
Energy Efficiency Program Proposal

ThermWise[®] Market Transformation

Program Description

Background

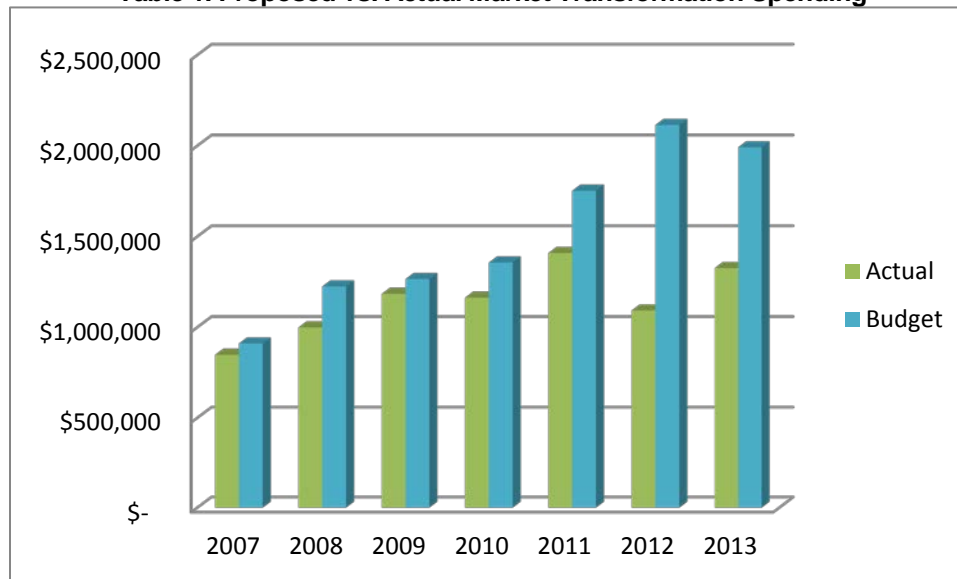
Since the introduction of the ThermWise® Energy Efficiency (EE) programs, Market Transformation has been a consistent and critically important component of Questar Gas Company's (Questar Gas or Company) long-term strategy. "Market Transformation involves promoting ongoing and lasting changes to natural gas appliance penetration rates and new construction markets, as well as natural gas conservation" (Application, Docket No. 05-057-T01, paragraph 21). There are three primary goals that drive the Company's Market Transformation initiative. They are, (1) enhance the Company's involvement in energy efficiency and conservation promotion; (2) change consumer and market participation behaviors; and (3) encourage persistent demand for energy efficiency products and practices. (Application, Docket No. 05-057-T01, paragraph 22). In order to effectively achieve these goals, the Company, proposes an appropriate Market Transformation budget each year and prudently uses those funds throughout each program year. The budget funds activities, events, partnerships, sponsorships, and other supporting components, which contribute to the overall achievement of these three goals. The central purpose of this Exhibit is to provide information regarding the Company's proposed 2015 Market Transformation budget, along with a supporting analysis and summary of why the proposed budget is vital to the success of the ThermWise® portfolio of programs.

First, the Company will provide a summary of the history of its Market Transformation budget, from 2007-2013. The Company will summarize proposed-versus-actual Market Transformation spending. The Company will then show how the ThermWise® Programs measure up to others in the natural gas energy efficiency industry. Next, key findings from the 2014 Lighthouse Survey will be presented. Then the Company will outline and detail the 2015 Market Transformation campaign components, strategy and plans.

Market Transformation Budget History

Table 1 is a summary of proposed versus actual Market Transformation spending from 2007-2013. The Company has been selective in its spending, choosing projects with the greatest return and high program exposure. The Company has been diligent in its efforts to secure event and promotional contracts at low rates. The Company regularly seeks out and takes advantage of low to no-cost events. In many cases the Company is able to leverage its existing marketing channels in return for waiver of the participation fee at community events. These efforts have proven effective as historical spending has always come in lower than budget (see Table 1). Additionally, the Company has historically built flexibility into the budget in order to be responsive to unanticipated Market Transformation opportunities that will maximize program exposure. These unanticipated opportunities contribute to variances between projected and actual spending.

