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UTILITIES COMMISSION

GAS UTILITIES

# ANNUAL REPORT

OF

## Questar Gas Company

**Utah Business Entity Number:** 558729-0142

TO THE

## PUBLIC SERVICE COMMISSION
## OF UTAH

**For Calendar Year**

**2014**

# ATTESTATION / CERTIFICATION OF RESPONSIBILITY

I certify that I have examined the information contained in this report submitted to the Utah Division of Public Utilities, and that, to the best of my knowledge, information, and belief, all statements of fact contained in this report are true and represent an accurate statement of the affairs of the respondent company as of the date shown below.

**Signature:** 

**Print Name:** David M. Curtis **Date:** April 15, 2015

**Title:** Vice-President and Controller

**Phone Number:** (801)324-2403 **Extension:** 

**Fax Number:** **Email:** dave.curtis@questar.com

**Pleas send one completed hard copy and email one copy to the following:**
**Hard copy to:**

**Utah Division of Public Utilities**
**Heber Wells Building, 4th Floor**
**160 East 300 South**
**Salt Lake City, UT 84111-6751**

**Email copy to: (using State approved e-filing protocol.)**

**dennismiller@utah.gov**

## General Company & Contact Information

**Company Name:** Questar Gas Company

**DBA Name (if different):** 

**FKA Name (if different):** 

**Address:** 333 South State

**City:** Salt Lake City **State:** UT **Zip:** 84145

**Phone Number:** (801)324-5100 **Fax Number:** 

**(800) Number:** 

**Principle Business Address:** 333 South State

**City:** Salt Lake City **State:** UT **Zip:** 84145

**Corporate Book Address:** 333 South State

**City:** Salt Lake City **State:** UT **Zip:** 00008-4145

### Report Contact Person

**Name:** Connie Marshall **Title:** Director - Accounting

**Phone Number:** (801)324-2471 **Extension:** 

**Fax Number:** **Email:** connie.marshall@questar.com

### Corporate Book Custodian

**Name:** Julie Wray **Title:** Corporate Secretary

**Phone Number:** (801)324-2736 **Extension:** 

**Fax Number:** **Email:** julie.wray@questar.com

## Contact Information

### Attorney:

Name: Colleen Bell Title: General Counsel

Firm Name: Questar Corporation

Address: 333 South State

City: Salt Lake City State: UT Zip: 84145

Phone Number: (801)324-5556 Extension: ______

(800) Number: ______ Fax Number: ______

### Accountant:

Name: ______ Title: ______

Firm Name: ______

Address: ______

City: ______ State: ______ Zip: ______

Phone Number: ______ Extension: ______

(800) Number: ______ Fax Number: ______

### Other Contacts:

Name: ______ Title: ______

Phone Number: ______ Extension: ______

Fax Number: ______ E-mail: ______

Name: ______ Title: ______

Phone Number: ______ Extension: ______

Fax Number: ______ E-mail: ______

Name: ______ Title: ______

Phone Number: ______ Extension: ______

Fax Number: ______ E-mail: ______

## OFFICERS AND DIRECTORS

Report below the officers and directors of respondent at the end of the year. If there were any changes during the year, show name, title, and address of previous officer or director and date of change.

| Name | Address | Official Title | Salary |
|---|---|---|---|
| Ronald W. Jibson | 333 S State SLC, UT 84145 | Director | * |
| Craig C. Wagstaff | 333 S State SLC, UT 84145 | Director | * |
| Kevin W. Hadlock | 333 S State SLC, UT 84145 | Director | * |
| | | | |
| | | | |
| Ronald W. Jibson | 333 S State SLC, UT 84145 | Chief Executive Officer | * |
| Craig C. Wagstaff | 333 S State SLC, UT 84145 | President | * |
| David M. Curtis | 333 S State SLC, UT 84145 | VP & Controller | * |
| Vaughn W. Shosted | 333 S State SLC, UT 84145 | VP Operations | * |
| Kelly B. Maxfield | 333 S State SLC, UT 84145 | VP IT & Administration | * |
| Kevin W. Hadlock | 333 S State SLC, UT 84145 | EVP & CFO | * |
| Julie Wray | 333 S State SLC, UT 84145 | Corporate Secretary | * |
| Anthony R. Ivins | 333 S State SLC, UT 84145 | Treasurer | * |
| Colleen Larkin Bell | 333 S State SLC, UT 84145 | General Counsel | * |
| Barrie L. McKay | 333 S State SLC, UT 84145 | VP Regulatory Affairs | * |
| | | | |
| | | | |
| | | | |
| * See Questar Corporation's Annual Proxy Statement to be filed in April 2015. | | | |
| | | | |

| | |
|---|---|
| Number of board of directors meetings held during year........................................................ | 2 |
| Number of directors required to constitute a quorum............................................................... | 3 |
| Total amount of directors' fees paid during year...................................................................... | $ - |

## STOCKHOLDERS

Report below the names and addresses of the stockholders who, at the end of the year, owned or held directly or indirectly 5 percent or more of the voting securities of the respondent.

| Name | Address | No, of shares | Salary |
|---|---|---|---|
| Questar Coporation | 333 S State SLC, UT 84145 | 9,189,626 | |
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|---|---|
| Total shares represented by above........................................................................................ | 100% |
| Total number of shares at end of year.................................................................................... | 9,189,626 |
| Total number of stockholders at end of year.......................................................................... | 1 |

## IMPORTANT CHANGES DURING THE YEAR

Give particulars concerning the following matters. Make the statements explicit and precise. Each inquiry must be answered. Only use "none" or "not applicable" if it correctly states the fact.

**1.** Important additions or changes in franchise rights, including the actual consideration, if any, given therefore.

**2.** Important additions or extensions of the utility system such as new structures, exchanges, toll facilities, etc.

## COMPARATIVE BALANCE SHEETS
## (Utah Operations Financial Statement in Accordance with GAAP)

Certificated entity only. Do not consolidate with other affiliated entities.

| | Account | Balance at beginning of year | Balance at end of year |
|---|---|---|---|
| 1 | Cash and cash equivalents | 8,776,026 | 19,836,938 |
| 2 | Federal income taxes receivable | 2,767,089 | |
| 3 | Accounts and notes receivable | 116,306,143 | 111,338,658 |
| 4 | Unbilled gas accounts receivable | 93,390,066 | 93,664,096 |
| 5 | Deferred income taxes - current | 2,906,377 | |
| 6 | Gas stored underground | 39,172,683 | 41,866,681 |
| 7 | Materials and supplies | 12,080,748 | 19,188,538 |
| 8 | Current regulatory assets | 30,231,563 | 38,816,090 |
| 9 | Prepaid expenses and other | 3,035,038 | 3,544,129 |
| 10 | Purchased gas adjustment | - | 37,627,636 |
| 11 | Total current assets | 308,665,732 | 365,882,766 |
| | | | |
| 12 | Construction Work in Progress | 73,430,794 | 54,414,554 |
| 13 | Property, plant and equipment | 2,129,606,690 | 2,297,878,160 |
| 14 | Less allowances for depreciation | (745,278,183) | (780,284,414) |
| 15 | Net property, plant and equipment | 1,457,759,300 | 1,572,008,300 |
| | | | |
| 16 | Other long-term assets | | |
| 17 | Goodwill | 5,652,450 | 5,652,450 |
| 18 | Regulatory assets | 16,129,514 | 21,288,541 |
| 19 | Other long-term assets | 3,938,584 | 3,596,820 |
| 20 | Total Assets | 1,792,145,580 | 1,968,428,877 |
| | | | |
| 21 | Notes payable to affiliates | 17,700,000 | 119,300,000 |
| 22 | Federal income taxes payable | | 6,390,531 |
| 23 | Accounts payable and accrued expenses | 191,298,328 | 179,397,509 |
| 24 | Customer credit balance | 19,796,785 | 29,394,468 |
| 25 | Current regulatory liabilities | 3,665,044 | 12,244,458 |
| 26 | Interest payable | 5,185,063 | 6,765,065 |
| 27 | Other taxes payable | 10,463,101 | 7,028,303 |
| 28 | Deferred income taxes - current | | 6,320,344 |
| 29 | Purchased gas adjustment | 7,432,556 | |
| 30 | Total current liabilities | 255,540,876 | 366,840,678 |
| | | | |
| 31 | Long-term debt, less current portion | 534,500,000 | 534,500,000 |
| 32 | Other liabilities | 432,524 | 453,182 |
| 33 | Asset retirement obligation | 2,589,294 | 2,279,063 |
| 34 | Deferred investment tax credits | | |
| 35 | Deferred income taxes | 340,725,134 | 377,463,990 |
| 36 | Customer contributions-in-aid-of-construction | 29,131,278 | 29,155,903 |
| 37 | Regulatory and other noncurrent liabilities | 53,033,058 | 60,913,086 |
| 38 | Total Liabilities | 1,215,952,164 | 1,371,605,902 |
| | | | |
| 39 | Common stock | 22,974,065 | 22,974,065 |
| 40 | Additional paid-in capital | 263,856,316 | 265,331,469 |
| 41 | Retained earnings | 289,363,035 | 308,517,441 |
| 42 | Total shareholder's equity | 576,193,416 | 596,822,975 |
| 43 | Total liabilities and equity | 1,792,145,580 | 1,968,428,877 |

