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July 20, 2016

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Re: Guideline Letter Governing Commercial Well Designations Under Section I-20 of the Wexpro Agreement and Section I-11 of the Wexpro II Agreement

The Utah and Wyoming Public Service Commissions approved the Wexpro I Agreement in 1981, the Wexpro II Agreement in 2013, the Trail Unit Settlement Stipulation in 2014 and the Canyon Creek Settlement Stipulation in 2015 (collectively the "Wexpro Agreement").

The Wexpro Agreement defines the procedure for classification of a "Commercial Well" in Section I-20 of the Wexpro I Agreement and Section I-11 of the Wexpro II Agreement (the "Commercial Well Test"). A Commercial Well is one that "(i) clearly produces sufficient quantities to pay at market prices for the products, all costs of drilling, development and operation of the well, or (ii) requires further determination for classification as a commercial well or a dry hole." Modern drilling and completion techniques, such as hydraulic fracturing and horizontal drilling have become pervasive in the industry and have enabled completion in previously uneconomical formations. These newer techniques are reasonably necessary to efficiently and more fully produce the hydrocarbons in the properties subject to the Wexpro Agreement. However, the Commercial Well Test guidelines as set out in the Wexpro Agreement are not compatible with the newer completion techniques. Longer testing times are often necessary to evaluate new completions, which usually have multiple zones each requiring individual fracture treatment. Sufficient production time after completion is necessary to unload fracture fluids, remediate wet zones, install compression, and address other issues that may occur before reliable decline trends can be established to evaluate the well.

During the current Hydrocarbon Monitor's tenure, which began in 1999, procedures for classifying a well under the Wexpro I Agreement, Section I-20 (i) as "clearly" commercial included using a minimum 10 percent discount rate and oil and gas prices based on the NYMEX 12-month forward strip, adjusted to the location of the well. This process was used because Section I-20 only specified the use of "market prices" without further definition. The same procedures were used for classifying a well that requires "further determination" under I-20 (ii), but this Section has a 30-day testing limit after stimulation, with only the last 10 days of production to be used to evaluate the well.

The parties to the Wexpro Agreement will benefit from specifying procedures and timing to be used for performing a Commercial Well designation which comply with all aspects of the Wexpro Agreement. The following procedures will be utilized during the Commercial Well Test, on a well by well basis, for wells that are clearly commercial and for wells that require further determination for classification as a commercial well, a non-commercial well or dry hole:

**Discount Rate:** A before-tax industry-standard<sup>1</sup> discount rate (currently 10 percent) will be required under the Commercial Well Test.

**Pricing:** The price to be used for the Commercial Well Test will be the Rockies Adjusted Price, as of the date production begins then held flat thereafter. Rockies Adjusted Price is defined in the Canyon Creek Settlement Stipulation, paragraph 14. However, for the Commercial Well Test, the Rockies Adjusted Price will use a NYMEX 12-month forward curve instead of the NYMEX 5-year forward curve that is used to determine future drilling plans. All other calculations and terms will remain the same for the Commercial Well Test as they are defined in paragraph 14 of the Canyon Creek Settlement Stipulation.<sup>2</sup>

**Production Testing:** Beginning upon the date a well is first ready to produce hydrocarbons; each well will be produced for 90 days prior to analysis for classification under the Commercial Well Test. If a well is not "clearly commercial" and requires remedial work, Wexpro will notify the Hydrocarbon Monitor prior to the end of the 90-day initial production period and request one additional 90-day production period. Wexpro will describe its plans for remediation and increasing production. The Wexpro remediation plan will include anticipated costs and time duration. If the Hydrocarbon Monitor agrees to an additional 90-day production period, Wexpro will be granted a maximum of 30 days for remedial work ("Remediation Period") before the second 90-day production period begins. If a permit(s) for additional work is required, Wexpro will notify the Hydrocarbon Monitor and the start of the 30-day Remediation Period will not begin until the day after Wexpro receives the permit(s). The second 90-day production period will begin no later than 30 days after the beginning of the Remediation Period.

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<sup>1</sup> FASB Statement of Standards, FAS69-8.

<sup>2</sup> This Guideline Letter does not change the Cost-of-Service-Test required prior to drilling investment as defined in paragraph 14 of the Canyon Creek Stipulation.

Adoption of this Guideline Letter will provide for application of a Commercial Well Test in a manner and time frame most likely to result in an accurate analysis of a well's potential performance.

The guidelines contained herein will be in effect and binding upon the parties who sign this letter until such time as they are either modified or terminated. However, the guideline would still be in effect for all actions taken prior to any modification or termination.

Please indicate your acceptance of this Guideline Letter as an appropriate means to perform Commercial Well determinations in the future on all Wexpro Agreement properties.

APPROVED:

WEXPRO COMPANY

By: Brady B Rasmussen  
Brady R. Rasmussen  
Executive Vice President &  
Chief Operating Officer

Date: 7/20/16

UTAH DIVISION OF PUBLIC UTILITIES

By: Chris Parker  
Chris Parker  
Director


Date: 8/1/16

WYOMING OFFICE OF CONSUMER ADVOCATE

By: Bryce Freeman  
Bryce Freeman  
Administrator


Date: July 27, 2016

WYOMING PUBLIC SERVICE COMMISSION STAFF

By:   
John Burbridge  
Attorney Supervisor

Date: 7-28-16

QUESTAR GAS COMPANY

By:   
Craig C. Wagstaff  
Executive Vice President &  
President, Questar Gas Company

Date: 7/28/16