

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF UTAH**

IN THE MATTER OF THE PETITION OF )  
THE DIVISION OF PUBLIC UTILITIES )  
TO CONSIDER THE PROPOSED TRANSFER )  
OF CERTAIN WELLS, LEASES, LANDS AND )  
RELATED FACILITIES AND INTERESTS )  
OF MOUNTAIN FUEL SUPPLY COMPANY )  
TO WEXPRO COMPANY ON REMAND )  
FROM THE UTAH SUPREME COURT. )

Case No. 76-057-14

IN THE MATTER OF THE APPLICATION )  
OF MOUNTAIN FUEL SUPPLY COMPANY )  
FOR A GENERAL INCREASE IN RATES )  
AND CHARGES INCIDENT TO NATURAL )  
GAS SERVICE RENDERED WITHIN THE )  
STATE OF UTAH. )

Case No. 77-057-03

IN THE MATTER OF THE APPLICATION )  
OF MOUNTAIN FUEL SUPPLY COMPANY )  
FOR A GENERAL INCREASE IN RATES )  
AND CHARGES INCIDENT TO NATURAL )  
GAS SERVICE RENDERED WITHIN THE )  
STATE OF UTAH. )

**STIPULATION**

Case No. 79-057-03

IN THE MATTER OF THE APPLICATION )  
OF MOUNTAIN FUEL SUPPLY COMPANY )  
FOR A GENERAL INCREASE IN RATES )  
AND CHARGES INCIDENT TO NATURAL )  
GAS SERVICE RENDERED WITHIN THE )  
STATE OF UTAH. )

Case No. 80-057-01

IN THE MATTER OF THE APPLICATION )  
OF MOUNTAIN FUEL SUPPLY COMPANY )  
FOR A GENERAL INCREASE IN RATES )  
AND CHARGES INCIDENT TO NATURAL )  
GAS SERVICE RENDERED WITHIN THE )  
STATE OF UTAH. )

Case No. 81-057-01

IN THE MATTER OF THE INVESTIGATION )

OF THE TRANSFER OF CERTAIN )  
WELLS, LANDS, LEASES AND RELATED )  
BUILDINGS AND INTERESTS OF )  
MOUNTAIN FUEL SUPPLY COMPANY )  
AND/OR WEXPRO COMPANY TO CELSIUS )  
ENERGY COMPANY OR ANY OTHER )  
ENTITY OR PERSON. )

Case No. 81-057-04

The Utah Department of Business Regulation, Division of Public Utilities (Division), the Utah Committee of Consumer Services (Committee), Mountain Fuel Supply Company (Company) and Wexpro Company (Wexpro) present this Stipulation to the Utah Public Service Commission (Commission) to resolve all issues actually or arguably pending before it in these captioned cases except rate design issues in Case No. 81-057-01. All these cases are before the Commission, in whole or part, on the Commission's own order except Case No. 76-057-14, which is on remand from the decision of the Utah Supreme Court in *Committee of Consumer Services v. Public Service Commission of Utah*, 595 P.2d 871 (Utah 1979).

The Company and Wexpro are also entering into a similar stipulation with the Staff of the Public Service Commission of Wyoming, in Public Service Commission of Wyoming Docket No. 9192 Sub 68.

The definitions in the Agreement between the Company and Wexpro as parties (Agreement) which is attached hereto as Appendix 1 and incorporated herein by this reference will apply throughout this Stipulation.

## **1. STIPULATED FACTS**

1.1. Since before 1930, the Company or its predecessor companies have acquired leases and other interests in certain properties having a potential for the production of hydrocarbons. The Company's exploration and development program has been considered in numerous proceedings before the Commission. While the Commission has from time to time sought modifications to the program, the program has historically received the support and approval of the Commission. A number of properties have been explored and successfully developed and are presently producing oil and natural gas. Others are unexplored and are currently being held for future exploration and accounted for in a Company utility rate base account or in Wexpro.

1.2. On the whole, the Company's hydrocarbon exploration and development has been successful. It has resulted in a curmnuy below market price cost-of-service natural gas production equal to approximately 30% of the total natural gas supply currently being delivered to the Company's retail distribution customers. Company exploration efforts have also developed substantial quantities of oil.

1.3. As part of the Commission's historical support and approval of the Company's exploration and development program, certain costs of exploration, including dry-hole expenses,

cancelled leases and delay rentals, have been considered as utility expenses in setting the Company's natural gas rates to retail distribution customers over the past 35 years.

1.4. The productive oil reservoirs, productive gas reservoirs and the unexplored properties currently held by the Company and Wexpro (as set out and defined in the Agreement) are believed to have significant potential value for the future production of oil and natural gas.

1.5. In order to produce the potentially producible oil and natural gas from the productive oil reservoirs, it may sometimes be desirable to pursue enhanced recovery procedures. The amount of required investment for such enhanced recovery procedures is currently unknown.