Table 1. Proposed vs. Actual Market Transformation Spending

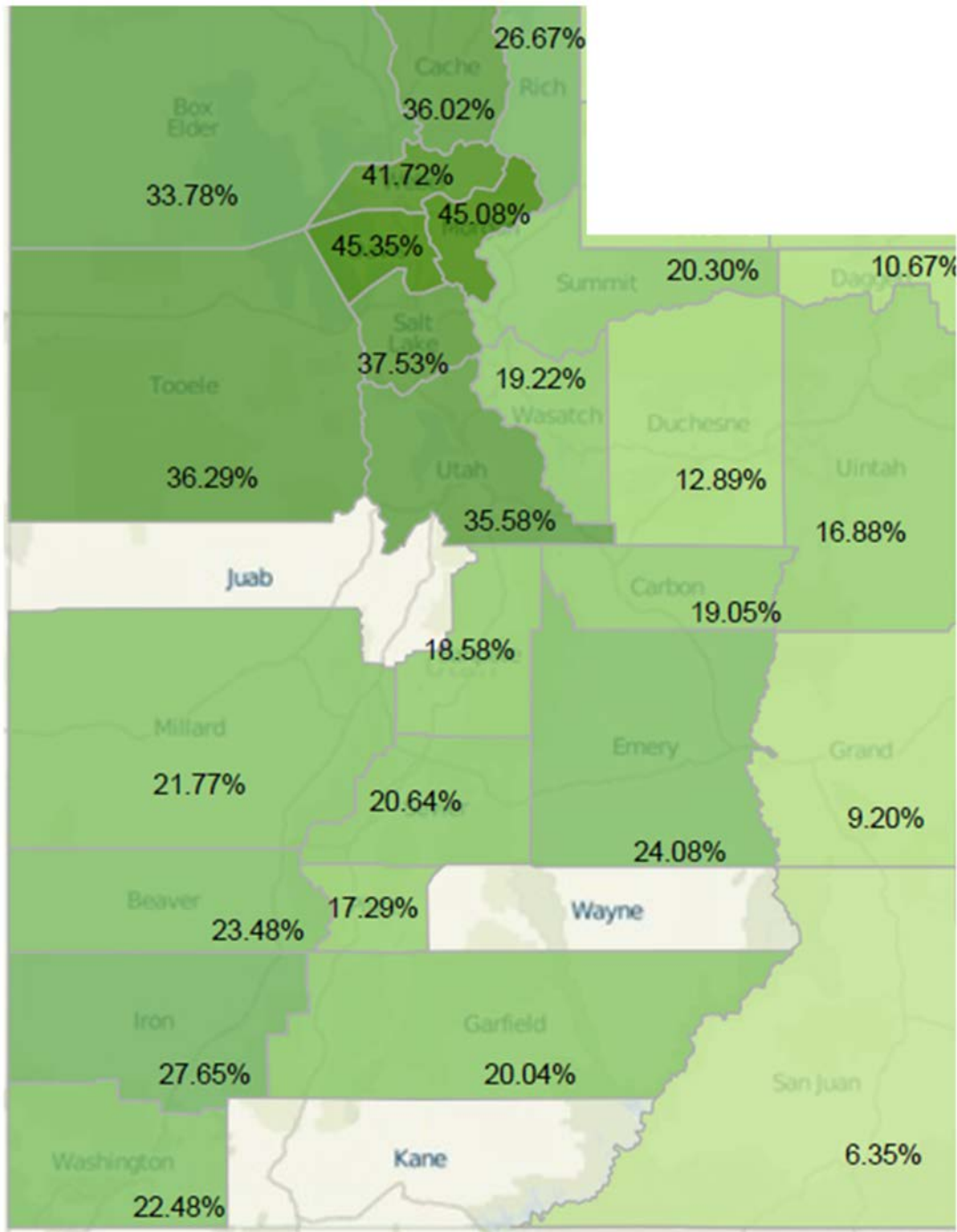


Although there are other contributing factors such as rebate amounts, availability of tax credits, and government incentives, there appears to be a correlation between Market Transformation spending and overall participation in the ThermWise® programs from 2007-2010. When the Company filed for its 2011 Market Transformation budget it was aware of potential changes in government funded programs, as well as other changes that could negatively impact participation. In anticipation of these potential changes and in an effort to sustain participation levels, the Company increased its Market Transformation budget. However, a combination of changes outside of the Company's control still resulted in a decrease in overall participation levels in 2011 and 2012. First, beginning May 1, 2010 the Utah State Energy Program began administering \$2.3 million in the American Recovery and Reinvestment Act (ARRA) rebate funds for the Cash for Appliances Utah Program. All of these funds had been exhausted by November 2010. With the lack of additional funding, participation went down. Next, many customers who combined ThermWise® rebates with rebates offered by other utilities, such as Rocky Mountain Power and Provo City Power, experienced decreases in rebate amounts offered from other utilities. This resulted in a lower combined rebate amount and thereby decreased participation. Also, in previous program years, a federal tax credit equal to 30% of the total project cost was reduced to 10% of the total project cost on December 31, 2010. Lastly, due to the elimination of ARRA funds, decreased rebate amounts and lower tax credits, many of the Company's highest volume ThermWise® Authorized Contractors left the state to pursue opportunities in other states. In response, in 2013 the Company increased its market transformation efforts in order to positively impact participation. As a result, the Company saw a substantial increase in participation in 2013.

Historically, as Market Transformation spending has increased, levels of participation have also increased. A decrease in Market Transformation spending is likely to negatively impact future participation.

Participation throughout the Company's service territory has been substantial. Table 2 shows unique participants and penetration levels by county:

Table 2. End of 2013 Unique ThermWise® Participants and Levels of Penetration



As illustrated by Table 2, the Company continues to see a steady increase in unique ThermWise participants throughout its service territory. The most dramatic increases are being seen in Morgan, Davis, Weber, and Salt Lake counties, while more rural areas are seeing increases in participation, but at a slightly slower pace. The Company is pleased with the current trend in participation and market penetration and expects to see similar trends throughout 2014 and 2015 as a result of its market transformation efforts.

