PURCHASED GAS

Local Market Environment

In previous IRPs, the local market price has been represented by the monthly index price for Questar Pipeline. However, as of June 1, 2014, Platts no longer reports a monthly index price for Questar Pipeline. The Company uses Northwest Pipeline prices in the tables below as a surrogate price for natural gas delivered into Questar Pipeline's system.

Local prices during the 2014 calendar year averaged $4.25 per Dth. This was higher than the 2013 average price of $3.50 per Dth, an increase of $0.75 per Dth or 21%. The 2013 and 2014 monthly index prices are provided in Table 5.1 below.

Table 5.1 NPC First-of-Month (FOM) Index Price per Dth

Month	2013	2014	Difference
Jan	$3.28	$4.36	$1.08
Feb	$3.28	$4.96	$1.68
Mar	$3.23	$5.31	$2.08
Apr	$3.82	$4.32	$0.50
May	$3.90	$4.45	$0.55
Jun	$3.95	$4.23	$0.28
Jul	$3.45	$4.42	$0.97
Aug	$3.37	$3.69	$0.32
Sep	$3.29	$3.83	$0.54
Oct	$3.27	$3.77	$0.50
Nov	$3.57	$3.42	($0.15)
Dec	$3.60	$4.28	$0.68
Average	**$3.50**	**$4.25**	**$0.75**

The local market price for natural gas during the 2014-2015 heating season (November-March) averaged $3.21 per Dth compared to an average price of $4.36 per Dth during the 2013-2014 heating season, a decrease of $1.15 or 26%. The monthly-index prices for the two heating seasons are provided in Table 5.2 below.

Table 5.2 NPC FOM Index Price per Dth – Heating Season

Month	2013-2014	2014-2015	Difference
Nov	$3.57	$3.42	($0.15)
Dec	$3.60	$4.28	$0.68
Jan	$4.36	$3.09	($1.27)
Feb	$4.96	$2.65	($2.31)
Mar	$5.31	$2.62	($2.69)
Average	**$4.36**	**$3.21**	**($1.15)**

April 2015 PIRA Energy Group (PIRA) and Cambridge Energy Research Associates (CERA) forecasts of Rockies indices reflect an average price of approximately $2.53 per Dth through October 2015. Prices for the 2015-2016 heating season are forecasted to be approximately $2.82 per Dth.

Annual Gas Supply Request for Proposal (RFP)

One of the most fundamental results of the IRP modeling is the selection of the portfolio of natural gas purchase contracts for the coming year. The Company expects that a significant portion (approximately 55-65%) of the annual gas supply needs of Questar Gas' sales customers will be met with cost-of-service supplies provided under the Wexpro I and II Agreements (see Cost-of-Service Gas section of this report). Supply needs not met by cost-of-service gas must be purchased from natural gas providers. Accordingly, the Company issues an RFP to potential suppliers each year.

Over the years, Questar Gas has determined that the most favorable time to issue its annual RFP (soliciting proposals for natural gas supplies) is in the late-winter/early-spring time frame. During this time period, sufficient supplies for the upcoming winter heating season are likely to be available and uncommitted. This also gives potential respondents sufficient time to develop and submit proposals. The Company also needs time to extract all the data, model all the gas supply packages proposed, and complete the contracting process. In the event final agreements do not materialize for packages selected, ample time remains before the winter heating season begins to remedy any shortfalls.

On March 3, 2015, Questar Gas sent its RFP to approximately 60 prospective suppliers. The RFP sought proposals for both baseload and peaking supplies on the two major interstate pipeline systems interconnected with Questar Gas; Questar Pipeline and Kern River. The RFP requested that baseload supplies on Questar Pipeline have availabilities of 365, 180, 150, 120, 90, and/or 60 days. Due to the fact that 50,000 Dth/D of the 53,000 Dth/D of capacity obtained by the Company from Kern River's 2003 Expansion Project are only available during the five winter months of November through March, the RFP requested baseload supplies on Kern River to have availabilities of 150, 120, 90 and/or 60 days. The Company sought multi-year winter-heating season proposals on both pipelines with terms ranging from two to five years. The Company also sought proposals for peaking supplies on both pipeline systems having availabilities of two to four months to meet customer demands during the coldest winter heating season months.

Reliability of supplies is a critical issue for Questar Gas. In its RFP, the Company required that all purchased gas proposals have, in the underlying confirmation letters, language specifying liquidated damages of $15.00 per Dth for failure to perform. The Company required all proposals to have language ensuring creditworthiness and language specifying the minimum advance notice before nomination deadlines for gas flow.