1.6. Additional development drilling into some, if not all, of the productive gas reservoirs also will be necessary and desirable to produce prudently the available natural gas and oil. The amount of the required investment for such additional development wells is currently unknown.

1.7. To exploit the potential of the approximately 1.4 million acres of unexplored leaseholds currently held in the Company's 105 account, the leaseholds need to be explored, and those leaseholds that appear to warrant it should be drilled. Many of these leases will soon expire unless they are drilled prior to expiration. The amount of the investment required for such exploration and drilling is currently unknown.

1.8. During a 37 year period prior to January 1, 1977, certain primarily oil producing properties which were explored and drilled by the Company were classified by the Company as non-utility oil properties.

1.9. The Company believes that its investors have provided capital to it under the understanding that the properties classified as oil-producing properties were totally non-utility in nature, hence allowing for an unregulated return on investments therein.

1.10. Various parties historically have made claims before the Commission that such oil properties should be regulated as utility assets and that profits derived from such properties should be applied to reduce the Company's retail distribution rates.

1.11. The Commission has historically treated such oil properties as unregulated assets of the Company.

1.12. Effective January 1, 1977, the Company and Wexpro entered into an Agreement of Purchase and Sale under which the Company-classified non-utility properties were transferred to Wexpro in exchange for all of the outstanding common stock of Wexpro. The Company and Wexpro also entered into a joint Exploration Agreement (SEA) effective January 1, 1977, which established a program for exploration and development of the Company's unexplored properties.

1.13. The Division and Committee objected to the agreements alleging that they were detrimental to utility customers. The Commission in its Order dated April 11, 1978, in Case No. 76-057-14 approved the agreements subject to certain amendments which were agreed to by the Company and Wexpro. However, in *Committee of Consumer Services v. Public Service*

*Commission of Utah*, 595 P.2d 871 (Utah 1979), the Utah Supreme Court reversed the Order of the Commission on jurisdictional grounds and remanded the issue the Commission for further hearings as to whether the properties theretofore classified by the Company as non-utility were in fact outside the regulatory jurisdiction of the Commission.

1.14. Since the organization of Wexpro as a wholly owned subsidiary of the Company, a number of properties have been explored. Wexpro has explored the properties conveyed to it under the Agreement of Purchase and Sale and has acquired properties from sources other than the Company that have also been explored. The early exploration of Company properties after the organization of Wexpro was done in accordance with the terms of the SEA. After the Utah Supreme Court rendered its decision, the SEA was canceled and the further drilling was done first under an informal agreement and subsequently under a stipulation dated March 1981, which was filed in Case No. 81-057-04 and approved by the Utah Commission. Some of this drilling has resulted in the successful completion of either oil or natural gas wells.

1.15. During the pendency of Case No. 76-057-14 (Wexpro Case) the Company has received general rate increases in Case Nos. 77-057-03, 79-57-03, 80-057-01 and 81-057-01. The order establishing the overall increase in rates entered in each of those cases has been in some way connected to the outcome of Case No. 76-057-14.

1.16. The Company has discontinued all exploration and development activities on the properties subject to the SEA because in its judgment the opinion of the Utah Supreme Court in Committee of Consumer Services made continued exploration of the properties as a utility venture impractical.

1.17. Questions have been raised before the Wyoming Commission in Docket No. 9192 Sub 68 regarding issues raised in the Wexpro Case.

1.18. In addition to the cases which are the subject of this Stipulation, other litigation has been initiated by the Company in federal forums involving some of the same issues that are before the Commission in Case Nos. 76-057-14 and 81-057-04.

1.18.1. The Company, Wexpro, Mountain Fuel Resources, Inc. (Resources) and Celsius Energy Company (Celsius) have filed Applications with the Federal Energy Regulatory Commission (FERC) in FERC Docket Nos. CP80-274, CP80-275 and CI80-233 (FERC Dockets) seeking authorization for transfer of certain of the properties which are the subject of this Stipulation and the Agreement (Properties) from the Company and Wexpro to Celsius. True and correct copies of the applications in the FERC Dockets have been filed with the Commission.

1.18.2. The Company, Wexpro and certain shareholders of the Company filed a Complaint in the United States District Court for the District of Utah in Mountain Fuel Supply Co. v. Public Service Commission of Utah, Civil No. C 80-0710J (D. Utah, July 28, 1981). The Complaint and Amended and Supplemental Complaint, true and correct copies of which were served on the Commission previously, claimed, among other things, that the regulation of certain of the Properties by this Commission would violate plaintiffs' rights under the Constitution of the

United States. The court has entered an Order dismissing the Complaint without prejudice.