## COMPARATIVE STATEMENTS OF INCOME
### (Utah Operations Financial Statement in Accordance with GAAP)
Certificated entity only. Do not consolidate with other affiliated entities.

| Account | Amount for Preceding Year | Amount for Current Year |
|---|---|---|
| 1 Operating Revenues | 985,803,929 | 960,839,257 |
| 2 Utility Operating Expenses: | | |
| 3 Gas Purchases | 650,552,084 | 604,765,358 |
| 4 Operating Expense | 154,091,612 | 161,950,983 |
| 5 Maintenance Expense | 11,527,623 | 13,366,387 |
| 6 Depreciation and Amortization | 49,683,325 | 53,526,546 |
| 7 Taxes Other Than Income Taxes | 18,061,994 | 17,863,864 |
| 8 Income Taxes | 2,220,422 | -8,559,860 |
| 9 Income Taxes - Deferred | 28,351,301 | 39,303,408 |
| 10 Total Utility Operating Expenses | 914,488,360 | 882,216,686 |
| 11 Net Operating Income | 71,315,569 | 78,622,571 |
| 12 Other Income | 3,940,839 | 5,200,818 |
| 13 Other Income Deductions | (227,099) | (416,140) |
| 14 Total Other Income and Deductions | 3,713,740 | 4,784,678 |
| 15 Interest Charges | 22,251,307 | 28,252,843 |
| 16 Net Income | 52,778,002 | 55,154,406 |

## COMPARATIVE STATEMENTS OF CASH FLOW
## (Utah Operations Financial Statement in Accordance with GAAP)

Certificated entity only. Do not consolidate with other affiliated entities.

| Account | Amount for Preceding Year | Amount for Current Year |
|---|---|---|
| **Operating Activities** | | |
| Net Income | 52,778,002 | 55,154,406 |
| **Adjustments to reconcile net income to net cash provided from operating activities:** | | |
| Depreciation, depletion and amortization | 54,755,164 | 47,751,674 |
| Deferred income taxes | 37,713,903 | 45,965,577 |
| Shared-based compensation | 672,025 | 398,152 |
| **Changes in operating assets and liabilities** | | |
| Accounts receivable | (21,836,318) | 18,250,570 |
| Inventories | 554,949 | (9,801,787) |
| Prepaid expenses and other | 25,533 | (509,091) |
| Accounts payable and accrued expenses | 17,520,639 | (1,283,146) |
| Federal income taxes | (2,767,089) | 9,157,619 |
| Other taxes | 857,726 | (3,434,798) |
| Purchased gas adjustments | 22,654,296 | (45,060,191) |
| Other assets | (640,163) | (6,028,323) |
| Regulatory assets(current) | (4,392,471) | (8,584,527) |
| Regulatory liabilities(current) | (613,669) | 8,579,415 |
| Other liabilities | 6,147,886 | 8,112,280 |
| **NET CASH (USED IN) PROVIDED FROM OPERATING** | 163,430,414 | 118,667,830 |
| | | |
| **Investing Activities** | | |
| **Capital expenditures** | | |
| Property, plant and equipment | (166,184,585) | (174,725,313) |
| Proceeds from disposition of assets | (3,630,413) | 414,830 |
| **NET CASH (USED IN) PROVIDED FROM INVESTING** | (169,814,998) | (174,310,484) |
| | | |
| **Financing Activities** | | |
| Common stock issued | 90,681,227 | 1,077,001 |
| Long-term debt issued, net of issue costs | 148,942,318 | 26,565 |
| Long-term debt repaid | (42,000,000) | |
| Change in short-term debt | (148,400,000) | 101,600,000 |
| Dividends paid | (35,500,000) | (36,000,000) |
| Excess tax benefits from share-based compensation | 0 | |
| **NET CASH(USED IN) PROVIDED FROM FINANCING** | 13,723,545 | 66,703,566 |
| | | |
| **Change in cash and cash equivalents** | 7,338,960 | 11,060,912 |
| **Beginning cash and cash equivalents** | 1,437,066 | 8,776,026 |
| **Ending cash and cash equivalents** | 8,776,026 | 19,836,938 |

## NOTES TO FINANCIAL STATEMENTS

**(Utah Operations Financial Statement in Accordance with GAAP)**

Provide the notes to the financial statements and sign the certification below.

See Attached

**Signature of officer**

QUESTAR GAS COMPANY

NOTES ACCOMPANYING THE FINANCIAL STATEMENTS

The following are extracts of the notes to Questar's 2014 financial statements which are relevant to Questar Gas Company:

**Note 1 - Summary of Significant Accounting Policies**

**Nature of Business**

Questar Gas Company (Questar Gas) provides retail natural gas distribution in Utah, Wyoming and Idaho. Questar is headquartered in Salt Lake City, Utah. Shares of Questar common stock trade on the New York Stock Exchange (NYSE:STR).

**Use of Estimates**

The preparation of financial statements and notes in conformity with GAAP requires that management formulate estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The Company also incorporates estimates of proved developed and total proved gas and oil reserves in the calculation of depreciation, depletion and amortization rates of its gas and oil properties. Changes in estimated quantities of the Company's reserves could impact its reported financial results as well as disclosures regarding the quantities of proved gas and oil reserves. Actual results could differ from these estimates.

**Revenue Recognition**

Questar Gas records revenues in the period that gas is delivered, including gas delivered to residential and commercial customers but not billed as of the end of the accounting period. Unbilled gas deliveries are estimated for the period from the date meters are read to the end of the month. Approximately one-half month of revenue is estimated in any period. Gas costs and other variable costs are recorded on the same basis to ensure proper matching of revenues and expenses. Questar Gas's tariff allows for monthly adjustments to customer bills to approximate the effect of abnormal weather on non-gas revenues. The weather-normalization adjustment significantly reduces the impact of weather on gas-distribution earnings. The PSCU and PSCW approved a conservation enabling tariff (CET) to promote energy conservation. Under the CET, Questar Gas non-gas revenues are decoupled from the volume of gas used by customers. The tariff specifies an allowed monthly revenue per customer, with differences to be deferred and recovered from or refunded to customers through periodic rate adjustments. Rate adjustments occur every six months under the CET. The adjustments amortize deferred CET amounts over a 12 - month period. These adjustments are limited to 5% of non-gas revenues.

Questar Gas allows customers the option of paying an estimated fixed monthly bill throughout the year on a budget-billing program. The estimated payments are adjusted to actual usage annually. Amounts collected from customers under this program in excess of gas deliveries are recorded on the Consolidated Balance Sheets as customer advances. The budget-billing option does not impact revenue recognition. Questar Gas may collect revenues subject to possible refunds and establish reserves pending final orders from regulatory agencies.

**Cost of Sales**

Questar Gas obtains the majority of its gas supply from Wexpro's cost-of-service production and pays Wexpro an operator service fee based on the terms of the Wexpro agreements. Questar Gas also obtains transportation and storage services from Questar Pipeline. These intercompany revenues and expenses are eliminated in the Questar Consolidated Statements of Income by reducing revenues and cost of sales. The underlying costs of Wexpro's production and Questar Pipeline's transportation and storage services are disclosed in other categories in the Consolidated Statements of Income, including operating and maintenance expense and depreciation, depletion and amortization expense. During the second and third quarters of the year, a significant portion of the natural gas from Wexpro production is injected into underground storage. This gas is withdrawn from storage as needed during the heating season in the first and fourth quarters. The cost of natural gas sold is credited with the value of natural gas as it is injected into storage and debited as it is withdrawn from storage. The reported balance in consolidated cost of sales may be a negative amount during the second and third quarters because of the entries to record injection of gas into storage and the elimination of intercompany transactions.