A further testament to the rapid achievement of these goals can be seen in the adoption of energy efficiency equipment and technologies that were previously categorized as “new and emerging” technologies, but are now required by code or have become standard in the Company’s Utah service territory. Specifically, natural gas clothes dryers with moisture sensors and 0.30 U-Factor windows have become standard and high-efficiency clothes washers continue to see similar advancements in efficiency, resulting in higher adoption rates by customers. Additionally, high-efficiency natural gas furnaces and storage water heaters are becoming more readily available in the marketplace.

Improvements in the construction industry related to higher standard building codes are ongoing. Based on these historical results and findings, the Company believes it is achieving its three primary goals of its Market Transformation initiative.

Energy Efficiency Industry Analysis

Market penetration is defined as unique customer program participants divided by the number of customers eligible to participate in the EE programs. According to the American Gas Association’s (AGA) most recently published study on the natural gas EE industry (2012 report titled “Natural Gas Efficiency Programs Brief”), only five of the thirty-six utility survey respondents had achieved 20% or greater market penetration over the life of their EE programs. More importantly, those five utilities that had achieved 20% or greater market penetration, on average, required 17.8 program years to reach those notable levels. In comparison, in just five program years (2007-2011) Questar Gas’ ThermWise® Programs achieved a 24% market penetration rate. What required, on average, 17.8 program years for other utilities to achieve, Questar Gas was able to achieve in nearly one-third of the time. Well-planned and effective Market Transformation efforts are critical in achieving such above industry average market penetration levels. The Company attributes much of the success of the ThermWise® Programs to its Market Transformation efforts.

In addition to providing industry-wide market penetration information, the AGA also provided statistics comparing total budget to marketing budget. According to the AGA, in 2012 the percentage of total U.S. natural gas energy efficiency program actual expenditures for marketing expenses was on average 4.08% of total budget. In 2012 the Company’s Market Transformation expenditures were 3.76% of total ThermWise® Spending.