1.19. The federal litigation as well as these cases are part of a protracted, time-consuming, expensive and disruptive course of disagreement of the parties. It is the opinion of all parties that if this litigation is not substantially resolved, it will continue to be protracted, time-consuming, expensive and disruptive in the future to the detriment of the Company's shareholders and its customers.

1.20. All parties have taken public positions in the litigation referred to above and in these cases herein captioned suggesting that the Properties be owned and developed in various ways and that the benefits from the Properties be divided in various fractions. All parties concede, however, that the risk exists in any litigation that a particular position will not be accepted in whole or in part by the ultimate legal decision-maker and that decisions of the various courts and agencies in which the related litigation is now pending could be inconsistent. Further, the expense of litigation and the passage of time could render the ultimate victory by any party Pyrrhic.

1.21. The potential of the Properties can best be realized for the Company's retail distribution customers and its shareholders if the Properties are explored.

1.22. By reason of the Company's decision not to conduct exploration activities as a utility, in order to exploit the Properties adequately, Wexpro must own the fee title or be the lessee of record and must be the operator of all of the Properties.

1.23. It is reasonable and desirable under the circumstances that all future exploration or developmental drilling activity on the Properties be undertaken by Wexpro, as provided for in the Agreement, at its sole risk and expense.

1.24. The service fees and prices established in the Agreement together with the transfer of rights to Wexpro fairly compensate for such risks and expenses undertaken by Wexpro.

1.25. The rights and benefits conferred upon or retained by the Company in the Agreement (along with that consideration previously received by the Company from Wexpro) represent fair market value consideration for all properties which have been previously conveyed or are by the Agreement conveyed to Wexpro by the Company.

## **2. OBJECTIVES OF THE PARTIES**

The parties have entered into this Stipulation and the Agreement to accomplish the following objectives, which objectives are set forth here as an aid to current and future interpretation and application of this Stipulation and the Agreement:

2.1. The retail natural gas rates paid by the Company's distribution customers should reflect appropriate credits or benefits from the Properties. All benefits or credits from the Properties which flow to the Company will be used by the Company to reduce or suppress retail natural gas rates to its customers as directed by the agency having jurisdiction.

2.2. Wexpro should have sufficient legal and economic incentive that it, in its own self interest, will prudently and energetically exploit the Properties to their full potential for the benefit of the Company's customers and its shareholders.

2.3. This Stipulation and the Agreement together should provide a self-governing means of encouraging the development of natural gas to be made available to the Company's retail distribution customers at competitive prices. To that end, the Agreement will avoid "first sales" of natural gas (as defined in the Natural Gas Policy Act of 1978) or "sales for resale in interstate commerce" (as that term has been applied under the Natural Gas Act) to the Company from currently productive gas reservoirs and will establish contractual prices for gas which is sold from currently productive oil reservoirs by Wexpro to the Company with the intention that such prices will be adopted by any regulatory agency asserting jurisdiction.

2.4. Wexpro should be recognized by states in which it operates and all parties as an independent hydrocarbon exploration and development company which is not subject to state public utility regulation and which legally owns or operates the Properties in accordance with the Agreement.

2.5. The Company's natural gas retail distribution rates will not reflect as a specific utility cost any unsuccessful exploration or development cost incurred on the Properties with the specific intention of eliminating any foundation for the claim that its customers contribute capital to or assume the risks of the Company's or Wexpro's exploration or development programs.

### **3. CONSIDERATION**

3.1. The parties have entered into this Stipulation and the Agreement has been executed in mutually interdependent consideration of each and all of their covenants and conditions. The Stipulation and the Agreement are an integrated whole and each part is dependent on all other parts. Therefore, if any part of the Stipulation or Agreement is not approved as provided in Section 16 herein, the entire Stipulation and the Agreement will be void unless modified in writing as provided in Section 16 with such modifications approved with finality.

3.2. The totality of the consideration flowing to the Company under the Agreement is agreed by the parties, in view of all the circumstances, to be the equivalent of fair market value for all assets transferred from the Company to Wexpro by the Agreement of Purchase and Sale and by the Agreement.

3.3. Some of the consideration to the Company under the Stipulation and Agreement is summarized, without in any way attempting to alter the specific terms of the Stipulation or the Agreement, as follows:

3.3.1. 54% of profits from productive oil reservoirs.

3.3.2. Cost-of-service gas sold by Wexpro to the Company from productive oil reservoirs.

3.3.3. All development drilling expenses and risks on transferred leaseholds to be borne by Wexpro.

3.3.4. 7% of 8/8ths overriding royalty on all exploratory properties transferred from the Company to Wexpro under the Agreement.

3.3.5. A first right to purchase all gas from exploratory leaseholds.

3.3.6. Cost-of-service gas owned by the Company and delivered by Wexpro from productive gas reservoirs.

3.3.7. All risk and expense of development drilling on Account 101/105 leaseholds borne by Wexpro.

3.3.8. 2-1/2% of 8/8ths overriding royalty on approximately 128,000 acres of "after.acquired" property of Wexpro.

