, the IRP contains a description of the functions of each model and the version utilized. The IRP also contains discussion of any material changes (logic and data) from the previous year's IRP including the reasons for those changes.

An annual IRP process dovetails well with the natural seasonal cycles of the gas industry. Some of the end-of-calendar-year data is not available and fully analyzed for IRP purposes until mid-April. The utilization of this information ensures that the Company is including the most current and relevant information in its IRP. The required data input assumptions utilized in IRP models are voluminous. Nevertheless, the intent of this IRP 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) executive summary; 2) introduction and background; 3) Questar Gas' customer and gas demand forecast; 4) the capabilities and constraints of Questar Gas' distribution system; 5) the local market for natural gas, the purchased gas RFP, associated modeling issues, and price stabilization topics; 6) cost-of-service gas including modeling issues, producer imbalances and future development prospects; 7) gathering, transportation and storage; 8) energy-efficiency programs; 9) the final modeling results; and 10) the general planning guidelines to be used in the implementation of the IRP from June of 2012 through May of 2013.[42]

[42] Throughout this report, "Dth" refers to decatherms, "MDth" refers to thousands of decatherms, "MMDth" refers to millions 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. "FL" refers to feeder line.