Table 3, which comes as a result of the AGA’s 2012 report, summarizes the percentage of utilities that are using specific marketing approaches.

Table 3. Success of Marketing Approaches and Target Audience

Marketing Approach	Percentage of Programs Using This Approach
Billboards	89%
Collateral Materials	97%
Contract/Vendor Promotions	60%
Direct/Community Outreach	92%
Event Sponsorships	90%
Other	81%
Press Releases	98%
Print Ads	98%

Radio Ads	94%
School Education Programs	94%
Social Media	93%
Trade & Home Shows	95%
Truck Wraps	94%
TV/Local Cable Community TV Program Coverage/Ads	92%
Web Pages	96%

Also included in the AGA's 2012 report, is a state by state comparison of what percentage of total budget is being spent on administrative, marketing, and other implementation costs.

According to Appendix C of the report, when combining all participating programs, on average, 34% of total program budgets are being spent on administrative and marketing expenses. In comparison, The Company only spends 27% of its total program budget on administrative and marketing expenses.

Even better, when comparing only the top 10 participating programs (programs paying out incentives greater than \$16,000,000), The Company ranks 4th overall in least amount of spending as a percentage of total program budget at 27%.

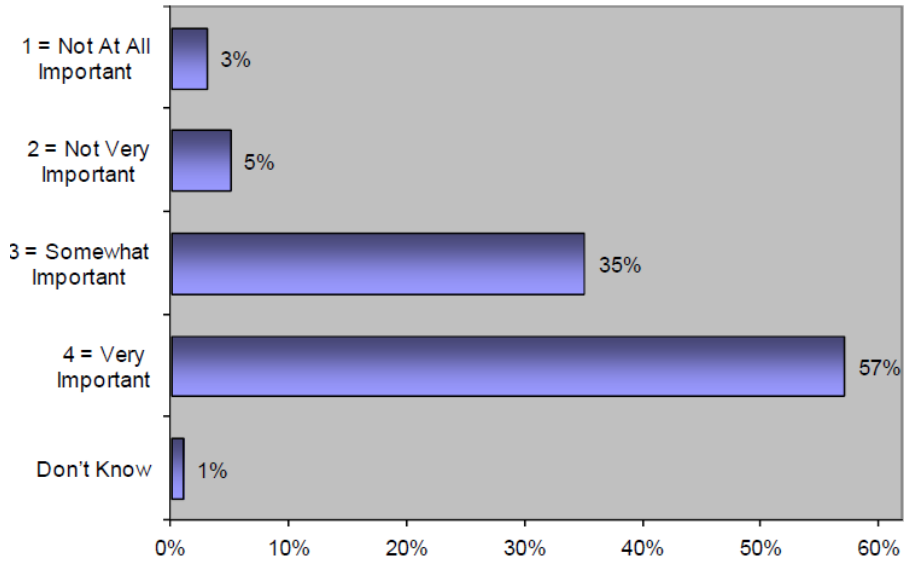
Lighthouse Survey Results

Lighthouse Research & Development, Inc. was contracted by the Company to conduct a telephone survey with current customers regarding their usage of natural gas and awareness of the conservation programs. A random sample of 707 interviews with survey respondents were completed to ensure statistical confidence rate of 95% with a $\pm 3.68\%$ margin of error. The survey was completed by manually dialing customer numbers, enabling Lighthouse to contact cell phones as well as land lines, ensuring the sample included respondents of varying ages and locations across the state. Key facts and findings from the report are included below. The entire survey results and customer responses are available upon request.

Importance of Energy Efficiency Programs

Customers continue to rate the importance of Energy Efficiency programs very high. When asked how important it is for utility companies to offer customer programs to help conserve energy, 57% stated very important and another 35% stated somewhat important as shown in the chart below.

Table 4. How important is it for utility companies to offer customers programs to help conserve energy?