3.3.9. 2-1/2% of 8/8ths overriding royalty on certain Bug field acreage acquired by Wexpro after January 1,1977.

3.3.10. \$21 million temporary reduction in cost-of-service to Company's retail distribution natural gas customers.

3.3.11. Reduction of utility rate base by removal of all leaseholds from rate base accounts, thereby reducing utility revenue requirements.

3.3.12. Future elimination of unsuccessful exploration and development expenses from ratemaking consideration thereby reducing utility revenue requirements.

3.3.13. Expenditure of at least \$40 million by Wexpro during next 5 years for development drilling to productive gas reservoirs.

3.4. The issuance of the common stock by Wexpro to the Company in connection with the Agreement of Purchase and Sale and the Company's ownership rights with respect to that stock will not be affected by this Stipulation.

#### **4. RESERVE FOR PAST UTILITY EXPLORATION EXPENSES**

4.1. Except as provided in Section 4.2 herein, the Company's cost-of-service of natural gas will not include any cost or expense associated with unsuccessful exploration or development of the Properties except as specifically provided in the Agreement.

4.2. It is mutually acknowledged that the reserve for exploration account designated as Account 186 of the Uniform System of Accounts has been maintained in the Company's ratemaking accounts for the purpose of covering its share of unsuccessful exploration costs. That account as of July 31,1981, had a deficit of approximately \$3.8 million. There is presently an expense item relating to unsuccessful exploration reflected in the Company's natural gas retail

distribution rates of approximately \$3.1 million per year, which, it is agreed, will remain in effect so long, but only so long, as is necessary to eliminate the \$3.8 million deficit balance in Account 186.

## **5. THE AGREEMENT**

5.1. The parties will enter into and be bound by the Agreement attached as Appendix 1, effective August 1, 1981. The Agreement specifies the terms and conditions upon which the Company and Wexpro will own and Wexpro will operate the Properties and upon which the Company will own natural gas produced from productive gas reservoirs, be entitled to purchase natural gas produced from productive oil reservoirs and exploratory properties, share in certain oil income and otherwise share in the benefits of the Properties.

5.2. All parties have participated in the drafting of the Agreement and have carefully scrutinized all of its provisions. For purposes of this Stipulation, all parties will be bound by definitions, property schedules and procedures which are a part of the Agreement. The parties agree not to challenge any action taken by the Company or Wexpro in accordance with the terms of the Agreement other than through arbitration procedures provided in Section 9 of this Stipulation.

5.3. The parties agree that the cost-of-service reductions and increases in income which flow to the Company under the Agreement are intended ultimately to benefit the Company's retail distribution customers in the form of reductions in or suppression of natural gas rates.

5.4. The beneficial interest of the Company's Utah retail distribution customers in benefits from the Properties as a class is represented by the Division and the Committee which have executed the Agreement in this representative capacity. The parties agree that the Division and Committee are entitled in this same capacity to pursue enforcement of the provisions of this Stipulation and the Agreement to secure benefits to the Company's customers under the Agreement as provided in this Stipulation.

5.5. The Agreement has been executed by the parties without complete review of the schedules attached to the Agreement. Until such schedules are finally reviewed and approved by the parties, it may be necessary to slightly modify certain entries in the schedules. However, the parties believe that any such modification will not be material nor will they affect the substantive provisions of the Agreement. The parties agree that the schedules to the Agreement will be reviewed and finally approved no later than October 23, 1981.

## **6. TEMPORARY REDUCTION IN THE COMPANY'S COST-OF-SERVICE**

6.1. As soon as is practicable but in no event later than 30 days following approval of this Stipulation, the Company will submit new schedules of rates and charges to the Commission which will reflect a reduction in its cost-of-service. This reduction in cost-of-service will be reflected on a per-Mcf basis to the Company's retail distribution customers over approximately a 12-month period, commencing upon dates fixed by the Commission, and will be in an amount

sufficient to reduce the Company's current system-wide retail distribution natural gas rates by the pretax sum of \$21 million. 90% of this reduction will apply to Utah customers and 10% will apply to Wyoming customers. It is understood that a portion of the \$21 million may be required by law to be directly allocated to certain incrementally priced industrial customers under Title II of the Natural Gas Policy Act of 1978 (NAPA).

6.2. While this cost-of-service reduction will occur over a 12- month period, the entire effect of the reduction upon earnings of the Company will be accounted for in the Company's financial records in the year 1981.

6.3. To ensure that the full impact of the \$21 million temporary reduction in system-wide cost-of-service is realized, it will be accounted for by the Company as a part of the Account 191 balancing account adjustment provisions of its tariffs on file with and approved by the Commission, except for the portion required to be directly allocated to incrementally priced industrial customers under the NAPA.