The details of Questar's consolidated cost of sales are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| | | (in millions) | |
| ***Questar Gas*** | | | |
| Gas purchases | $ **136.5** | $ 186.6 | $ 104.2 |
| Operator service fee | **349.7** | 294.6 | 274.0 |
| Transportation and storage | **79.6** | 80.1 | 79.6 |
| Gathering | **21.0** | 18.8 | 20.5 |
| Royalties | **60.1** | 44.3 | 32.0 |
| Storage (injection) withdrawal, net | **(1.1)** | (0.8) | 1.9 |
| Purchased-gas account adjustment | **(45.8)** | 22.0 | 16.1 |
| Other | **4.8** | 5.0 | 5.0 |
| Total Questar Gas cost of natural gas sold | **604.8** | 650.6 | 533.3 |
| Elimination of Questar Gas cost of natural gas sold - affiliated companies | **(423.4)** | (370.9) | (347.7) |
| Total Questar Gas cost of natural gas sold - unaffiliated parties | **181.4** | 279.7 | 185.6 |

**Regulation**

The Company applies the regulatory accounting principles to its rate-regulated businesses. Under these principles, the Company records regulatory assets and liabilities that would not be otherwise recorded under GAAP for non-rate-regulated entities. Regulatory assets and liabilities record probable future revenues or expenses associated with certain charges or credits that will be recovered from or refunded to customers through the rate-making process.

Questar Gas accounts for purchased-gas costs in accordance with procedures authorized by the PSCU and the PSCW. Purchased-gas costs that are different from those provided for in present rates are accumulated and recovered or credited through future rate changes. Questar Gas may hedge a portion of its natural gas supply to mitigate price fluctuations for gas-distribution customers. The regulatory commissions allow Questar Gas to record periodic mark-to-market adjustments for commodity-price derivatives in the purchased-gas adjustment account. Questar did not have any commodity-price derivatives at December 31, 2014 or 2013. See Note 11 for a description and comparison of regulatory assets and liabilities as of December 31, 2014 and 2013.

Wexpro manages and produces cost-of-service reserves for gas utility affiliate Questar Gas under the terms of the Wexpro agreements, comprehensive agreements with the states of Utah and Wyoming (see Note 10).

Questar Gas is regulated by the PSCU and the PSCW. The Idaho Public Utilities Commission has contracted with the PSCU for rate oversight of Questar Gas operations in a small area of southeastern Idaho. Questar Pipeline is regulated by the FERC. These regulatory agencies establish rates for the sale, storage and transportation of natural gas. The regulatory agencies also regulate, among other things, the extension and enlargement or abandonment of jurisdictional natural gas facilities. Regulation is intended to permit the recovery, through rates, of the cost of service, including a return on investment.

**Cash and Cash Equivalents**

Cash equivalents consist principally of repurchase agreements with maturities of three months or less. In almost all cases, the repurchase agreements are highly liquid investments in overnight securities made through commercial bank accounts that result in available funds the next business day.

**Notes Payable to and Notes Receivable from Questar**

Notes payable to or receivable from Questar appearing in the financial statements and disclosures of Questar Gas represent interest bearing demand notes for cash borrowed from Questar for use in operations or loaned to Questar until needed in operations. The funds are centrally managed by Questar. Amounts loaned to Questar earn an interest rate that is identical to the interest rate paid by the companies for borrowings from Questar.

**Property, Plant and Equipment**

Property, plant and equipment balances are stated at historical cost. Maintenance and repair costs are expensed as incurred.

***Contributions in aid of construction***

Customer contributions in aid of construction reduce plant unless the amounts are refundable to customers. Contributions for main-line extensions may be refundable to customers if additional customers connect to the main-line segment within five years. Refundable contributions are recorded as liabilities until refunded or the five -year period expires without additional customer connections. Amounts not refunded reduce plant. Capital expenditures in the Consolidated Statements of Cash Flows are reported net of non-refundable contributions. As a result of Questar Gas's recent Utah general rate case, effective March 1, 2014, the Company does not expect to record any new refundable customer contributions in aid of construction for Utah customers.

***Depreciation, depletion and amortization***

Major categories of fixed assets in gas distribution, transportation and storage operations are grouped together and depreciated using a straight-line method. Gains and losses on asset disposals are recorded as adjustments in accumulated depreciation. The Company has not capitalized future abandonment costs on a majority of its long-lived gas distribution and transportation assets due to a lack of a legal obligation to restore the area surrounding abandoned assets. In these cases, the regulatory agencies have opted to leave retired facilities in the ground undisturbed rather than excavate and dispose of the assets. Depreciation rates for Questar Gas are established through rate proceedings.

The following represent average depreciation, depletion and amortization rates of the Company's capitalized costs:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| Questar Gas distribution plant | **2.7%** | 2.7% | 2.8% |

Questar Gas's depreciation rates include a component for the cost of plant removal. Accordingly, Questar Gas recognizes the cost of plant removal as depreciation expense. The related cost of removal accrual is reflected as a regulatory liability on the Questar Gas Balance Sheets (see Note 11). At the time property, plant and equipment is retired, removal expenses less salvage, are charged to the regulatory cost of plant removal liability.

**Impairment of Long-Lived Assets**

Properties are evaluated on a specific-asset basis or in groups of similar assets, as applicable. Impairment is indicated when a triggering event occurs and the sum of the estimated undiscounted future net cash flows of an evaluated asset is less than the asset's carrying value. If impairment is indicated, fair value is estimated using a discounted cash flow approach that incorporates market interest rates or, if available, other market data. The amount of impairment loss recorded, if any, is the difference between the fair value of the asset and the current net book value. Cash flow estimates require forecasts and assumptions for many years into the future for a variety of factors, including commodity prices, commodity transportation rates and operating costs. There were no impairments in 2014.

**Goodwill**

Goodwill represents the excess of the amount paid over the fair value of net assets acquired in a business combination, and is not subject to amortization. Goodwill and indefinite-lived intangible assets are tested for impairment at least once a year or when a triggering event occurs. The Company evaluates whether it is more likely than not that the carrying value of a reporting unit is greater than its fair value using events and circumstances such as economic conditions, industry changes, financial performance, etc. Fair value is measured using actively traded market values of other comparable companies in the same businesses. If the fair value of the reporting unit exceeds its carrying value then goodwill is considered not to be impaired. If the carrying value of the business unit is greater than the fair value, an impairment of goodwill is recognized equal to the excess of the carrying amount of goodwill over its fair value.

**Capitalized Interest and Allowance for Funds Used During Construction**

The Company capitalizes interest costs when applicable. The PSCU, PSCW and FERC require the capitalization of an allowance for funds used during construction (AFUDC) for rate-regulated plant and equipment. The Wexpro agreements require capitalization of AFUDC on cost-of-service gas and oil development projects. Amounts recorded in the Consolidated Statements of Income for the capitalization of AFUDC and interest costs are disclosed in the table below:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| | | (in millions) | |
| AFUDC (recorded as an increase in interest and other income) | | | |
| Questar Gas | $ **0.9** | $ — | $ — |
| Capitalized interest costs (recorded as a reduction of interest expense) | | | |
| Questar Gas | $ **0.5** | $ 0.2 | $ 0.1 |

**Derivative Instruments and Hedging Activities**

The Company may elect to designate a derivative instrument as a hedge of exposure to changes in fair value or cash flows. A derivative instrument qualifies as a hedge if all of the following tests are met:

- The item to be hedged exposes the Company to market risk.
- The derivative reduces the risk exposure and is designated as a hedge at the inception of the hedging

relationship.

- At the inception of the hedge and throughout the hedge period, there is a high correlation between changes in the fair value of the derivative instrument and the fair value of the underlying hedged item.