Awareness of Energy Efficiency Programs

The company is pleased with the overall awareness of the ThermWise® programs. Customers were asked to identify programs offered by utility companies to help save energy. Before customers were read a description of the program and told who the sponsor was, a total of 448 respondents, or 63%, said they were aware of ThermWise®. Of those 448 respondents, or 55%, identified Questar Gas as the sponsor of the ThermWise® program.

Table 5. Overall awareness of Energy Efficiency programs

Program	Awareness	Count	%
ThermWise	Unaided Awareness	36	5%
	Aided Awareness (name only)	412	58%
	Aided Awareness (name & description)	60	9%
	Overall Awareness (unaided & aided)	508	72%

Where did customers first hear about ThermWise®

When asked where they first heard about the ThermWise® programs 54% of respondents who were aware indicated they first heard about the programs on television, 15% stated the utility bill insert, 9% stated direct mail from the Utility, and 9% radio.

Where Customers Find Information about ThermWise®

When looking for more information regarding energy efficiency and home energy savings rebates, customers overwhelming response was to search various sites on the Internet. 42% of customers stated they would look on

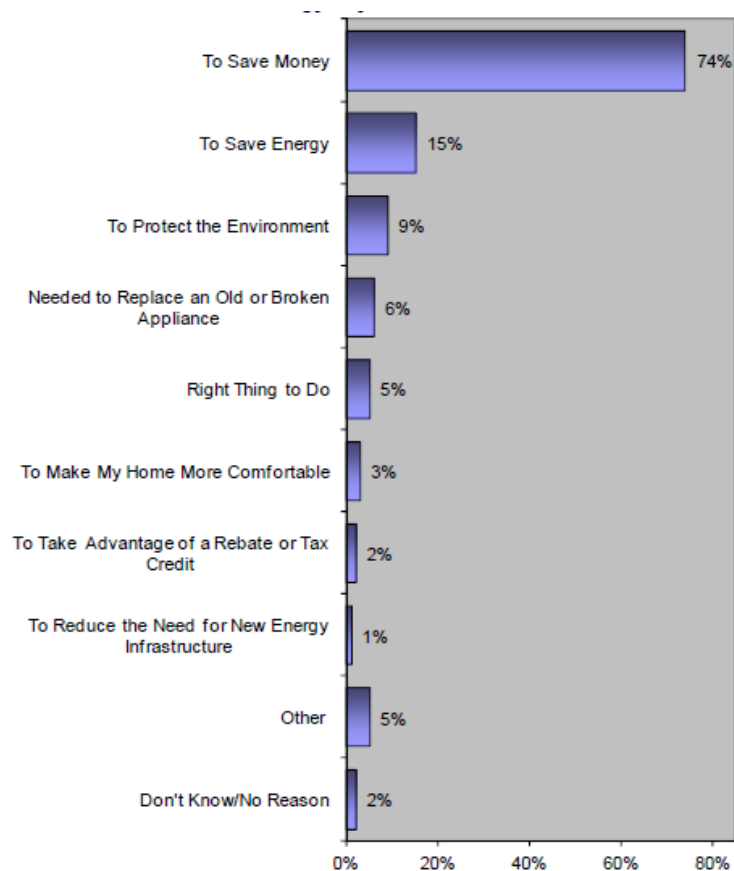
Google or Yahoo, 25% would search Questar Gas's website, 17% would search other Internet sites, and 10% would search Rocky Mountain Power's website.

In addition to seeking more information by looking online, 55% of respondents said they read the insert included in their gas bill each month.

Why Customers Participate in ThermWise®

When asked why they have taken actions to conserve energy within their homes during the past year, 74% of respondents said they have done so to "save money", 15% responded to save energy, and 9% stated to protect the environment. See chart below for details.

Table 6. The Main Reasons Customers took steps to conserve energy



Differences by County

Awareness of the ThermWise programs is higher along the Wasatch front counties. About one-third of respondents 32%-36% from Utah county and non-Wasatch Front counties are not aware of which utility company provides tips on how to best use their products, compared to only 18%-20% of respondents in Davis county and Salt Lake County. In effort to increase the awareness of the ThermWise program in Utah County and non-Wasatch counties, the company will focus on becoming more involved with community home shows, fairs and events in these areas.