## **7. OTHER RATE EFFECTS**

7.1. As soon as practicable, but in no event later than 30 days following approval of this Stipulation, the Company will submit new schedules of rates and charges which:

7.1.1 Reflect actual adjustments in utility rate base resulting from changes in property ownership effected by the Agreement as of August 1, 1981, and ownership of facilities installed after July 31, 1981; and

7.1.2 Reflect projected adjustments in other utility income, gas purchase costs and service fees resulting from the Company's income from Wexpro, its service fees to Wexpro, and its gas purchases from Wexpro under the Agreement as required by this Stipulation and the Agreement utilizing Account 191 procedures as directed by the agency having jurisdiction.

7.2 Within 30 days after the reserve for exploration account deficit balance is eliminated, as provided in Section 4.2 above, the Company will submit rate schedules which reflect a reduction of approximately \$3.1 million annually system-wide.

7.3 The Company's retail natural gas tariffs will reflect, through the ratemaking treatment accorded the Company's direct gas costs, that the costs associated with the production of Company- owned hydrocarbons produced for the Company by Wexpro under the terms of Article III of the Agreement will be determined under the cost-of-service procedure set forth in Exhibit E of the Agreement.

7.4 All royalties or income received from Wexpro under the Agreement as well as costs associated with natural gas delivered to the Company by Wexpro will be accounted for under the Account 191 balancing account adjustment provisions of the Company's tariffs on file with and approved by the Commission in the same manner as natural gas costs incurred by the Company in the purchase of natural gas from third parties.

7.5. All investment in prior Company wells (as defined in the Agreement) and all related utility investments made before August 1, 1981, used and useful in the production of hydrocarbons from productive gas reservoirs, and not otherwise transferred to Wexpro under the Agreement will be considered as utility gas plant to be accorded rate-base treatment as a part of the Company's retail natural gas rate determination by the Utah and Wyoming Public Service Commissions. (It is specifically recognized that Company investment made under paragraphs 11-8(f) and 111-8(e) of the Agreement will be accorded similar rat-base treatment.) However, no lease carrying costs will be included in such treatment.

7.6. No benefit or burden created in the Company, and ultimately its retail distribution customers, by this Stipulation or the Agreement will be used in any way as a basis for future rate relief to the Company except under exigent circumstances as otherwise directed by the agency having jurisdiction.

## **8. DIVISION MONITORING OF PERFORMANCE UNDER AGREEMENT**

8.1. The Division will be entitled to monitor the performance of the Company and Wexpro under the Agreement. To facilitate that monitoring, the books and accounts of Wexpro pertaining to the Properties will be made available for examination by the Division when requested at reasonable times and places designated by Wexpro. In addition, Wexpro and the Company will provide the Division with a report within days of the end of every calendar quarter setting out production of the Properties, the financial benefits from the Properties and reporting on the operation of each element of the Agreement. Wexpro will have its accounts with respect to all matters under the Agreement audited annually by a firm of independent certified public accountants. The Division will receive copies of the audit report when completed. All costs of the audit will be borne by Wexpro and will be considered to be normal business expenses of Wexpro for purposes of the Agreement's formulae. This expense item will be strictly restricted, however, to reflect solely the costs of auditing compliance with the Agreement.

8.2. If the Division desires further monitoring, it, in conjunction with the Staff of the Wyoming Public Service Commission (Staff), will select two monitors, an independent certified public accountant and an independent hydrocarbon industry consulting firm, to review the performance of the Agreement and to advise all parties with respect thereto. Any monitor selected will be professionally trained and qualified, will have had no involvement with the Wexpro Case (unless such requirement is waived by all parties) and will be nationally recognized as a reputable and independent expert in the subject matter of the function monitored. The two monitors will be paid actual and reasonable fees and expenses incurred in monitoring the performance of the Agreement by Wexpro in an aggregate amount not to exceed \$60,000 annually. The first \$20,000 of this amount will be considered to be normal business expenses of Wexpro in determining the cost-of-service of natural gas to be delivered or sold to the Company under the Agreement, and the remaining \$40,000 will be considered to be normal business expenses of Wexpro for purposes of the "54- formula" under the Agreement. Any costs and expenses of the monitors in excess of \$60,000 annually will be the sole responsibility of the Division and the Staff.

8.3. Wexpro will cooperate with the monitors in providing reasonable access to its books,

accounts and records with respect to the Properties and in attempting to obtain other relevant information reasonably requested by the monitors. The monitors will be obligated under their retainer agreements to keep information disclosed to them confidential except in connection with necessary reports made to the Division, the Staff, the Company or Wexpro in performing their duties as monitors or with Wexpro's prior approval.