If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of the change together with the offsetting gain or loss from the change in fair value of the hedged item. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of accumulated other comprehensive income (loss) (AOCI) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amount excluded from the assessment of hedge effectiveness, as well as the ineffective portion of the gain or loss, is reported currently in earnings. When a derivative instrument is designated as a cash flow hedge of a forecasted transaction that becomes probable of not occurring, the gain or loss on the derivative is immediately reclassified into earnings from AOCI. See Note 6 for further discussion on derivatives and hedging.

**Credit Risk**

The Rocky Mountain region is the Company's primary market area. Exposure to credit risk may be affected by the concentration of customers in this region due to changes in economic or other conditions. Customers include individuals and numerous commercial and industrial enterprises that may react differently to changing conditions. Management believes that its credit-review procedures, loss reserves, customer deposits and collection procedures have adequately provided for usual and customary credit-related losses. Loss reserves are periodically reviewed for adequacy and may be established on a specific-case basis.

Bad debt expense associated with accounts receivable amounted to $1.7 million in 2014, $0.2 million in 2013 and $1.2 million in 2012. The allowance for bad debts was $1.7 million at December 31, 2014 and 2013. Questar Gas's retail gas operations account for a majority of the bad debt expense. Questar Gas estimates bad debt expense as a percentage of general-service revenues with periodic adjustments. Uncollected accounts are generally written off six months after gas is delivered and interest is no longer accrued. Questar Gas recovers bad debt costs related to the gas-cost portion of rates in its Utah operations through a purchased-gas adjustment to rates.

**Asset Retirement Obligations**

Questar records an asset retirement obligation (ARO) when there is a legal obligation associated with the retirement of a tangible long-lived asset. Questar's AROs apply primarily to abandonment costs associated with Wexpro gas and oil wells, production facilities and certain other properties. The Company has not capitalized future abandonment costs on a majority of its long-lived transportation and distribution assets because the Company does not have a legal obligation to restore the area surrounding abandoned assets. In these cases, the regulatory agencies have opted to leave retired facilities in the ground undisturbed rather than requiring the Company to excavate and dispose of the assets. The fair value of retirement costs is estimated by Company personnel based on abandonment costs of similar properties available to field operations and depreciated over the life of the related assets. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. Income or expense resulting from the settlement of ARO liabilities is included in net gain (loss) from asset sales on the Consolidated Statements of Income. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate. See Note 4 for further discussion on AROs.

**Income Taxes**

Questar and its subsidiaries file a consolidated federal income tax return. Questar Gas accounts for income taxes on a separate return basis and records tax expenses and benefits as they are generated. Questar Gas makes payments to or receives payments from Questar for such tax expenses or benefits as they are generated on the consolidated income tax return. Deferred income taxes are recorded for the temporary differences arising between the book and tax carrying amounts of assets and liabilities. These differences create taxable or tax-deductible amounts for future periods. Questar Gas uses the deferral method to account for investment tax credits as required by regulatory commissions. The Company records interest earned on income tax refunds in interest and other income and records penalties and interest charged on tax deficiencies in interest expense.

Accounting standards for income taxes specify the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold for a tax position to be reflected in the financial statements. If recognized, the tax benefit is measured as the largest amount of tax benefit that is more-likely-than-not to be realized upon ultimate settlement. Management has considered the amounts and the probabilities of the outcomes that could be realized upon ultimate settlement and believes that it is more-likely-than-not that the Company's recorded income tax benefits will be fully realized. There were no unrecognized tax benefits at the beginning or end of the years ended December 31, 2014 , 2013 or 2012 . The 2014 federal income tax return has not been filed.

In the 2012 tax year, Questar began participating in the IRS's Compliance Assurance Process (CAP). For the 2014 and 2015 tax years, Questar was accepted into the CAP Maintenance program. The CAP employs real-time resolution to improve federal tax compliance by resolving all or most tax positions prior to filing the related tax return. Successful conclusion of the CAP allows the IRS to achieve an acceptable level of assurance regarding the accuracy of the taxpayer's filed tax return and to eliminate or substantially reduce the need for a traditional examination. The CAP Maintenance program is administered by the IRS and indicates that the Company is a compliant taxpayer. The IRS has closed its review of all prior year tax returns.

Federal tax statutes allowed taxpayers a deduction of bonus depreciation related to capital expenditures of 50% in 2012 , 2013 , and 2014 . The effects of bonus depreciation and other significant book/tax timing differences resulted in a net operating loss (NOL) carryforward for federal income tax purposes of $26.9 million at December 31, 2012. Questar utilized the entire December 31, 2012 NOL on its 2013 federal income tax return. See Note 8 for further discussion on income taxes.

**Share-Based Compensation**
Questar may issue stock options, restricted shares, RSUs and performance shares to certain officers, employees and non-employee directors under the LTSIP. The Company uses the Black-Scholes-Merton mathematical model in estimating the fair value of stock options and the Monte Carlo simulation method in estimating the fair value of performance shares for accounting purposes. The granting of restricted shares and RSUs results in recognition of compensation cost measured at the grant-date market price. Questar uses an accelerated method in recognizing share-based compensation costs with graded vesting periods. See Note 12 for further discussion on share-based compensation.

**Recent Accounting Developments**
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 is effective for the Company beginning on January 1, 2017 using either of two methods: (i) retrospective application to each prior reporting period presented with the option to elect certain practical expedients as defined in the ASU; or (ii) retrospective application with the cumulative effect of initially applying the guidance recognized at the date of initial application and providing certain additional disclosures as defined in the ASU. Early adoption is not permitted. The Company is currently evaluating the ASU's

impact on its financial position, results of operations and cash flows, as well as which transition approach it will take.

**Reclassifications**

Certain reclassifications were made to prior year financial statements and notes to conform to the 2014 presentation.

All dollar amounts in this Annual Report are in millions, except per-share information and where otherwise noted.

**Note 4 - Asset Retirement Obligations**

Questar's consolidated AROs by line of business are summarized in the table below:

| | December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | (in millions) | |
| Questar Gas | **$ 0.6** | $ 0.6 |

Wexpro collects from Questar Gas and deposits in trust certain funds related to estimated ARO costs. The funds are recorded as other noncurrent assets on the Consolidated Balance Sheets and are used to satisfy retirement obligations as the properties are abandoned. The accounting treatment of reclamation activities associated with AROs for properties administered under the Wexpro agreements is defined in a guideline letter between Wexpro and the Utah Division of Public Utilities and the staff of the PSCW.

**Note 5 - Fair Value Measurements**

Questar complies with the accounting standards for fair value measurements and disclosures. These standards define fair value in applying GAAP, establish a framework for measuring fair value and require disclosures about fair value measurements. The standards establish a fair value hierarchy. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company had no assets or liabilities measured using Level 3 inputs at December 31, 2014 or 2013 . Fair value accounting standards also apply to certain nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis. Questar did not have any assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2014 or 2013.

Questar primarily applies the market approach for recurring fair value measurements and maximizes its use of observable inputs and minimizes its use of unobservable inputs. Questar considers bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. In addition to using market data, Questar makes assumptions in valuing its assets and liabilities, including assumptions about the risks inherent in the inputs to the valuation technique.

***Questar Gas***

The following table discloses the carrying amount, estimated fair value and level within the fair value hierarchy of certain financial instruments not disclosed in other notes to Questar Gas's financial statements in this Annual Report:

| | Hierarchy Level of Fair Value Estimates | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
|---|---|---|---|---|---|
| | | **December 31, 2014** | | December 31, 2013 | |
| | | (in millions) | | | |
| ***Financial assets*** | | | | | |
| Cash and cash equivalents | **1** | **$ 19.8** | **$ 19.8** | $ 8.8 | $ 8.8 |
| ***Financial liabilities*** | | | | | |
| Notes payable to Questar | **1** | **119.3** | **119.3** | 17.7 | 17.7 |
| Long-term debt | **2** | **534.5** | **607.2** | 534.5 | 568.0 |

The carrying amounts of cash and cash equivalents approximate fair value. The carrying amounts of notes payable to Questar approximate fair value because of their short maturities and market-based interest rates. The fair value of fixed-rate long-term debt is based on the discounted present value of cash flows using Questar Gas's current credit risk-adjusted borrowing rates.

