QUESTAR

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February 20, 2004

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

Dear Mr. Hanson:

Re: Guideline Letter Governing the Adoption of Financial Accounting Standards Board Statement No. 143, Accounting for Asset Retirement Obligations, under the Wexpro Agreement

INTRODUCTION. The operational and legal necessity of conducting physical reclamation activities at and near oil or gas well-site locations and related facilities generally requires expenditures after production is terminated. This reclamation activity can include dismantling or removing facilities, plugging and abandoning wells, and reconditioning and restoring terrain. These obligations are referred to as asset retirement obligations or "AROs."

In particular, the Bureau of Land Management, as well as other federal and state regulatory agencies, has established specific reclamation requirements associated with leasing and operating oil and gas properties. The costs associated with these reclamation activities are reasonable and necessary "common business expenses" as that term is used in paragraph 1 in each of Exhibit A and Exhibit E of the Wexpro Agreement ("the Agreement").

SFAS 143 REQUIREMENTS. Wexpro Company ("Wexpro") has historically billed ARO costs through the Agreement when actual costs in excess of salvage value received are paid during asset-retirement operations. However, Wexpro is now required to adopt procedures consistent with Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"), to comply with Generally Accepted Accounting Principles. Under SFAS 143, effective for fiscal years beginning after June 15, 2002, entities are required to recognize and account for certain AROs, as defined by SFAS 143, on a basis different from that used historically by Wexpro.

Specifically, if a legally enforceable ARO is deemed to exist, a company must determine and record the value of the liability for the ARO in its accounting records. Also, under SFAS 143, at the time the liability is recorded, a corresponding and equivalent ARO asset will be recorded on the company's books as part of the cost of the associated tangible asset. The ARO asset is then depreciated together with the associated tangible asset over the life of that asset.

An annual "accretion" expense is also added to the ARO liability to account for the risk adjusted time value of money. This is necessary so that, at the time of the asset's future retirement, the total recorded ARO liability will equal the cash required to meet the legal obligation.[1]

In addition to the forward-looking requirements of SFAS 143 outlined above, companies are required to recognize the "cumulative effect" on their financial statements resulting from the implementation of SFAS 143 on a retrospective basis. Thus, under SFAS 143, it is necessary to reconstruct over past years the effects that would have resulted if the requirements of SFAS 143 had always been followed. This cumulative effect requires a one-time transition entry on Wexpro's books as of January 1, 2003, so that future financial statements will properly reflect the ARO cost effects.

SFAS 143 UNDER THE WEXPRO AGREEMENT. In order to coordinate SFAS 143 compliance with contractual requirements under the Wexpro Agreement, Wexpro proposes to:

- Incorporate ARO costs as ongoing, necessary operating expenses under the terms, conditions and procedures of the Agreement, as described below;
- Collect ARO costs attributable to historical periods up to January 1, 2003 ("transition costs");
- Set up a trust account for the deposit of all funds (net of taxes) related to ARO costs collected from Questar Gas Company and Wexpro (funding of the trust account to be borne in the same proportion as ARO costs); and
- Pay the ARO costs when they come due with accumulated trust account funds.

In addition to providing guidance on adopting SFAS 143 for the Wexpro Agreement AROs, this Guideline Letter provides for establishing a secure source of funds to retire the Wexpro Agreement Properties (Article II and Article III assets) and a procedure to account for and true-up the ARO funding for each individual asset as may be necessary to reflect changes in economic factors, applicable tax rates and estimated cleanup costs.

The initial ARO accretion rate shall be 6.6%; the initial ARO rate of inflation

[1]For example, assuming a discount rate of 6.6%, an ARO valued at $10,000 in 2003, but which will not be paid until 2005, will cost $11,364 when actually paid. The accretion required in this example would be $660 the first year and $704 the second.

shall be 2.3%. The accretion rate represents the estimated rate at which Wexpro could borrow to fund future ARO obligations. The ARO rate of inflation represents Wexpro's best estimate of current pricing inflation associated with future ARO obligations. Strictly for purposes of this Guideline Letter, Wexpro's collection of funds in the trust account to provide for future ARO costs will be net of applicable estimated salvage values.

Accretion and Depreciation, Future Charges. SFAS 143 accounting requires the following monthly expense entries related to AROs: (i) the monthly increase in the ARO liability from the accretion charge; (ii) the monthly depreciation of the associated ARO asset over its remaining life; and changes in estimates affecting items (i) and (ii). The treatment and allocation of ARO depreciation and accretion expenses shall follow established accounting practices historically used by Wexpro except as set forth below.

The Wexpro oil properties have been highly profitable resulting in over $88 million of oil sharing under Exhibit E of the Wexpro Agreement (the Operator Service Fee, "OSF.") The $88 million of cumulative oil sharing to date represents approximately 94% of the estimated total oil sharing. However, due to the discounting treatment under SFAS 143 (which "loads" the ARO expense toward the end of an asset's life), approximately 50% of the ARO expense is yet to be recouped from the remaining 6% of the estimated total oil sharing. Even though Questar Gas's share (54%) of the estimated future AROs will amount only to an estimated $0.9 million (net of salvage), this may cause "negative sharing"[2] in the later years of oil revenue sharing. These necessary expenses should be absorbed by the revenue stream generated over the life of the Wexpro oil properties. Therefore, to the extent of any negative sharing directly attributeable to ARO expenses, 54 % of the ARO costs will be a direct increase to the OSF.