2015 Campaign Components

The Company will leverage similar campaign components in 2015 to continue the momentum that has built over years past. This will include utilizing the findings from the Lighthouse Customer Survey by focusing on ways to help customers save money. The proposed 2015 campaign will target English and Spanish speaking customers throughout the Company's Utah service territory. Builders, installers, dealers and businesses will also be targeted and trained in effort to make energy efficient equipment and building standards more prevalent in the market.

The Company will continue to utilize "Therm the energy wise guy" as the spokesperson of the campaign. Therm has been the Company's spokesperson since the beginning of the program and Therm is widely recognized by the Company's customers as an expert and advocate in energy efficiency.

In effort to change consumer and market behaviors, encourage demand for energy efficient products and practices, the primary proposed objectives of 2015 are to continue to educate Questar Gas customers on ways to reduce their natural gas usage and save money, including building a greater awareness and demand for home energy plans. The campaign will also focus on encouraging customers to invest in high efficiency appliances and other home improvements to conserve natural gas, and to receive cash rebates. As part of this effort, the Company will utilize ThermWise.com to provide greater opportunities for customers to engage with the brand and participate in the ThermWise® rebate programs.

Advertising and Media: \$725,000

Contracted Agency Work

The Company has worked closely with two professional advertising and media partners (Faktoory Inc. (Faktoory) and R&R Partners (R&R)) to develop an effective working strategy for promoting energy conservation with customers through strategic marketing tactics. The Company's partnership with these agencies has been and will continue to be beneficial, as they are proven experts in creating and purchasing media. In 2014, the Company budgeted \$725,000 for these costs. The Company proposes the same budget level, \$725,000 in 2015.

Historical advertising campaigns have been designed to reach the Company's customers throughout multiple media outlets. These outlets have included television, radio, online, outdoor, print, and bill inserts. The 2015 campaign will leverage a similar message to 2014 allowing the company to use many of the same commercials and ads. This will allow for lower production costs, and a larger media buy.

In-House Ad Management and Contracts

The Company proposes renewing the advertising contracts with Faktoory and R&R to ensure the achievement of its Market Transformation initiative goals and maximize Therm's public exposure through community relations efforts, including sporting and media events, theaters, schools, and camps.

Sports Marketing and Promotions: \$450,000

In 2014, the Company budgeted \$450,000 for these Market Transformation components. The Company proposes the same budget level, \$450,000, for 2015.

Larry H. Miller Entertainment

The Company proposes continuing the partnership with Larry H. Miller Entertainment with a package similar to the 2014 package. The Larry H. Miller Entertainment assets extend the Company's Market Transformation efforts to a variety of customer segments through appearances on over 200 movie screens prior to movies; NBA

televised game commercials; arena marketing, including the ThermWise® blimp during NBA games; online placement on Larry H. Miller websites; K-JZZ High School game of the week broadcasts; Bees' Games including promoting efficiency to 10,000 5th graders; and permanent signage in the Bees stadium.

Major University Sponsorships

The Company proposes continuing its partnerships with Utah State University, University of Utah, and Brigham Young University. The ThermWise® "Therm-o-stats" continue to be a popular feature at university sporting events. In addition, conservation tips and "Did you know" messages appear throughout the events, along with announcements and commercials which promote energy efficiency and direct sports fans to ThermWise.com.

Real Salt Lake Soccer

The Company proposes to continue its partnership with Real Salt Lake (RSL) in sponsoring its youth soccer camps. RSL promotes its soccer camps through both Spanish and English media outlets, allowing the Company to reach a more diverse group of its customers. This is done through a fully integrated marketing program that RSL promotes in all of their media outlets, including, in-stadium announcements; electronic signage; radio (Spanish and English); online placement on RSL's website; television advertising; billboards; print media; and mailers.

2015 Special Marketing Events, Trade/Consumer Shows, Special Events Sponsorships: \$135,000

The Company, in coordination with its current administrative partners, will focus on marketing work which includes marketing strategy, customer surveys, collateral design and delivery, development, printing and distribution, trade and consumer shows, and events sponsorship opportunities. In 2014, the Company budgeted \$135,000. The Company proposes the same budget level, \$135,000, for 2015. This work will continue to focus on targeting increased customer participation and will include a consistent style and messaging across the programs.