**Note 7 - Debt**

The Company has a revolving credit facility with various banks to provide back-up credit liquidity support for its commercial paper program. Credit commitments under this revolving credit facility totaled $750.0 million at December 31, 2014, with no amounts borrowed. This revolving credit facility has interest-rate options generally below the prime interest rate and carries commitment fees on the unused balance. In April 2013, Questar amended and restated its revolving credit facility to increase its size from $500.0 million to $750.0 million and extend its maturity from August 31, 2016 to April 19, 2018. A covenant associated with the revolving credit facility stipulates that consolidated funded debt cannot exceed 70% of consolidated capitalization. The Company was in compliance with this covenant at December 31, 2014.

Questar centrally manages cash. Questar makes loans to Questar Gas and Questar Pipeline under a short-term borrowing arrangement. The interest rate paid on amounts borrowed is identical to the rate earned on amounts loaned under the arrangement. The rate is adjusted monthly based on prevailing short-term market interest rates.

The following table details the notes payable to Questar from Questar Gas and the associated interest rates. There were no notes payable to Questar from Questar Pipeline at December 31, 2014 or 2013.

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (in millions) | |
| ***Questar Gas*** | | |
| Notes payable to Questar | **$ 119.3** | $ 17.7 |
| Interest rate at end of year | **0.25%** | 0.30% |

All short- and long-term debt and the revolving credit facility are unsecured obligations and rank equally with all other unsecured liabilities. The terms of the Questar Corporation and Questar Gas long-term debt obligations do not have dividend-payment restrictions.

In December 2013, Questar Gas issued $90.0 million of 30 -year Senior Notes at 4.78% and $60.0 million of 35 - year Senior Notes at 4.83% in the private placement market. The proceeds of approximately $149.0 million, after deducting estimated issuance costs, were used to repay existing indebtedness and for general corporate purposes.

The details of long-term debt are as follows:

| | December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | (in millions) | |
| ***Questar Gas*** | | |
| 5.31% and 6.85% Medium-term Notes due 2017 and 2018 | **84.5** | 84.5 |
| 6.30% Notes due 2018 | **50.0** | 50.0 |
| 2.98% Notes due 2024 | **40.0** | 40.0 |
| 3.28% Notes due 2027 | **110.0** | 110.0 |
| 7.20% Notes due 2038 | **100.0** | 100.0 |
| 4.78% Notes due 2043 | **90.0** | 90.0 |
| 4.83% Notes due 2048 | **60.0** | 60.0 |
| Total Questar Gas long-term debt | **534.5** | 534.5 |

The aggregate maturities of Questar Gas long-term debt for the next five years are as follows:

| | | Questar Gas | | |
|---|---|---|---|---|
| | | Years Ending December 31, | | |
| | | (in millions) | | |
| 2015 | $ — | $ — | | |
| 2016 | | — | | |
| 2017 | — | 14.5 | | |
| 2018 | — | 120.0 | | |
| 2019 | — | — | — | — |

## Note 8 - Income Taxes

***Questar Gas***

Details of Questar Gas's income tax expense and deferred income taxes are provided in the following tables. The components of income tax expense were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| | (in millions) | | |
| ***Federal*** | | | |
| Current | $ **(11.9)** | $ 6.0 | $ (18.7) |
| Deferred | **42.4** | 23.5 | 45.1 |
| ***State*** | | | |
| Current | **(1.9)** | 0.6 | — |
| Deferred | **3.6** | 2.0 | 1.2 |
| Deferred investment tax credit recognized | **(0.2)** | (0.2) | (0.4) |
| Total income tax expense | $ **32.0** | $ 31.9 | $ 27.2 |

The difference between the statutory federal income tax rate and Questar Gas's effective income tax rate is explained as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| Federal income taxes statutory rate | **35.0%** | 35.0% | 35.0% |
| Increase (decrease) in rate as a result of: | | | |
| State income taxes, net of federal income tax benefit | **1.3** | 2.1 | 1.0 |
| Amortization of investment tax credits related to rate-regulated assets | **(0.2)** | (0.3) | (0.4) |
| Other | **0.6** | 0.9 | 1.0 |
| Effective income tax rate | **36.7%** | 37.7% | 36.6% |

Significant components of Questar Gas's deferred income taxes were as follows:

| | December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | (in millions) | |
| **Deferred income taxes - noncurrent** | | |
| ***Deferred tax liabilities*** | | |
| Property, plant and equipment | **$ 354.4** | $ 322.6 |
| Employee benefits | **23.5** | 14.0 |
| Other | **0.5** | 4.9 |
| Deferred tax liabilities - noncurrent | **378.4** | 341.5 |
| ***Deferred tax assets*** | | |
| Deferred compensation | **0.9** | 0.8 |
| Deferred tax assets - noncurrent | **0.9** | 0.8 |
| **Net deferred income tax liability - noncurrent** | **$ 377.5** | $ 340.7 |
| **Deferred income taxes - current** | | |
| Deferred tax assets - current | **$ 3.6** | $ 3.3 |
| Deferred tax liabilities - current | **9.9** | 0.4 |
| **Net deferred income tax asset (liability) - current** | **$ (6.3)** | $ 2.9 |

## Note 9 - Contingencies, Commitments and Leases

### Contingencies

Questar and each of its subsidiaries are involved in various commercial, environmental, and regulatory claims. Litigation and other legal proceedings arise in the ordinary course of business. Except as stated below concerning the QEP lawsuit, management does not believe any litigation or other legal proceedings individually or in the aggregate will have a material adverse effect on Questar's or Questar Gas's financial position, results of operations or cash flows.

A liability is recorded for a loss contingency when its occurrence is probable and its amount can be reasonably estimated. If some amount within a range of possible outcomes appears to be a better estimate than any other amount within the range, that amount is recorded. Otherwise, the minimum amount in the range is recorded.

Disclosures are provided for contingencies reasonably likely to occur, which would have a material adverse effect on Questar's or Questar Gas's financial position, results of operations or cash flows. Some of the claims involve highly complex issues relating to liability, damages and other matters subject to substantial uncertainties and, therefore, the probability of liability or an estimate of loss cannot be reasonably determined.

***Litigation***
On May 1, 2012, Questar Gas Company filed a legal action against QEP Field Services Company, a subsidiary of QEP Resources, Inc. The case, entitled *Questar Gas Company v. QEP Field Services Company* , was filed in the Third District Court in Salt Lake County, Utah. Questar Gas believes certain charges of QEP Field Services Company for gathering services exceed the amounts contemplated under a Gas Gathering Agreement, effective September 1, 1993, pertaining to certain gas produced by Wexpro Company under the Wexpro Agreement. Questar Gas is alleging breach of contract by QEP Field Services Company and is seeking an accounting, damages and a declaratory judgment relating to the services and charges under the Gas Gathering Agreement. The charges under the Gas Gathering Agreement are included in Questar Gas's rates as part of its purchased-gas costs. QEP Field Services Company filed an answer and counterclaim alleging that Questar Gas breached the Agreement by failing to allow QEP Field Services to gather and process gas from certain wells located in two fields in the state of Wyoming.

On August 13, 2013, QEP Field Services Company assigned its interest in the Gas Gathering Agreement to QEPM Gathering I, LLC, a subsidiary of the general partner of the master limited partnership QEP Midstream Partners. Plaintiffs have filed an amended complaint naming QEP Midstream Partners, LP; QEP Midstream Partners GP, LLC; QEP Midstream Partners Operating, LLC; and QEPM Gathering I, LLC (QEP MLP Entities). QEP Field Services and Tesoro Logistics LP (Tesoro) entered into a Membership Interest Purchase Agreement dated October 19, 2014, to transfer QEP Field Services' interest in the QEP MLP Entities and related assets and liabilities of QEP Field Services to Tesoro, including control of this legal action. Tesoro closed on the transaction for QEP's midstream business on December 2, 2014.

On December 2, 2014, the court issued a memorandum decision granting two motions for partial summary judgment for breach of contract filed by Questar Gas. The court found QEP Field Services Company breached the Gas Gathering Agreement by overcharging Questar Gas in its gathering rates. The court also denied two motions for partial summary judgment filed by QEP Field Services to reduce or limit contract damages. The court also denied cross-motions for partial summary judgment filed by both parties relating to another claim of breach of contract. The issues raised by the cross-motions, QEP Field Services' counterclaim and damages on all claims are currently reserved for trial. No trial date has been set.