8.4. Monitors may be removed with or without cause by the Division, in consultation with the Staff, and with cause, as established by arbitration, by the Company and Wexpro. For purposes of this paragraph, cause will include, but not be limited to, lack of professional qualification, lack of competence, unauthorized disclosure or use of confidential information and a pattern of unreasonable, harrasing or oppressive conduct by the monitor in performing its responsibilities. If a monitor is removed or is unable to continue to act, the Division, in consultation with the Staff, may select a successor upon the same terms and conditions as an original monitor could be selected provided that the total fees and expenses of all monitors in any year will be limited to \$60,000.

## **9. DEFAULTS**

In the event that any party claims that there is any default by any other party of any of their obligations under the terms or intent of this Stipulation or the Agreement, the following procedure will be followed:

9.1. The charging party will give notice of the claimed default, and the defaulting party will be allowed 30 days or such longer time as the charging and defaulting parties may stipulate to correct its default.

9.2. If the default is not corrected to the satisfaction of the charging party, all parties and the Staff will be given notice of the dispute and the matter will be submitted by the parties to arbitration on the following terms:

9.2.1. The Division and the Committee and the Staff, if the Committee and the Staff desire to participate, will jointly select a person professionally trained and qualified in the subject matter of the dispute but who has not been employed or retained by the Division, Committee or Staff within the previous 12 months (unless such requirement is waived by all parties), to act as an arbitrator, such selection to be within 60 days of the date upon which notice of default was given or such longer time as the parties may specify.

9.2.2. The Company and Wexpro, or either if both do not desire to participate, will similarly select a person professionally trained and qualified in the subject matter of the dispute to act as an arbitrator under the same restrictions and within the same time limit in which the Division, Committee and Staff must select their arbitrator.

9.2.3. The two arbitrators selected will together select a third person professionally trained and qualified in the subject matter of the dispute to act as an arbitrator, such selection to be within 15 days of the date the latter of the two arbitrators was selected by the parties. In the event no agreement can be reached on the selection of the third arbitrator within

the time permitted, such selection will be made by the Chief Judge of the United States District Court for the District of Utah upon the application of any party.

9.2.4. The three arbitrators will give the parties reasonable opportunity to present their positions and will thereafter decide the matters in dispute by a majority vote. The arbitrators will not engage in investigations or audits themselves but will render their decision based upon information presented to them by the parties. It is understood that the arbitrators may request the parties to prepare and present additional evidence if needed for their decision and that arbitrators will keep information presented to them confidential.

9.2.5. Each party will bear the costs of its own attorneys and witnesses in the arbitration proceedings. The salary and expenses of the arbitrator selected by each of the parties will be paid by the party or parties selecting the arbitrator. The salary and expenses of the third arbitrator will be paid by Wexpro and considered a normal business expense of Wexpro for purposes of the Agreement's "54-46 formula" unless the formula at that time is not returning to Wexpro the full return provided in the Agreement on its investment base, in which event the Division, Committee and Staff will share the expenses of the third arbitrator equally with the Company and Wexpro.

9.2.6. Except as otherwise specifically provided in this Section 9, the arbitration procedure contemplated by this Stipulation will comply with Chapter 31 of Title 78 of the Utah Code or any successor provision of Utah law governing arbitration.

9.3. The decision of the arbitrators may be presented by any party to the Commission in an application for any action by the Commission with respect to the claimed default by the Division or Company of the Agreement or to a court of competent jurisdiction for any action with respect to a claimed default by Wexpro of the Agreement. In proceedings before the Commission or court with respect to the arbitrated matter, the decision of the arbitrators will be binding upon the parties except with respect to matters covered by Utah Code Ann. 78-31-16 and 78-31-17 and any other claim of impropriety, irregularity or arbitrariness and capriciousness in the arbitration proceedings.

9.4. Among the remedies available under arbitration there is specifically excluded any form of rescission of the terms of property transfer of the Agreement.

9.5. The parties agree that separate arbitration proceedings in Utah and Wyoming or between different parties will not be initiated on the same subject. All parties to this Stipulation should receive notice of any arbitration proceeding initiated by any party in either state. Any party that chooses not to participate in the arbitration proceeding will be bound by the decision of the arbitrators as if it had participated.

9.6. In deciding any controversy brought before them, the arbitrators, Commission or other administrative or judicial body may consider, as appropriate, that one party or the other to the proceeding may have superior knowledge or access to the properties, assets or information which is the subject of the proceeding. They may also consider that the parties to this Stipulation and the Agreement have a duty to perform their respective responsibilities in good faith.