Responses to the purchased-gas RFP were due on March 13, 2015. The Company received proposals for 145 gas supply packages from 15 potential suppliers. As part of the RFP requirements, submissions must specify if the same gas supply is offered under multiple proposals. This year, supplies offered under baseload proposals totaled 405,000 Dth/D, up from the 368,000 Dth/D offered last year. Peaking supplies offered on Questar Pipeline's system totaled 140,000 Dth/day, up from the 65,000 Dth/D offered last year. Peaking supplies offered on Kern River totaled 418,000 Dth/D, down from last year's level of 453,000 Dth/D.

Each spring, following the receipt of all the proposals, Questar Gas reviews all the packages offered and extracts the parameters needed as data inputs to the SENDOUT model.[54] The Company must identify the pricing mechanisms utilized for each package and link each to the appropriate index price in the model. Also, the Company must resolve the availability of receipt and delivery point capacity on the interstate pipeline system. To the extent that the same underlying gas supplies have been offered under different price and term packages, the Company must identify each to prevent the taking of more gas than is actually available. This year, the SENDOUT model evaluated 145 supply packages.

After the Company enters these purchased-gas packages into the SENDOUT model, it allows the model to find an optimal linear programming solution for any one or all of the packages of natural gas. During this optimization process, the SENDOUT model only incurs costs for a package of gas if it elects to include that package. This gives the model freedom to look at all packages and optimize them in a way that utilizes the least-cost combination of resources.

This year the model evaluated 1,500 Monte Carlo draws during the modeling process. At the conclusion of the modeling, the Company analyzed the draws to see which were preferred. Using a statistical analysis package, the Company used a procedure to group (or cluster) optimized draws in similar ways. Clustering is the assignment of a set of observations into subsets so that observations in the same cluster are similar in some sense. Questar Gas performs the clustering for peak day and annual demand.

The Company then used a follow-up statistical procedure to split clusters at cluster designed levels as shown in Exhibit 5.1. This year, as in other years, the Company broke the cluster analysis into 30 groups and plotted them as representations of optimized solutions. A point on the graph represents a cluster and a cluster represents like draws. The resulting plot shows demand on the X axis of the graph, and peak day on the Y axis. This plot shows how the SENDOUT model met high or low demand during peak-day events.

Questar Gas then selected the clusters that most closely met the forecasted annual demand for the coming year. If the Company were to choose clusters that also meet design peak day, it would over-purchase. Questar Gas examined the preferred draws that make up the clusters looking at the number of times a given package of gas was chosen and the volume of that package most often used. The more often SENDOUT used a specific package of gas, the more favorable that package is in the optimization model.

Questar Gas also reviewed the original packages in order to verify that the Company does not entrust too much of its purchased gas to one vendor, that peaking versus baseload contracts seem reasonable, that packages were within the transportation limits of both Kern

[54] The SENDOUT model and the Monte Carlo method are described in more detail in the Final Modeling Results Section of this report.

River and Questar Pipeline, and verified that a cluster combined with cost-of-service, storage and spot purchases would meet design peak day. Once this screening was completed, the most often used packages emerged from the RFP process and were then finalized with suppliers.

The levels of purchased-gas packages selected from the SENDOUT modeling process this year are shown in the Final Modeling Results Section of this report. The median purchased-gas volumes from the Monte Carlo simulation for the upcoming gas-supply year are shown by month in Exhibits 9.53 to 9.64 along with each probability distribution. Individual packages of purchased-gas supplies for the normal case are shown for the first two plan years in Exhibits 9.85 and 9.88. Of the 15 companies submitting proposals this year, 10 had at least one package selected by the modeling process. Questar Gas made commitments to purchase from the selected suppliers on May 5, 2015.

Price Stabilization

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 that the Company use stabilization measures in conjunction with natural gas purchases during the winter months (October – March). Pursuant to the Stipulation, the Company hedged portions of its baseload winter natural gas portfolio.

In Wyoming Docket No. 30010-GP-01-62, the Company sought to include costs to reduce price volatility, like those that occurred during the winter of 2000-2001. In its October 30, 2001 Order, the Wyoming Commission approved the Company’s request to include stabilization costs in the 191 Account. The Company does not engage in any speculative hedging transactions by limiting these price stabilization efforts to contracts or contract amendments that fix or cap prices for gas supplies that are contractually committed to Questar Gas’ system for delivery to end-use retail customers.

For the October 2014 - March 2015 time period, the Company did not hedge the price of any of its baseload purchased gas supplies, as a result of the forecasted level of cost-of-service gas in the supply portfolio. Given the current forecast for cost-of-service production, the Company does not plan to enter into any fixed-price agreements during the next IRP year, but it may do so in the future.