Transition Costs. For assets in use as of the adoption of SFAS 143, Wexpro has calculated the cumulative effect of past ARO costs through December 31, 2002, to be $7,458,129 (net of salvage). This was determined by conducting a well-by-well engineering analysis and applying an accretion rate of 6.6% and an inflation rate of 2.3% over the expected life of all the properties subject to the Agreement.

This amount will be recovered as follows:

(a) $5,734,966 (net of salvage) in equal monthly charges over an 18-year period as a part of the OSF. This amount is related to (i) all gas produced from Article

2 "Negative sharing" occurs when 54/46 revenues are not sufficient to effect a payout to the sharing parties.

III properties (Productive Gas Reservoirs), and (ii) gas produced from Article II properties (Productive Oil Reservoirs) subject to the cost-of-service treatment of § II-5 of the Agreement. Notwithstanding the foregoing, for an asset retired prior to the 18-year period, Wexpro will accelerate the collection of the proportionate share of the above amortized amount pertaining to that asset. Any accelerated collections will reduce the total of the monthly collections for transition costs for the remaining time periods by an amount equal to the accelerated collections.

(b) The remaining $1,723,163 (net of salvage) in ARO transition costs is related to (i) oil produced from Productive Oil Reservoirs subject to the 54-46 formula and (ii) "new oil" produced from Productive Gas Reservoirs subject to the 54-46 formula. Of this amount, 54% is to be charged to Questar Gas ($930,508) and 46% to Wexpro ($792,655). Questar Gas's 54% obligation will be reflected and charged as an operating expense under the OSF.

The 18-year straight-line amortization and the one-time charge and allocation for the cumulative effect are consistent with the prior treatment of excess deferred-tax refunds under the Agreement when the U.S. corporate tax rate changed from 46% to 34% in 1986, as agreed to by the parties in a guideline letter dated May 29, 1992.

Trust Account. As funds are received from Questar Gas by Wexpro, both from the charges for the cumulative effect and the annual depreciation and accretion expenses (net of salvage), such funds, net of income taxes as described in paragraph (a) below, will be deposited in an interest-bearing trust account established by Wexpro. Wexpro will also fund its share of the ARO costs, as determined in paragraph (b) above and by application of the "54-46 formula," by making corresponding deposits to the dedicated trust account.

This trust account will be maintained with a reputable financial institution solely for the purpose of accumulating and dispensing funds related to Wexpro's AROs under the Wexpro Agreement. The funds in this account will be specifically dedicated to Wexpro's SFAS 143 AROs and will not be commingled with any other funds of Wexpro or any other entity in order that these funds are not subject to creditor claims. The trust account will be funded and drawn down under the following procedures:

(a) From the payments collected from Questar Gas for the cumulative-effect charges (net of salvage) and ongoing depreciation and accretion charges (net of salvage), Wexpro will deposit and accumulate such funds in the trust account, except Wexpro will retain such amounts as are required for Wexpro to pay its current income-tax obligation related to those payments.[3] The initial tax rate will be the current marginal composite income tax rate (MCTR), as determined pursuant to § I-38 of the Wexpro Agreement, and shall be adjusted annually.

(b) The balance in the trust account will be credited with interest at the customary rate paid on such an account by the financial institution where the account is located. Periodically, but not less than annually, interest accumulated in the trust account shall be disbursed and paid to the OSF or Wexpro, as earned by their relative contributions to the account balance.

(c) When a facility is retired (such as plugging and abandoning a well), the ARO costs will be funded by an appropriate withdrawal from the trust account, and an amount contributed by Wexpro representing the gross up for taxes at the MCTR, regardless of Wexpro's actual tax treatment. If the amounts needed to fund any actual ARO costs are less than or exceed the allocated current trust account balance, Wexpro will determine the allocation of such deficiency or excess amount and will charge or refund the difference to the OSF, with Wexpro to bear or receive its corresponding share, if applicable.

(d) Any salvage value (net of taxes calculated at the MCTR) shall be credited to the OSF when the useable equipment is sold or transferred, with Wexpro to receive its corresponding share, if applicable.

(e) As necessary from time to time to remain in compliance with SFAS 143 and with audited financial reporting requirements (but not more often than annually), Wexpro will review and redetermine:

(i) The engineering estimates of Wexpro's AROs and related salvage values. If there are material changes in the values so determined, Wexpro will implement the necessary changes to the accounting and billing under the Agreement.

(ii) The inflation rates used in determining the accretion expense. If there is a material change in the ARO costs due to changes in expected economic conditions, Wexpro will implement the necessary changes to the accounting and billing under the Agreement.