While Questar Gas intends to vigorously pursue its legal rights, the claims and counterclaims involve complex legal issues and uncertainties that make it difficult to predict the outcome of the case and therefore management cannot determine at this time whether this litigation may have a material adverse effect on its financial position, results of operations or cash flows.

**Commitments**

***Questar Gas***
Currently, the majority of Questar Gas's natural gas supply is provided by cost-of-service reserves developed and produced by Wexpro. In 2014 , Questar Gas purchased the remainder of its gas supply from multiple third parties under index-based or fixed-price contracts. Questar Gas has commitments to purchase gas for $18.3 million in 2015, $15.2 million in 2016 , $18.2 million in 2017 , and $21.2 million in 2018 and 2019 based on current prices. Generally, at the conclusion of the heating season and after a bid process, new agreements for the next heating

season are put in place. Questar Gas bought natural gas under third-party purchase agreements amounting to $135.8 million in 2014, $186.5 million in 2013 and $104.1 million in 2012 .

In addition, Questar Gas stores gas during off-peak periods (typically during the summer) and withdraws gas from storage to meet peak gas demand (typically in the winter). The company has contracted for transportation and underground storage services with Questar Pipeline. Annual payments for these services amount to $74.4 million in 2015, $73.4 million in 2016 , $46.7 million in 2017 , $13.4 million in 2018 , and $5.2 million in 2019 . Questar Gas has third-party transportation and gathering commitments requiring yearly payments of $29.0 million in 2015 through 2017, $26.3 million in 2018 , and $24.9 million in 2019 .

**Note 10 - Wexpro and Wexpro II Agreements**

Wexpro's operations are subject to the terms of the Wexpro and Wexpro II agreements. The original Wexpro Agreement was effective August 1, 1981, and sets forth the rights of Questar Gas to receive certain benefits from Wexpro's operations. The agreement was approved by the PSCU and PSCW (the Commissions) in 1981 and affirmed by the Supreme Court of Utah in 1983. The Wexpro II Agreement was modeled after the original Wexpro Agreement and allows for the addition of properties under the cost-of-service methodology for the benefit of Questar Gas customers. The Wexpro II Agreement was approved by the Commissions in 2013. The Utah Division of Public Utilities and the staff of the PSCW are entitled to review the performance of Questar Gas and Wexpro under the Wexpro agreements and have retained an independent certified public accountant and an independent petroleum engineer to monitor the performance of the agreements. Major provisions of the agreements are as follows:

a. Wexpro conducts gas-development drilling on productive gas properties, including properties acquired and approved for inclusion in the Wexpro II Agreement, and bears any costs of dry holes. Natural gas produced from successful drilling on these properties is delivered to Questar Gas. Wexpro is reimbursed for the costs of producing the natural gas plus a return on its investment in successful wells. The after-tax return allowed Wexpro is adjusted annually and is currently 20.0%.

b. Wexpro operates certain natural gas properties for Questar Gas. Wexpro is reimbursed for its costs of operating these properties, including a rate of return on any investment it makes. This after-tax rate of return is adjusted annually and is currently 12.0%.

c. Wexpro conducts developmental-oil drilling on productive oil properties and bears any costs of dry holes. Oil and NGL produced from these properties is sold at market prices, with the revenues used to recover operating expenses and to give Wexpro a return on its investment in successful wells. The after-tax rate of return is adjusted annually and is currently 17.0%. Any operating income remaining after recovery of expenses and Wexpro's return on investment is divided between Wexpro and Questar Gas, with Wexpro retaining 46% and Questar Gas retaining 54%.

d. Crude oil and NGL production from certain oil-producing properties is sold at market prices, with the revenues used to recover operating expenses and to provide Wexpro a return on its investment. The after-tax rate of return on investments in these properties is adjusted annually and is currently 12.0%. Any operating income remaining after recovery of expenses and Wexpro's return on investment is divided between Wexpro and Questar Gas, with Wexpro retaining 46%.

e. Amounts received by Questar Gas from the sharing of Wexpro's oil and NGL income are used to reduce natural gas costs to utility customers.

f. Acquired natural gas production from properties approved by the Commissions for inclusion in the Wexpro II Agreement is delivered to Questar Gas. Wexpro is reimbursed for the costs of producing the natural gas plus a return on its acquisition investment. The after-tax return allowed Wexpro is adjusted periodically and is currently 7.6%.

g. Wexpro's return on investment base is determined based on authorized returns from a group of rate-regulated companies plus an 8% risk premium for natural gas development drilling costs and a 5% risk premium for oil development drilling costs. The authorized returns for this group of companies have declined in recent years, resulting in lower returns on investment base for Wexpro. Wexpro's return on investment base for Wexpro II property acquisition costs is based on Questar Gas's approved cost of capital.

***Trail Acquisition Stipulation***

In the first quarter of 2014, the Commissions approved a stipulation for inclusion of the Trail acquisition in the Wexpro II Agreement. As part of this stipulation, Wexpro agreed to manage the combined production from the original Wexpro properties and the Trail acquisition to 65% of Questar Gas's annual forecasted demand. Beginning in June 2015 through May 2016 and for each subsequent 12-month period, if the combined annual production exceeds 65% of the forecasted demand and the cost-of-service price is greater than the Questar Gas purchased-gas price, an amount equal to the excess production times the excess price will be credited back to Questar Gas customers. Wexpro may also sell production to manage the 65% level and credit back to Questar Gas customers the higher of market price or the cost-of-service price times the sales volumes.

**Note 11 - Rate Regulation**

The following table details regulatory assets and liabilities:

| | **December 31, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Noncurrent | Current | Noncurrent |
| | | (in millions) | | |
| Regulatory assets: | | | | |
| ***Questar Gas*** | | | | |
| Purchased-gas adjustment | **$ 39.2** | **$ —** | $ — | $ — |
| Demand-side management | **—** | **—** | 11.2 | — |
| Contract withholding | **13.6** | **—** | 8.1 | — |
| Deferred cost-of-service gas charges | **25.5** | **9.3** | 10.9 | 2.0 |
| Cost of reacquired debt | **—** | **4.3** | — | 4.8 |
| Pipeline integrity costs | **—** | **7.7** | — | 9.3 |
| Total Questar Gas regulatory assets | **78.3** | **21.3** | 30.2 | 16.1 |
| Regulatory liabilities: | | | | |
| ***Questar Gas*** | | | | |
| Purchased-gas adjustment | **$ —** | **$ —** | $ 7.4 | $ — |
| Demand-side management | **0.3** | **—** | — | — |
| CET | **12.1** | **—** | 3.3 | — |
| Cost of plant removal | **—** | **60.7** | — | 52.7 |
| Income taxes refundable to customers | **—** | **0.2** | — | 0.3 |

| | | | | |
|---|---|---|---|---|
| Other | **0.1** | **—** | 0.4 | — |
| Total Questar Gas regulatory liabilities | **12.5** | **60.9** | 11.1 | 53.0 |

Questar Gas records regulatory assets and liabilities. They recover the costs of assets but do not generally receive a return on these assets.

Following is a description of Questar Gas's regulatory assets and liabilities:

- Purchased-gas costs that are different from those provided for in present rates are accumulated and recovered or credited through future rate changes.
- The demand-side management program relates to funds expended for promoting the conservation of natural gas through advertising, rebates for efficient homes and appliances, and home energy audits. Costs are recovered from customers through periodic rate adjustments. Costs incurred in excess of recoveries result in an asset; recoveried in excess of costs incurred result in a liability.
- Questar Gas recorded a regulatory asset for a disputed amount withheld from a supplier of gathering services. The amount withheld will be recovered from customers if it is determined that Questar Gas is required to pay the supplier.
- Operating and maintenance, depreciation, depletion and amortization, production taxes and royalties on cost-of-service gas production are recorded when the gas is produced and recovered from customers on a delayed basis, generally within 12 months .
- Certain cost-of-service gas charges are recovered over a period greater than 12 months. These include a regulatory asset that represents future expenses related to abandonment of Wexpro-operated gas and oil wells. The regulatory asset is reduced over an 18-year period following an amortization schedule that commenced January 1, 2003 , or as cash is paid to plug and abandon wells. Noncurrent cost-of-service gas charges also include amounts for production imbalances that will be recovered from customers at the end of the related gas wells' useful lives.
- Gains and losses on the reacquisition of debt by rate-regulated companies are deferred and amortized as interest expense over the would-be remaining life of the reacquired debt. The reacquired debt costs had a weighted-average life of approximately 8 years as of December 31, 2014.
- The costs of complying with pipeline-integrity regulations are recovered in rates subject to a PSCU order. Questar Gas is allowed to recover $7.0 million per year. Costs incurred in excess of this amount will be recovered in future rate changes.
- The CET liability represents actual revenues received that are in excess of the allowed revenues. These amounts are refunded through periodic rate adjustments.
- Cost of plant removal represents asset retirement costs recovered from customers for other than legal obligations.
- Income taxes refundable to customers arise from adjustments to deferred taxes, refunded over the life of the related property, plant and equipment.