## **10. CONFIDENTIAL INFORMATION**

The Company and Wexpro are obligated under this Stipulation and the Agreement to provide the Division, its monitors and arbitrators with information, reports and notices regarding Wexpro's exploration and development of the properties. It is understood and agreed that the Division and Committee, if it participates in arbitration proceedings, will keep such information, reports and notices, including information received from monitors and presented in arbitration proceedings, strictly confidential and will use them only in connection with its review of matters under this Stipulation and the Agreement. It is understood that the Division may utilize such information in arbitration proceedings and, if the Company and Wexpro have consented or the Commission has given its prior approval, in Commission proceedings.

## **11. COMPANY INTEREST IN CERTAIN PROPERTIES OWNED BY WEXPRO**

11.1. The right, interest and estate of the Company in certain properties owned or to be owned by Wexpro is fully described in the Agreement. The Company will have no other right, interest or estate in any property owned by Wexpro except as specifically provided in the Agreement. None of the parties will make any claim that the Company or its customers have any legal, equitable or beneficial right, interest or estate in any property owned by Wexpro or hereafter acquired by Wexpro except as expressly provided by this Stipulation and the Agreement.

11.2. None of the parties will claim that the Properties owned by Wexpro are subject to the public utility regulation of any state, and all parties will cooperate to obtain legal rulings and, if necessary, statutes so providing. It is acknowledged that the Company's rights with respect to the Properties or benefits from them may be subject to appropriate regulation for ratemaking purposes. However, that fact will in no way be claimed by any party as a basis for state public utility regulation of Wexpro in any of its activities with respect to the Properties. If Wexpro's activities with respect to the Properties are claimed by the parties to be or are successfully subjected to state public utility regulation, Wexpro will be released from its obligations under the Agreement with respect to the Properties which subject it to regulation.

## **12. WEXPRO PROPERTIES NOT SUBJECT TO ANY COMPANY INTEREST**

By this Stipulation the parties expressly recognize that there are three categories of properties which are or may be owned by Wexpro in which the Company has no legal, equitable, or beneficial right, estate or interest. The parties will not make any claim that the Company or its customers have any right, estate or interest in these properties or in any production from or proceeds of them or that these properties are subject to public utility regulation. The categories are:

12.1. Properties acquired directly into the Company's non-utility accounts prior to January 1, 1977, and transferred to Wexpro effective January 1, 1977, which have never been considered in establishing the natural gas retail distribution rates of the Company. These properties are described on Schedule 6 attached to the Agreement.

12.2. Properties acquired by Wexpro from third parties or by farmout from the Company during the period commencing January 1, 1977, and ending on July 31, 1981, except for the overriding royalty described in the Agreement on approximately 128,000 acres located in the states of Utah, Wyoming, Colorado and Nevada acquired directly by Wexpro during this period from third parties and on certain acreage in the "Bug area" acquired after May 10, 1979 identified in Schedule 5 attached to the Agreement.

12.3. Any and all properties acquired by Wexpro from any source in any location after July 31, 1981.

### **13. RESOLUTION OF COMMISSION CASES AND CLAIMS OF PARTIES**

This Stipulation and the Agreement resolve all pending issues before the Commission in the above-captioned cases (except rate design issues in Case No. 81-057-01), and all claims of the parties with respect to the allocation of expenses, profits or properties among the Company and Wexpro. No party will assert any claim that the Company, its customers, or Wexpro is entitled to any reimbursement for any cost previously paid by it or them; or that the Company, its customers, or Wexpro is entitled to all or any part of any revenue previously received or retained by others as a result of any aspect of the Company's and/or Wexpro's exploration and development program, the ownership or classification of the Properties, rates previously in effect or any other matter which is the subject of this Stipulation except as expressly provided for in this Stipulation and the Agreement. To effect this resolution in pending cases the parties agree that:

13.1. This Stipulation resolves all issues in Case No. 76-057-14 in a manner consistent with the public interest and in accordance with the holding of the Utah Supreme Court in *Committee of Consumer Services*.

13.2. Any conditions in Orders establishing the rate deficiencies in Case Nos. 77-057-03, 79-057-03, 80-057-01 and 81-057-01 with reference to the resolution of Case No. 76-057-14 are satisfied by this Stipulation and the implementation of the Stipulation and the Agreement.

13.3. The Stipulation of the parties in Case No. 81-057-04 will be terminated effective August 1, 1981, and the Commission's ruling in that case requiring the Company and Wexpro to obtain prior approval of the Commission for any future transfer of property is superseded by this Stipulation and the Agreement. It is understood that the fact that the Commission's ruling in Case No. 81-057-04 is superseded by this Stipulation and the Agreement will have no effect on any statutory authority of the Commission or any valid order issued by the Commission in any other proceeding.