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[3] Because actual ARO expenses are not tax-deductible until paid, the collection of ARO-related expenses in years before the expense is incurred will create a current tax obligation. The tax will be calculated based on the MCTR allowed for under the Wexpro Agreement. Accordingly, all fund increases or decreases will be adjusted for taxes at the then current MCTR, to achieve the intended result of keeping Wexpro neutral on income taxes while passing any future benefit (or determent) of tax rate changes back through the OSF.

(f) An example of the accounting and funding treatment (including income tax gross up) pursuant to this Guideline Letter is attached as Schedule A.

CONCLUSION. Adoption of this Guideline Letter will provide an ongoing methodology that will recognize the costs associated with funding end-of-asset retirement obligations over the life of the properties. Funding based on implementation of SFAS 143 will allow the costs to be spread over the period of time that oil and gas are produced, thus mitigating their one-time impacts. As these funds will be accounted for in a separate, non-commingled interest-bearing account, the principal amounts will have no effect on Wexpro's investment base, and it will not be necessary to adjust Wexpro's investment base in connection with this treatment. It is understood that, under the current requirements imposed on Wexpro by SFAS 143, the treatment of AROs, salvage values and abandonment costs in this Guideline Letter is not contrary to §§ II-7 and III-10 of the Wexpro Agreement.

Please indicate your acceptance of this guideline letter as an appropriate means to respond to the requirements of SFAS 143 as applied to the terms of the Wexpro Agreement.

WEXPRO COMPANY
James R. Livsey ng
James R. Livsey
Vice President

Approved:
UTAH DIVISION OF PUBLIC UTILITIES

By: Irene Rees — Date 2/24/04
Irene Rees, Director

Staff of Wyoming Public Service Commission

By: ______________________ Date: ______________

EVANS CONSULTING COMPANY
(Hydrocarbon Monitor)

By: David Evans — Date: February 21, 2004
David E. Evans, President

Wexpro Company

Schedule A

ARO example with actual P&A Costs equal to ARO liability, 2.5% inflation, 6.25% accretion and UOP depreciation

January 1, 2003

ARO Asset	31,417	
ARO Liability		31,417
To record ARO fair value		

December 31, 2003 - 2012

ARO Depreciation Exp.	Per Example Schedule	
ARO Accum. Depr.		Per Example Schedule
To record units-of-production depr. on ARO per year (Total $31,417)		
Accretion Expense	Per Example Schedule	
ARO Liab.- Accretion		Per Example Schedule
To record accretion expense (Total $26,188)		

December 31, 2012

ARO Liability	57,605	
P&A Payable		57,605
To record settlement of the ARO liability		

Year	Beg. Fund Balance	ARO Depr.	Accretion	ARO Depr & Accretion	Tax 35.9%	Net Fund Addition	Interest * 3%	Interest Returned	Net Interest	End Fund Balance	OSF Billed	Cost per Mcfe
2003	-	7,697	1,964	9,661	3,468	6,193	93	(93)	-	6,193	9,568	0.024
2004	6,193	4,618	2,086	6,704	2,407	4,297	250	(250)	-	10,490	6,454	0.027
2005	10,490	3,926	2,217	6,143	2,205	3,938	374	(374)	-	14,428	5,769	0.028
2006	14,428	3,337	2,355	5,692	2,043	3,649	488	(488)	-	18,077	5,204	0.030
2007	18,077	2,836	2,502	5,338	1,916	3,422	594	(594)	-	21,499	4,745	0.032
2008	21,499	2,411	2,659	5,070	1,820	3,250	694	(694)	-	24,749	4,376	0.035
2009	24,749	2,049	2,825	4,874	1,750	3,124	789	(789)	-	27,873	4,085	0.038
2010	27,873	1,742	3,002	4,744	1,703	3,041	882	(882)	-	30,914	3,862	0.042
2011	30,914	1,481	3,189	4,670	1,676	2,994	972	(972)	-	33,907	3,697	0.048
2012	33,907	1,321	3,389	4,710	1,691	3,019	1,062	(1,062)	-	36,926	3,647	0.053
		31,417	26,188	57,605	20,679	36,926	6,198	(6,198)	-		51,407	0.031

* Assumes mid-year additions.

Units of Production Information (Mcfe)

Year	Reserve Balance	Production
2003	1,645,857	403,235
2004	1,242,622	241,941
2005	1,000,681	205,650
2006	795,031	174,802
2007	620,229	148,582
2008	471,647	126,295
2009	345,352	107,350
2010	238,002	91,248
2011	146,754	77,561
2012	69,193	69,193

To settle ARO Fund:

Fund balance		$ 36,926
Net plugging costs		
Gross	$ 57,605	
Tax	(20,679)	36,926
Fund Balance		$ 0

To reconcile cash paid

ARO Depreciation	$ 31,417
ARO Accretion	26,188
Total ARO amounts	$ 57,605
Gross plugging costs	57,605
Refund	$ 0

ARO cost calculation:

	Expected Cash Flows 1/1/2003
Expected clean-up costs	$ 45,000
Inflation factor assuming 2.5 percent rate for 10 years	1.2801
Expected cash flows adjusted for inflation	$ 57,605
Present value using credit-adjusted risk-free rate of 6.25 percent for 10 years	$ 31,417