***Rate Changes***
Questar Gas is authorized to earn a return on equity of 9.85% in Utah and 9.16% in Wyoming. Effective March 1, 2014, Questar Gas increased its rates in Utah by $7.6 million annually as a result of a general rate case filed in Utah in July 2013. The order in this rate case authorized an allowed return on equity of 9.85%. In December 2014, Questar Gas held hearings on a general rate case in Wyoming. At the hearings the PSCW ordered an increase in annualized revenues of $1.5 million and an authorized return on equity of 9.5%. The change in rates is expected to be effective March 1, 2015.

**Note 12 - Share-Based Compensation**

Questar may issue stock options, restricted shares, RSUs and performance shares to certain officers, employees and non-employee directors under the LTSIP. Questar recognizes expense over time as the stock options, restricted shares, RSUs and performance shares vest.

Restricted shares are valued at the grant-date market price and amortized to expense over the vesting period. Most restricted share grants vest in equal installments over a three -year period from the grant date. Unvested restricted shares have voting and dividend rights; however, sale or transfer is restricted.

Starting in the first quarter of 2013, Questar granted RSUs to certain of its officers, employees and non-employee directors under the LTSIP. RSUs are valued at the grant-date market price and amortized to expense over the vesting period. RSU grants typically vest in equal installments over a three -year period from the grant date. Certain grants vest in a single installment after a specified period. RSUs do not have voting rights until shares are distributed, but they do have dividend equivalent rights. Most RSU dividend equivalents are paid in cash quarterly and vest immediately. One share of Questar common stock will be distributed for each RSU at the time of vesting.

Questar grants performance shares to certain of its officers under the terms of the LTSIP. The awards are designed to motivate and reward these officers for long-term Company performance and provide an incentive for them to remain with the Company. The target number of performance shares for each officer is subject to a payout adjustment multiplier ranging from 0.00 to 3.00 based on the Company's total shareholder return relative to a specified peer group of companies over a three -year performance period. Each three -year performance period commences at the beginning of the year of grant. Distributions of performance shares, if any, take place in the quarter following the conclusion of the performance period, so long as such officer was employed by the Company or its affiliates as of the last day of the performance period.

The Company uses the Monte Carlo simulation method to estimate the grant-date fair value of performance share awards. Fair value estimates rely upon subjective assumptions used in the mathematical model and may not be representative of future results.

For performance shares granted in 2012 and 2013, half of any award will be distributed in shares of Questar common stock and half in cash. Subsequent awards will be distributed in shares, with no cash component. For share-settled performance share awards, the grant-date fair value of the awards is amortized to expense over the vesting period. The liability associated with awards to be settled in cash is adjusted to its estimated fair value through earnings on a quarterly basis.

***Questar Gas***

Questar may issue stock options, restricted shares, RSUs and performance shares to certain officers and employees of Questar Gas under the LTSIP. Questar Gas recognizes expense over time as the stock options, restricted shares, RSUs and performance shares vest. Questar Gas share-based compensation expense amounted to $1.6 million in 2014 compared with $1.4 million in 2013 and $1.2 million in 2012.

There were no stock options held under the LTSIP by Questar Gas officers or employees at December 31, 2014.

The following table summarizes the restricted shares held under the LTSIP by Questar Gas officers and employees at December 31, 2014. The weighted-average remaining vesting periods of unvested restricted shares at December 31, 2014, for Questar Gas was 2 months.

| | Restricted Shares Outstanding | Price Range | Weighted-Average Price |
|---|---|---|---|
| ***Questar Gas*** | **12,635** | **$ 19.39** | **$ 19.39** |

The following table summarizes the RSUs held under the LTSIP by Questar Gas officers and employees at December 31, 2014. The weighted-average remaining vesting period of unvested RSUs at December 31, 2014, for Questar Gas was 12 months.

| | RSUs Outstanding | Price Range | Weighted-Average Price |
|---|---|---|---|
| ***Questar Gas*** | **82,351** | **$ 23.09 - $ 23.62** | **$ 23.61** |

The following table summarizes the target number of performance shares held under the LTSIP by Questar Gas officers at December 31, 2014. The weighted-average remaining vesting period of unvested performance shares at December 31, 2014, for Questar Gas was 18 months.

| | Target Number of Performance Shares Outstanding | Grant-Date Fair Value Range | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| ***Questar Gas*** | **33,826** | **$ 25.42 - $ 39.62** | **$ 31.73** |

## Note 13 - Employee Benefits

### Defined Benefit Pension Plans and Other Postretirement Benefits

The Company has a noncontributory defined benefit pension plan covering a majority of its employees and postretirement medical and life insurance plans providing coverage to less than half of its employees. Employees hired or rehired after June 30, 2010 are not eligible for the noncontributory defined benefit pension plan and employees hired or rehired after December 31, 1996 are not eligible for the postretirement medical plan and are not eligible to receive basic life coverage once they retire.

Postretirement health-care and life insurance benefits are provided only to employees hired before January 1, 1997. The Company pays a portion of the costs of health-care benefits determined by an employee's years of service and generally limited to 170% of the 1992 contribution for employees who retired after January 1, 1993. The Company amortized its transition obligation over a 20 -year period that began in 1992 and ended in 2012.

Questar Gas participates in Questar's qualified and nonqualified pension plans as well as its postretirement medical and life plans. Questar Gas's pension plan and postretirement medical and life insurance plan assets and benefit obligations cannot be separately determined because plan assets are not segregated or restricted to meet the companies' pension and postretirement medical and life obligations. If the companies were to withdraw from the plans, the pension and other postretirement obligations for Questar Gas employees would be retained by the Questar plans. Pension and other postretirement benefit net cost and plan contribution information for Questar Gas are shown below:

| | Pension | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | Year Ended December 31, | | | Year Ended December 31, | | |
| | **2014** | 2013 | 2012 | **2014** | 2013 | 2012 |
| | (in millions) | | | | | |
| ***Questar Gas*** | | | | | | |
| Net periodic cost | **$ 8.5** | $ 18.1 | $ 19.7 | **$ 0.8** | $ 2.4 | $ 3.3 |
| Share of total plan contributions | **21.8** | 29.6 | 39.4 | **1.1** | 2.0 | 1.9 |

**401(k) Retirement Income Plan**

The 401(k) Retirement Income Plan (401(k) Plan), formerly known as the Employee Investment Plan, is a defined contribution pension plan that allows eligible employees to purchase shares of Questar common stock or other investments through payroll deduction at the fair market value on the transaction date. The Company contributes an overall match of 100% of employees' purchases up to a maximum of 6% of their qualifying earnings. Starting in January 2015, qualified employees who are not eligible for the defined benefit pension plans receive an additional non-matching employer contribution to their 401(k) Plan accounts equal to 4% of their qualifying prior year earnings. To satisfy employee purchases of Questar stock, the 401(k) Plan trustee may purchase Questar shares on the open market with cash received or Questar may issue new shares.

Questar Gas recognizes expense equal to 401(k) Plan employer matching and non-matching contributions earned by employees during the year. Questar Gas's 401(k) Plan expense was $4.1 million in 2014, $3.4 million in 2013 and $3.6 million in 2012 .

**Note 15 - Related-Party Transactions**

***Questar Gas***

In 2014 and 2013 Questar Gas provided technical services to affiliates. In 2012, Questar Gas also provided communication services to affiliates. Questar Gas provided these services at its cost and charged $6.1 million in 2014, $6.7 million in 2013 and $13.6 million in 2012 . The majority of these costs are allocated. The allocation methods are based on the specific nature of the charges. Management believes that the allocation methods are reasonable.

