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November 7, 2018

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Re: Guideline Letter Governing Commercial Well Designations Under the Wexpro Agreement for Deferred Completion Wells

The “Guideline Letter Governing Commercial Well Designations under Section I-20 of the Wexpro Agreement and Section I-11 of the Wexpro II Agreement” dated July 20, 2016 (the “2016 Guideline Letter”), established a 90 day initial production period for classification analysis under the Commercial Well Test, but if a well is not clearly commercial, provided an additional 90 day period for production evaluation upon completion of remedial work. This requirement was necessitated by current industry practice for producing stacked pay intervals by completing and commingling production from multiple zones, a practice commonly employed by Wexpro. However, Wexpro’s recent geologic and engineering analysis of multiple zone completions reveals that deferring the completion of certain zones will result in a lower cost of service over the life of the well. In this letter, Wexpro proposes a modification to the Commercial Well Test as defined in the 2016 Guideline Letter to allow for deferred completions.

Deferred completions will likely be effective in the Trail and Canyon Creek fields, where Wexpro has focused its development drilling program from 2016 to 2018. Both fields largely produce across a gross interval of 2000 feet of the Mesaverde formation composed of the Almond, Canyon Creek, Rusty, and Trail intervals. Of these, the Almond and Trail intervals require formation stimulation to be economically productive, and the Rusty shale interval has not been productive in economic quantities. Over the past twenty years, Wexpro has drilled and completed a number of wells to the Almond and Trail intervals, in varying configurations. Some wells were completed only in the Almond interval; some only in the Trail interval; and others in both intervals and commingled.

Wexpro analyzed varying types of producing well bore configurations from its drilling program over the past twenty years and found that the isolated producing intervals have larger recoverable reserves than the analogous commingled producing intervals. This analysis supports isolating completions to certain sand bodies within one Mesaverde interval (such as the Trail interval), and deferring completion of another Mesaverde interval (such the Almond interval) to increase reserves and lower the cost of service over the life of the well.

Isolating and deferring completions will also promote effective field development. The evaluation of an isolated completion yields a better understanding of the productivity of individual sand bodies. In addition, reservoir pressure within the individual sand bodies is more accurately measured and understood without significant added costs. The collection of higher-quality data with respect to sand body and reservoir characteristics will facilitate the identification of low-risk future drilling locations and increase the likelihood of delivering low-cost reserves to the customer.

- (1) Deferring completions is the optimal path of fully developing the Trail and Canyon Creek fields, but the requirements of the Commercial Well Test prevent Wexpro from developing these fields accordingly. In order to promote optimal field development, it is proposed in this letter, on a pilot basis, to provide an alternative Commercial Well Test for deferred completion wells (Deferred Completion Well) under the following guidelines, for up to two (2) wells in Wexpro's approved 2018 drilling program: The alternative Commercial Well Test will be applicable upon demonstrating to the satisfaction of the hydrocarbon monitor, based upon geologic and engineering analysis, that the completion of one or more zones at a later time from completion of the initial zone will result in a lower cost of service over the life of the well than if all zones were completed simultaneously.
- (2) Upon qualifying as a Deferred Completion Well and after 90 days from completion of the initial zone, application of the Commercial Well Test will be based upon (i) the economic analysis of the producing zone, and (ii) the forecasted economic analysis of the deferred zone, from the expected time of completion of such zone. The producing zone's economics is calculated from the producing zone's reserves, and the producing zone's drilling and completion costs. Such drilling costs will include the entire cost of drilling the well. The deferred zone's economics is calculated from the forecasted behind pipe reserves, the expected cost of the deferred completion, and the forecasted timing of the deferred completion.
- (3) At the time the deferred zone is actually completed, the additional investment to conduct the recompletion operation will need to pass the Commercial Well Test based on the reserves forecast from the first 90 days of production and the completion costs of the deferred zone.

The parties will review the pilot program results, and determine whether to alter or continue the deferred completion program and the future design of the Commercial Well Test.

Adoption of this Guideline Letter will provide alternative application of the Commercial Well Test to Deferred Completion Wells when geologic and engineering analysis reveals that completing multiple zones at different times will result in a lower cost of service over the life of the well. This Guideline Letter does not alter or impact Wexpro's requirement under Paragraph 13 of the Canyon Creek Settlement Stipulation to design its drilling program to provide cost of service at or below the 5-year forward curve price.


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 guidelines will remain in effect for all actions taken prior to any modification or termination.

Please indicate your acceptance of this Guideline Letter as an alternative means to perform Commercial Well determinations on a pilot basis as outlined above. The 2016 Guideline Letter remains in effect in all respects for all Commercial Well determinations which do not qualify as Deferred Completion Wells under this Guideline Letter.

[Signatures on Following Page]

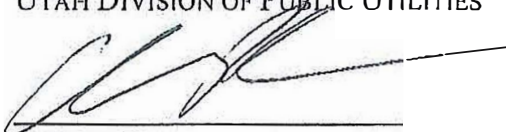
Approved:

WEXPRO COMPANY


Brady B. Rasmussen
Vice President and General Manager – Wexpro


11/7/18
Date

UTAH DIVISION OF PUBLIC UTILITIES


Chris Parker
Director

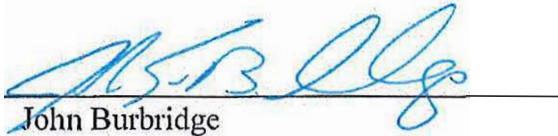
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WYOMING OFFICE OF CONSUMER ADVOCATE


Bryce Freeman
Administrator

11/7/18
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WYOMING PUBLIC SERVICE COMMISSION STAFF


John Burbridge
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