QUESTAR

Wexpro Company
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August 9, 2004

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Public Service Commission
Wyoming

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

Re: Guideline Letter regarding assignment of marginal intervals to Wexpro to facilitate Development Gas Drilling under the terms of the Wexpro Agreement

Dear Mr. Hanson:

For certain depth intervals, it is impossible to economically develop oil and gas reserves due to the unique provisions of the Wexpro Agreement and the allocation of drilling costs between intervals respectively owned by Wexpro and Questar Exploration and Production Company (QEP). The Wexpro Agreement assigns productive gas reservoirs to Wexpro for the benefit of Questar Gas and exploratory intervals to QEP subject to a 7% overriding royalty to Questar Gas. Accordingly, many Wexpro well bores have completions in both the Wexpro and QEP intervals. In certain instances, however, the QEP intervals cannot bear a full cost allocation and results in the interval being abandoned when it might otherwise be developed by Wexpro for the benefit of Questar Gas on a whole well approach.

Drilling costs are commonly allocated on a footage basis between the targeted intervals (with completion costs borne solely by the party owning that completed interval). For example, assume a well is drilled to test Formation A at a depth of 4,700 feet as well as Formation B at a depth of 5,000 feet. Assume further that the drilling costs to Formation A are $720,000 and to Formation B an additional $40,000 for a total of $760,000. Allocating drilling costs on a footage basis results in the following: Formation A bears $368,247 ((4,700/(4,700+5,000))*$760,000) and formation B bears $391,753 ((5,000/(4,700+5,000))*$760,000) or roughly a 48/52% ratio.

This methodology works well when each targeted formation has prospective reserves to justify its footage allocated costs. However, when the deeper formation is marginally prospective, the economic incentive for both parties to participate is lost. Alternatively,

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when there is uniform ownership in both formations, the working interest owner(s) will use incremental cost analysis to develop the deeper zone, (e.g., $40,000 incremental cost for Formation B). Consolidating ownership in both the primary and marginal intervals allows the commercial recovery of incremental reserves that would otherwise be lost.

In exchange for a 7% override, QEP has relinquished its working interest in certain deeper formations to allow Wexpro to economically develop these reserves on a whole well basis for the benefit of Questar Gas. On each occasion, Wexpro has obtained prior written approval from the Hydrocarbon Monitor, the Utah Division of Public Utilities and the Wyoming Staff of the Public Service Commission to include this gas development activity under the terms of the Wexpro Agreement. To date, transfers of this nature have occurred in Island, Birch Creek, and the Pinedale (The Mesa Unit) fields.

Wexpro will soon drill three wells in the West Hiawatha field in Colorado (Lasher 7, 8, and 9) to develop the Fort Union/Lewis formations as the primary targets. In 2003, Wexpro and QEP drilled two wells on the footage basis in the same field. Wexpro enjoyed good results in the Fort Union/Lewis formation while QEP had poor results in the deeper Mesaverde. Given these results, QEP has advised that it does not wish to participate in the three new wells, but is willing to relinquish its interest to Wexpro in exchange for a 7% override on production allocated to the Meseverde formation. Wexpro anticipates that the finding cost for these reserves on an incremental basis will be very economic.

In order to facilitate a quicker approval process, Wexpro proposes, when similar situations occur in the future and for the three wells to be drilled in the West Hiawatha field in 2004, that Wexpro shall have the right to acquire QEP's relinquished working interest in any well or group of wells for development gas drilling under the terms of the Wexpro Agreement, subject to pre-approval by the Hydrocarbon Monitor. In return QEP would retain a 7% override in production from the interest transferred to Wexpro. Likewise, when third parties relinquish their interests by electing not to participate in a drilling proposal, Wexpro shall have the right to acquire such non-consent interests for development gas drilling under the terms of the Wexpro Agreement, subject to the pre-approval of the Hydrocarbon Monitor.

Wexpro also proposes, as has been done in the Church Buttes, Island and Pinedale fields, that if production from all interests in the well bore (including any transferred interests from QEP or third parties) 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 (whole well method). 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. Wexpro believes this proposal represents an excellent opportunity to enhance cost-of-service reserves for Questar Gas.

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. Please indicate your approval of the proposed guideline in the signature boxes following.

Respectfully yours,

James R. Livsey
Vice President
Wexpro Company

Approved:
Utah Division of Public Utilities

By: ____________________

Approved:
Staff of the Wyoming Public Service Commission

By: ____________________

Approved:
David E. Evans
Evans Consulting Company

By: ____________________

Ratification of Wexpro Guideline Letter dated August 9, 2004 regarding assignment of marginal intervals to Wexpro to facilitate Development Gas Drilling under the terms of the Wexpro Agreement

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: ______________________

C. B. Stanley

President & CEO