Events and Promotions

The Company will continue marketing the ThermWise® programs through local events and promotions such as spring and fall home shows, local fairs, and other community events. This allows the Company to have direct contact with its customers, distribute marketing collateral, answer questions, and provide useful and accurate information in regards to its energy efficiency programs. In effort to increase awareness of the programs outside the Wasatch Front, the company has initiated involvement in more community events outside the Wasatch front, including county fairs and community events in more rural areas. In addition, many of these events allow "Therm" to interact with the Company's customers and further promote energy efficiency awareness and participation. Table 5 represents a list of 2014 marketing events through October 2014. The Company anticipates similar marketing events in 2015.

ThermWise® Marketing Events Table 7.

2014 Marketing Events
Autoliv Event
Avenues Ensign Stake Energy Fair
5 th Grade Bees Game
Cache County Fair
Comic Con
Days of 47 Rodeo
Deseret News Fall Home Show
Deseret News Spring Home Show
Detroit Remanufacturing Diesel

Dixie State Don't Waste Dixie
Dream Home Expo
Golf for Grants
Governor's Energy Conference
Green Team Jazz Game
HBA Builder Training Event
HBA General Membership ThermWise Training
Hill AFB Golf Event
Park City Relators
RSL Carnival
RSL Camps
Sandy Business Expo
Sandy City Emergency Prep/Energy Fair
School Assembly
South Jordan Parade
Standard Examiner Home Show
State of the Wasatch
UMA Golf Tournament
USU Facilities Managers Training
Utah County Fair

Questar Gas Management and Administration: \$69,000

The Company will continue its membership in energy efficiency industry associations (Consortium for Energy Efficiency, Association of Energy Services Professionals, American Council for an Energy Efficient Economy, Southwest Energy Efficiency Project, etc.) through its program managers to further advance natural gas energy efficiency and conservation in the Utah market. In 2014 the Company budgeted \$69,000. The Company proposes the same budget level, \$69,000, for 2015.

State of Utah Codes Training: \$50,000

The Company proposes the continuation of the funding for codes training in effort to increase building standards and quality throughout its service territory. The Company proposes a budget of \$50,000 for 2015.

SLCC Energy Management Program: \$14,000

The Company proposes the continuation of the sponsorship donation to Salt Lake Community College Energy Management Program. The sponsorship ensures that students interested in energy efficiency are able to receive specialized training and join the workforce in areas of energy efficiency. In 2014 the Company budgeted \$13,300. The Company proposes a slight increase for a total of \$14,000 for 2015.

University of Utah Energy Ambassador Program \$5,200

The Company proposes funding for the University of Utah energy ambassador Program. This sponsorship ensures that students at the University of Utah are exposed to energy efficiency. The program includes peer-to-peer energy audits and education that will install low flow showerheads and faucet aerators to qualifying residences. It will also include at least 6 formal hour long presentations on the University campus, directed by the Energy Ambassadors. The Company proposes a budget of \$5,200 for 2015.

Program Design: \$10,000

The costs associated with the program design budget are related to potential updates to the ThermWise® portfolio of programs. Updates may include the addition or removal of energy efficiency measures, re-working of incentive levels, and re-calculation of savings. As with every component of the Company's Market Transformation budget, these funds are used prudently. The Company proposes to continue the \$10,000 budget in 2015.

Conclusion

It is important to note that the Company includes Market Transformation costs in the ThermWise® cost effectiveness model. The Company believes this most accurately reflects the true costs to run energy efficiency programs such as the ThermWise® programs. Including all energy efficiency expenditures in cost effectiveness modeling ensures prudent use of customer dollars. The Company proposes the continued funding of the Market Transformation budget. This will allow the Company to achieve the three primary goals that drive the Company's Market Transformation initiative. The Company believes that the Market Transformation initiative is critical to the ongoing success of the ThermWise® Energy Efficiency portfolio.