Questar Gas has reserved transportation capacity on Questar Pipeline's system for 916 Mdth per day during the heating season and 841 Mdth per day during off-peak months. Questar Gas periodically releases excess capacity and receives a credit from Questar Pipeline for the released capacity revenues and a portion of Questar Pipeline's interruptible transportation revenues. Questar Gas paid for transportation, storage and processing services provided by Questar Pipeline and a subsidiary amounting to $72.9 million in 2014, $73.0 million in 2013 and $73.6 million in 2012 , which included demand charges. The costs of these services were included in the cost of natural gas sold.

Under the terms of the Wexpro agreements, Questar Gas receives a portion of Wexpro's income from oil and NGL operations after recovery of Wexpro's operating expenses and a return on investment. This amount, which is included in revenues and reduces amounts billed to gas distribution customers, was $0.6 million in 2013 and $2.5 million in 2012 . There was no such revenue in 2014. The amounts that Questar Gas paid Wexpro for the operation of cost-of-service gas properties were $349.7 million in 2014, $294.6 million in 2013 and $274.0 million in 2012 . Questar Gas reports these amounts in the cost of natural gas sold.

Questar Gas had a lease with an affiliate for space in an office building located in Salt Lake City, Utah, which expired on April 30, 2012. Rent expense was $0.4 million in 2012.

Questar charged Questar Gas for certain administrative functions amounting to $47.8 million in 2014, $48.4 million in 2013 and $49.3 million in 2012 . These costs are included in operating expenses and are generally allocated based on each affiliated company's proportional share of revenues less product costs; property, plant and equipment; and labor costs. Management believes that the allocation method is reasonable.

Questar Pipeline charged Questar Gas for communication services amounting to $3.7 million in 2014 and 2013. These costs are included in operating expenses and are allocated based on usage.

Questar Gas borrowed cash from Questar and incurred interest expense of $0.1 million in 2014, $0.5 million in 2013 and $0.6 million in 2012.

**Note 17 - Wexpro Acquisitions of Producing Properties**

On December 17, 2014, Wexpro acquired an additional interest in natural gas-producing properties in existing Wexpro-operated assets in the Canyon Creek Unit of southwestern Wyoming's Vermillion Basin for about $52.4 million. This is a "bolt-on" acquisition to the company's current Canyon Creek assets, which are governed by the 1981 Wexpro Agreement. Under the terms of the Wexpro II Agreement, this property must be submitted to the Commissions to be considered for cost-of-service treatment for the benefit of Questar Gas customers.

On September 4, 2013, Wexpro completed the transaction announced in July 2013 to acquire an additional interest in natural gas-producing properties in the Trail Unit of southwestern Wyoming's Vermillion Basin (Trail acquisition) for $104.3 million , after post-closing adjustments. This acquisition was an addition to the company's existing Trail assets, which are governed by the 1981 Wexpro Agreement. In the first quarter of 2014, the Public Service Commission of Utah and the Wyoming Public Service Commission (the Commissions) approved the inclusion of these properties in the Wexpro II Agreement, effective February 1, 2014.

**Note 19 - Supplemental Gas and Oil Information (Unaudited)**

The substantial majority of the following information relates to cost-of-service gas and oil properties managed and developed by Wexpro and governed by the Wexpro agreements.

In December 2014, Wexpro completed the Canyon Creek acquisition. Properties acquired in this acquisition were not included in a cost-of-service arrangement as of December 31, 2014. In September 2013, Wexpro completed the Trail acquisition. In the first quarter of 2014, the PSCU and PSCW approved the inclusion of the Trail acquisition properties in the Wexpro II Agreement. The 2014 and 2013 supplemental gas and oil information includes these acquisitions, as applicable. See Note 17 for additional information on these acquisitions.

***Capitalized Costs***

Capitalized costs of gas and oil properties and the related amounts of accumulated depreciation, depletion and amortization are shown below:

| | December 31, | |
|---|---|---|
| | **2014** | 2013 |
| | (in millions) | |
| Net Questar Gas capitalized costs | **6.4** | 7.2 |

***Estimated Quantities of Proved Gas and Oil Reserves***

Estimates of proved gas and oil reserves have been prepared in accordance with professional engineering standards and the Company's established internal controls. The estimates were prepared by Wexpro's reservoir engineers, individuals who possess professional qualifications and demonstrated competency in reserves estimation and evaluation. SEC guidelines with respect to standard economic assumptions are not applicable to the large proportion of Wexpro gas reserves that are managed, developed, produced and delivered to Questar Gas at cost of service. The SEC acknowledges this potential circumstance and provides that companies may give appropriate recognition to differences arising because of the effect of the rate-making process. Accordingly, in cases where differences arise because of the effect of the rate-making process, Wexpro uses a minimum-producing rate or maximum well-life limit to determine the ultimate quantity of reserves attributable to each well.

The Company annually reviews all proved undeveloped reserves to ensure an appropriate plan for development exists. All proved undeveloped reserves are converted to proved developed reserves within five years of the proved undeveloped reserve booking. At December, 2014, all of the Company's proved undeveloped reserves were scheduled to be developed within five years from the date such locations were initially disclosed as proved undeveloped reserves. Wexpro converted 7% of prior year-end proved undeveloped reserves to developed status in 2014 , 42% in 2013 and 15% in 2012 .

Revisions of prior estimates reflect the addition of new proved undeveloped reserves associated with current five-year development plans, revisions to prior proved undeveloped reserves, revisions to infill drilling development plans, as well as the transfer of proved undeveloped reserves to unproved reserve categories due to changes in development plans. The negative revisions reflected in the 2013 reserve estimates are due in part to an increase in well spacing in the Pinedale field based on 2013 drilling results. The negative revisions in 2014 are primarily due to the impact on proved undeveloped reserves from significant changes in the Company's five-year development plans based on the drop in natural gas and oil prices at the end of 2014.

In establishing reserves, the SEC allows the use of techniques that have been field tested and demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation. In general, the Company uses numerous data elements and analysis techniques in the estimation of proved reserves. These data elements and techniques include, but are not limited to, production tests, well performance data, decline curve analysis, wireline logs, core data, pressure transient analysis, seismic data and interpretation, and material balance calculations. The Company utilizes these reliable technologies to book proved reserves, however, no reserves were recorded from increasing recovery factor estimates or from extending down-dip reservoir limits associated with the use of reliable technology.

Wexpro's estimates of proved reserves were made by the Company's engineers and are the responsibility of management. The Company requires that reserve estimates be made by qualified reserves estimators (QREs), as defined by the Society of Petroleum Engineers' standards. The QREs interact with engineering, land, and geoscience personnel to obtain the necessary data for projecting future production, costs, net revenues and ultimate recoverable reserves. Management approves the QREs' reserve estimates annually. All QREs receive ongoing education on the fundamentals of SEC reserves reporting through internal and external training over the policies for estimating and recording reserves in compliance with applicable SEC definitions and guidance.

Estimated quantities of proved gas and oil reserves are set forth below:

| | Natural Gas | Oil and NGL | Natural Gas Equivalents |
|---|---|---|---|
| | (Bcf) | (Mbbl) | (Bcfe) |
| **Proved Reserves** | | | |
| Balances at December 31, 2011 | 758.7 | 5,344 | 790.7 |
| Balances at December 31, 2012 | 697.2 | 6,169 | 734.2 |
| Balances at December 31, 2013 | 811.2 | 5,617 | 844.9 |
| **Balances at December 31, 2014** | **566.1** | **4,731** | **594.5** |

**Financial Statement Schedules:**

QUESTAR GAS COMPANY
Schedule of Valuation and Qualifying Accounts

| Column A Description | Column B Beginning Balance | Column C Amounts charged to expense | Column D Deductions for accounts written off and other | Column E Ending Balance |
|---|---|---|---|---|
| | | (in millions) | | |
| **Year Ended December 31, 2014** | | | | |
| Allowance for bad debts | **$ 1.4** | **$ 1.7** | **$ (1.7)** | **$ 1.4** |
| Year Ended December 31, 2013 | | | | |
| Allowance for bad debts | 2.8 | 0.2 | (1.6) | 1.4 |
| Year Ended December 31, 2012 | | | | |
| Allowance for bad debts | 2.9 | 1.1 | (1.2) | 2.8 |