



Wexpro Company

180 East 100 South

P.O. Box 45601

Salt Lake City, UT 84145-0601

Tel 801 324 2600

Fax 801 324 2637

April 4, 2001

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

Stephen G. Oxley  
Staff of the Wyoming Public Service Commission  
700 West 21<sup>st</sup> Street  
Cheyenne, Wyoming 82002

Re: Guideline Letter Relating to Development and Ownership of the Mesaverde  
Formation within the Island Unit, Uintah County, Utah

Dear Messrs. Hanson and Oxley,

During the past few months Wexpro has met with the Public Service Commissions for the states of Utah and Wyoming. During these meetings strong interest was expressed in increasing the supply of cost-of-service gas. As the Wexpro Agreement applies only to properties which were developed as of July 31, 1981, the opportunity for long-term production is limited to the productive gas reservoirs and development drilling areas in place at that time. However, in response to the interest expressed, Wexpro brings forth the following proposal for developing additional cost-of-service gas.

In the Wexpro Agreement the listed productive gas reservoir for the Island Unit is the Wasatch formation (see schedule 3A of the Wexpro Agreement). The Mesaverde formation, a deeper formation which is currently not developed is classified as a C-7 formation, i.e., gas owned by Questar Exploration and Production (QEP). Under the terms of the Wexpro Agreement any gas produced from the Mesaverde formation would be sold at market prices with Questar Gas receiving a 7% override. The gas potential of the Mesaverde formation in the Uintah Basin is a current topic of interest within the region. In particular, the deeper higher pressured portion of the Mesaverde is being viewed by some as an underdeveloped regional gas play. There is active drilling to the Mesaverde on all sides of the unit, as well as known Mesaverde production on the west and south sides of the unit. However, most of the existing wells did not target the deepest portion of the Mesaverde. Results of the most recent drilling activity are not yet available. To drill down to the Mesaverde formation without "bailout"

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opportunities in the proven productive Wasatch formation is difficult to justify for QEP. QEP could participate in the drilling of joint wells that penetrate both the Wasatch and Mesaverde formations with Wexpro. If drilled jointly, Wexpro would retain the Wasatch rights while QEP would have the Mesaverde rights. This joint ownership arrangement has potential to cause many complications such as selecting mutually agreeable drill sites, cost sharing, completion and production scheduling (i.e., which gas would be produced first if all gas could not be produced simultaneously).

In order to mitigate these complications and increase cost-of-service gas supply, it is proposed that, via this Guideline Letter, QEP relinquish its rights to Wexpro to the full depth of the Mesaverde formation underlying the Island Unit, (Participating Area "A"). The depth and thickness of the total Mesaverde formation varies across the Island Unit, but can be, and is for the purpose of this Guideline Letter, identified as the interval seen on logs of Island Unit #3 between 7,724' (top of Mesaverde) and 10,768' (base of Mesaverde). This would then include all of the Mesaverde formation as presently exposed in this well bore. This adds approximately an additional 3,000' of interval to be tested for gas. It is further proposed that this additional interval, currently classified as C-7 under the Wexpro Agreement, be treated as if it were a productive gas reservoir with development drilling under the Wexpro Agreement. This treatment would include the same earning potential, review of well classifications, dedication of gas as cost-of-service gas, etc., as in the existing Wexpro Agreement. In exchange for relinquishing its working interest ownership rights in the Mesaverde to Wexpro, QEP will receive a 7% overriding royalty interest in the interval relinquished to Wexpro (just as Questar Gas would have received had QEP retained the working interest).

When other operators in the region drill to the Mesaverde formation they may perforate and produce from either the Mesaverde or Wasatch or both. Absent the ability to use production from either or both of these formations to meet the commerciality test required in the Wexpro Agreement, Wexpro lacks sufficient economic incentive to enter into this arrangement given the increased cost and uncertainty associated with drilling to the Mesaverde formation. Accordingly, Wexpro proposes that if production from the Mesaverde or Wasatch formations, or a combination of these formations, is sufficient to meet commerciality for the whole well investment, as defined in section I-20 of the Wexpro Agreement, then Wexpro will be entitled to earn on its entire investment in that well. If the well is not commercial, it will be treated as a dry hole and Wexpro will bear all the risk and costs of the well.

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To carry out this proposal, Wexpro has agreed to drill two wells to test the Mesaverde formation within the Island Unit Participating Area "A" which are as follows:

Island Well #33  
Section 8: SWSW T10S R20E

Island Well #83  
Section 11: SWSW T10S R19E

It is agreed that the drilling of these wells shall be treated and deemed development gas drilling through the Mesaverde formation and subject to the earning provisions in the Wexpro Agreement, assuming the wells are determined to be commercial wells using the "whole" well approach. The gas produced from these wells shall be treated as cost-of-service gas. Prior to the election discussed below, additional wells may be drilled on the same basis if prior written consent is given by the hydrocarbon monitor.

Within twelve months after first production from the first of the two wells to commence production (assuming no substantial interruption, i.e., more than 30 days), the Utah Division of Public Utilities and Staff of the Wyoming Public Service Commission shall make a one-time permanent election to designate the Mesaverde formation within Island Unit as a productive gas reservoir, and thereafter all future drilling would be deemed development gas drilling and treated as consistent with the terms of the Wexpro Agreement. The gas produced from all commercial wells drilled to the Mesaverde would be cost-of-service gas subject, however, to the 7% override to QEP as stipulated to herein. If the Utah Division of Public Utilities and the Staff of Wyoming Public Service Commission decide not to make such one-time election, then this Guideline Letter shall terminate except as to the two wells (or any additional wells drilled prior to the election that are approved by the hydrocarbon monitor) identified above and future production therefrom.

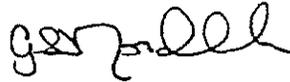
This proposal applies specifically to the lands and leaseholds within the boundary of the Island Unit, Participating Area "A" only. However, if other opportunities should become available and appear conducive to this type of arrangement, they may be presented at a later time.

This Guideline Letter in no way modifies or amends the terms of the Wexpro Agreement. This Guideline Letter will be binding upon the parties who sign this letter.

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

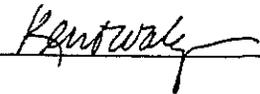
Respectfully yours,



Gary L. Nordloh  
President and C.E.O.  
Wexpro Company

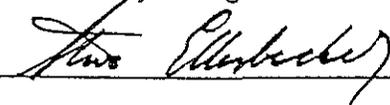


Approved:  
Utah Division of Public Utilities

By: 

Date: 4/9/01

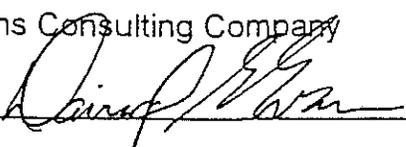
Approved:  
~~Staff of the~~ Wyoming Public Service Commission

By: 

Date: 4/27/01

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Approved:  
David E. Evans  
Evans Consulting Company

By: 

Date: April 6, 2001

Ratification of Wexpro Guideline Letter dated April 4, 2001 regarding the development and ownership of the Mesaverde formation within the Island Unit, Uintah County, Utah

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, reserving unto Questar E&P a proportionate 7% of 8/8ths overriding royalty interest on all oil, gas and other hydrocarbons produced from the relinquished interest (the same overriding royalty Questar Gas would have received had Questar E&P retained the working interest).

Questar Exploration and Production Company

By: CBS \_\_\_\_\_ 219  
C. B. Stanley  
President & CEO