

June 25, 1998

Darrell S. Hanson  
Utah Division of Public Utilities  
Heber M. Wells  
160 East 300 South  
P.O. Box 45802  
Salt Lake City, UT 84145

RE: Guideline Letter Relating to Island Unit – Deepening Wells

Dear Mr. Hanson:

Recent drilling activity and evaluations of gas potential within the Wasatch Formation in the Island Unit have revealed a previously unnoticed situation regarding the Wasatch Formation. In the Wexpro Stipulation and Agreement document Schedule 3a, Island Unit #9 is listed as the "marker well" for the Wexpro Agreement with the "Productive Gas Reservoir" defined as the interval 4880-6800'. This interval is included within the Wasatch Formation, but does not include all the Wasatch Formation. When the Island Unit was formed the entire Wasatch Formation was listed as the productive formation for the participating area without regard to any intervals. During the early life of the field, the lower Wasatch Formation was penetrated and tested, but never actually produced because much better producing zones were found at higher stratigraphic intervals. The lower zones are thought to possibly be capable of economic production today because of better fracture stimulation treatments and indeed have been completed in some wells outside the unit although their contribution cannot be quantified because they have only been produced as part of a larger completion interval.

The entire Island Unit is a "Development Drilling Area" because it is within a "U. S. Geological Survey approved participating area" (I-26a,ii). Thus, all wells are "Development Gas Drilling" if they are "targeted and completed in a productive gas reservoir". Therefore, all wells which are targeted and completed within the stratigraphic equivalent of the interval defined in the marker well (Island #9) are considered development gas drilling. Any wells completed in a different interval would be classified as exploratory drilling unless such wells fell within 1980' of a prior Wexpro or prior Company well or met other areally limiting requirements of Wexpro Stipulation and Agreement paragraph I-26a. Thus, most wells in the Island Unit which might target or complete in the lower Wasatch Formation intervals would be by strict interpretation of the Wexpro Stipulation and Agreement classified as "exploratory" for the lower Wasatch Formation and that interval would belong to Celsius Energy Company.

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Economically, Celsius cannot participate in these wells for only the gas potential of the small interval of the lower Wasatch Formation because of the requirements to share in the costs to get to that depth rather than just the costs to drill and complete the additional interval. Thus, if Celsius Energy Company cannot economically participate in drilling this interval and Wexpro cannot because it is technically considered to be exploratory drilling, the interval and its gas potential become uncaptureable by either entity. This is to the overall detriment of everyone, since gas to which rights are owned would be inaccessible to any corporate entity as well as being unavailable to reduce gas costs.

The following solution to this situation is proposed. By following the definition used by the U.S. Geological Survey when establishing the Island Unit participating area and by considering the entire Wasatch Formation to be the productive gas reservoir (rather than only the interval defined by the marker well), Wexpro can have rights to this interval and the gas potential can be developed to the benefit of gas costs. This additional drilling interval adds minimally to the overall cost to drill these wells and allows capture of any gas in this interval.

Please indicate your approval of the proposed guideline in the signature boxes below. Of course, should you wish to discuss this, please let me know.

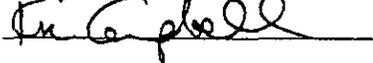
Respectfully yours,



Gary L. Nordloh  
President and CEO, Wexpro Company

Approved:

Utah Division of Public Utilities

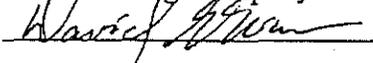
By: 

Date: June 29, 1998

Approved:

David E. Evans

Evans Consulting Company

By: 

Date: June 25, 1998

JRL:mf

Ratification of Wexpro Guideline Letter dated June 25, 1998 regarding Island Unit –  
Deepening Wells

Questar Exploration and Production Company (Questar E&P) ratifies the foregoing Guideline Letter and hereby relinquishes to Wexpro all of its right, title and interest to the wells drilled by Wexpro and production from formations pursuant hereto, such wells being classified as Development Gas Wells under the Wexpro Agreement for the delivery of cost of service gas to Questar Gas Company.

Questar Exploration and Production Company

By: CS \_\_\_\_\_ *CS*  
C. B. Stanley  
President & CEO