### **14. FEDERAL COURT PROCEEDINGS**

It is the intent of this Stipulation to dispose of all of the disputed issues between the parties with respect to the Properties and specifically to resolve with prejudice the disputes with

regard to the Properties heretofore raised in the United States District Court for the District of Utah in an action entitled Mountain Fuel Supply Co. v. Public Service Commission of Utah, Civil No. C80-0710J (D. Utah, July 28, 1981), which action has been dismissed without prejudice by that Court. The Company and Wexpro agree that the action will not be refiled and that no other action making the same claims arising from the same circumstances against the same parties with respect to the Properties will be filed.

## **15. FERC PROCEEDINGS**

15.1. Mountain Fuel and Wexpro will amend their Applications or take other action in the FERC Dockets in a manner consistent with this Stipulation and the Agreement within 60 days of the approval by the Commission of this Stipulation and the Agreement or the final resolution by a competent court on appeal or review.

15.2. All parties will use their best efforts, in cooperation with each other, to obtain any necessary approval by FERC of the terms of this Stipulation and the Agreement which affect the pending Applications.

15.3. It is acknowledged that this Stipulation will not stop the Division and Committee from taking positions contrary to those of the Company and Wexpro in the FERC Dockets on matters not subject to this Stipulation and the Agreement.

15.4. No party will file in the future any application with any regulatory body which is intended to result in the modification or abrogation of any term of this Stipulation or the Agreement except in exigent circumstances.

15.5. Should FERC assert regulatory authority over the gas produced from either the productive gas reservoirs or productive oil reservoirs, all parties will cooperate and use their best efforts to obtain complete acquiescence in or adoption by that agency of the pricing and supply provisions of the Agreement pertaining to those reservoirs.

## **16. APPROVAL OF STIPULATION AND AGREEMENT**

16.1. This Stipulation and the Agreement are entered into by the parties subject to approval by the Commission and, in the discretion of the Company or Wexpro, subject to the approval of the Wyoming Commission of a similar stipulation by the Staff of the Wyoming Public Service Commission, the Company and Wexpro in Wyoming Commission Docket No. 9192 Sub 68. The parties will cooperate with each other, in good faith, to obtain approval of this Stipulation and the Agreement in their entirety by the Commission. The Company and Wexpro agree to endeavor diligently to obtain the approval of the Wyoming Stipulation and the Agreement by the Wyoming Commission, and the Division and Committee agree to cooperate with and assist the Company and Wexpro in the Wyoming proceedings if requested to do so.

16.2. If any person seeks judicial review of the decision of the Commission approving this Stipulation and the Agreement in any court, the parties agree to cooperate with each other to promote the adoption or approval of the Stipulation and the Agreement by the reviewing court.

16.3. If this Stipulation and the Agreement are not approved in their entirety as provided above, the parties will have 30 days from the final decision of the Commission or reviewing court inconsistent with this Stipulation or the Agreement to agree in writing to accept or reject any modification of this Stipulation or the Agreement which may be required. If the parties do not so agree, the Stipulation and the Agreement will be void.

## **17. SUCCESSORS AND ASSIGNS**

17.1. This Stipulation will be binding upon the parties and their successors and assigns, including any state agencies which may hereafter succeed to the responsibilities of the Division and Committee.

17.2. References in this Stipulation to any party will also be deemed to be references to its successors and assigns as appropriate under the circumstances.

17.3. It is acknowledged that Wexpro may assign certain of its rights and obligations under the Agreement to others including other companies affiliated with the Company. Such assignments may be freely made without the consent of any party, and no party will make any claim that any such assignment requires approval of the Commission. However, any such assignment will be subject to the terms of the Agreement, and the assignee's agreement to be bound by the terms of the Agreement, will be a condition precedent to the assignment. In making any assignment of Wexpro's interest or operating rights in productive gas and productive oil reservoirs, due consideration will be given the parties' intention to avoid first sales or sales for resale of natural gas to the Company from productive gas reservoirs. Due consideration will also be given to the parties' intent to avoid any changes in the pricing or supply provisions established in the Agreement for sales of natural gas from productive oil reservoirs to the Company imposed by any regulatory body.

17.4. It is further acknowledged that the Company and Wexpro may decide to transfer certain of the Properties to Celsius rather than to Wexpro during implementation of the Agreement. Such transfers may be freely made without the consent of any party and no party will claim that any such transfer requires approval of the Commission. However, any such transfer will be subject to the terms of this Stipulation and the Agreement and Celsius' Agreement to be bound by the terms of this Stipulation and the Agreement with respect to such properties will be a condition precedent to the transfers. In that event, references to Wexpro in this Stipulation will be deemed to be references to Celsius as appropriate.

## **18. AMENDMENT**

Any amendment to or modification of this Stipulation or the Agreement prior to approval will render the entire Stipulation and Agreement void unless the amendment or modification is consented to in writing by all of the parties and is approved in the manner provided in Section 16 above.



DATED this 14th day of October, 1981.

/s/ Thomas A. Quinn

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