

February 4, 2022

Chris Parker  
Utah Division of Public Utilities  
Heber Wells Building  
160 East 300 South  
Salt Lake City, Utah 84145

Bryce Freeman  
Wyoming Office of Consumer Advocate  
Hansen Building, Suite 304  
2515 Warren Avenue  
Cheyenne, Wyoming 82002

John Burbridge  
Wyoming Public Service Commission  
Hansen Building, Suite 300  
2515 Warren Avenue  
Cheyenne, Wyoming 82002

Craig C. Wagstaff  
Dominion Energy Utah/Wyoming  
333 South State Street  
Salt Lake City, Utah 84145

Brady B. Rasmussen  
Dominion Energy Wexpro  
333 South State Street  
Salt Lake City, Utah 84145

**Re: *Guideline Letter Eliminating the 7% Overriding Royalty Interest Which Burdens the Mesaverde Formation in the Island Unit, Participating Area "A", Uintah County, Utah***

In the *Guideline Letter Relating to Development and Ownership of the Mesaverde Formation within the Island Unit, Uintah County, Utah*, dated April 4, 2001 (the "2001 Letter"), Questar Exploration and Production Company, now known as QEP Energy Company ("QEP"), relinquished its working interest in the Mesaverde formation to Wexpro Company ("Wexpro").<sup>1</sup> In exchange, QEP retained a 7% overriding royalty in that formation. The relinquished interest in the Mesaverde formation applied only to the lands within the Island Unit, Participating Area "A", located in Uintah County, Utah. The Mesaverde formation was originally classified as an exploratory property under the Wexpro Agreement, and thus QEP owned all of the working interest in that formation, subject to a 7% overriding royalty for the benefit of the customers. But with QEP's relinquishment to Wexpro, the 2001 Letter provided that the Mesaverde formation was to be thereafter "treated as if it were a productive gas reservoir with development drilling under the Wexpro Agreement." At the time, Mesaverde development was unproven in the Island Unit but other operators in the surrounding area, known as the Natural Buttes field, had been successfully developing the Mesaverde.

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<sup>1</sup> As required by the 2001 Letter, the relinquishment was later ratified by all the parties in that Letter dated October 8, 2002 from Evans Consulting Company to Wexpro Company.

As explained in the 2001 Letter, since Mesaverde development in the Island Unit was still unproven, QEP could not justify the cost of drilling down to that formation without having a “bailout” opportunity in the proven Wasatch formation, which lies above the Mesaverde. Wexpro owns all of the Wasatch formation, it being classified as a productive gas reservoir under the Wexpro Agreement. While Wexpro and QEP could have jointly developed the Wasatch and Mesaverde formations, the 2001 Letter explained that “this joint ownership arrangement has potential to cause many complications such as selecting mutually agreeable drill sites, cost sharing, [and] completion and production scheduling.” To avoid these complications and to encourage the development of additional cost-of-service gas, QEP agreed to relinquish its interest in the Mesaverde formation to Wexpro but in return QEP received a 7% overriding royalty.

Since the 2001 Letter, Wexpro completed two wells in the Mesaverde formation, one in 2001 and the other in 2007. Each well (known as Island Unit 83 and 86, respectively) was also completed in the Wasatch formation and they were classified as commercial wells under the Wexpro Agreement. Production from the Island Unit 83 and 86 wells was not sufficient at the time to warrant more drilling and Wexpro instead focused on further development in the Pinedale Anticline and the Vermillion Basin. Meanwhile, other operators in the adjacent Natural Buttes field engaged in significant Mesaverde development and improved well completion techniques to the point where wells like the Island 83 and 86 would be competitive with other areas in Wexpro’s inventory.

With Wexpro’s improved geoscientific understanding of the Island Unit area, together with significant improvements in well completion techniques, the Mesaverde formation in the Island Unit has again become a focal point for the development of new sources of cost-of-service gas. A remaining impediment, however, is the 7% overriding royalty interest which burdens Wexpro’s working interest in the Mesaverde formation. A royalty interest of that magnitude impacts the economics of a well considerably because it entitles the royalty owner to its share of production without a corresponding contribution of costs. Those costs are borne solely by the working interest owner. In looking to improve the prospect of future development in the Island Unit, Wexpro Development Company (“WDC”) (the entity which purchases oil and gas interests at its own risk for potential application for inclusion in the Wexpro Agreement) purchased all of QEP’s remaining interest in the Island Unit, including the 7% royalty interest. The transaction was completed in 2018 for a *de minimis* purchase price of \$175,000.

To improve the economics of Mesaverde development and thereby encourage the development of new sources of cost-of-service gas, it is proposed in this guideline letter to update and amend the 2001 Letter to effectively eliminate the 7% overriding royalty interest created thereunder, such interest being now owned by WDC as successor-in-interest to QEP. To accomplish this, WDC and Wexpro will enter into a legally binding agreement which extinguishes and eliminates the 7% overriding royalty interest. Such action is intended to update and amend the 2001 Letter, and no dollars spent by WDC to acquire the royalty interest from QEP will be included in Wexpro’s investment base. WDC will retain ownership of all other interests in the Island Unit which it has acquired from QEP, with such interests being eligible in the future for application as provided in the Wexpro II Agreement.

This letter also proposes to make a technical correction to the 2001 Letter, relating to the subsurface depths considered to be the "Mesaverde formation." The 2001 Letter describes the interval as being between 7,724' and 10,768' below the surface, as identified in logs for the Island Unit #3 well. Upon further review of the Island Unit #3 logs, Wexpro has determined that these footages do not cover the full depth of the Mesaverde formation. Since the 2001 Letter was intended to concern the full depth of the Mesaverde formation, the subsurface depths are revised such that the Mesaverde formation is identified as the stratigraphic equivalent of those depths from 8,085 feet (top of the Mesaverde) to 11,405 feet (base of the Mesaverde), as found in the logs for the Island Unit #3 well.

Adoption of this Guideline Letter will provide for Wexpro's working interest ownership in the Mesaverde formation, Island Unit Participating Area "A", to be free and clear of the 7% overriding royalty interest granted in favor of QEP in the 2001 Letter, with extent of the Mesaverde formation being understood as set forth in the preceding paragraph. 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 to provide for the elimination of the 7% overriding royalty interest created under the 2001 Letter. The 2001 Letter remains in effect in all respects for all those matters not specifically addressed under this Guideline Letter.

**[Signatures on Page Below]**

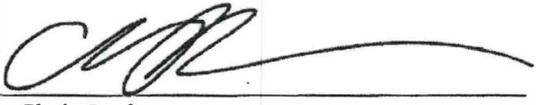
**Approved:**

WEXPRO COMPANY

  
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Brady B. Rasmussen  
Vice President and General Manager – Wexpro

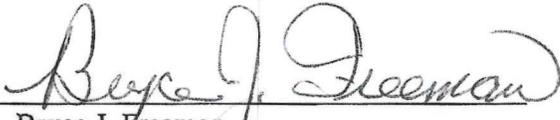
1/19/2022  
Date

UTAH DIVISION OF PUBLIC UTILITIES

  
\_\_\_\_\_  
Chris Parker  
Director – Division of Public Utilities

1/19/2022  
Date

WYOMING OFFICE OF CONSUMER ADVOCATE

  
\_\_\_\_\_  
Bryce J. Freeman  
Administrator

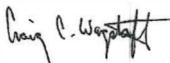
2/3/2022  
Date

WYOMING PUBLIC SERVICE COMMISSION STAFF

  
\_\_\_\_\_  
John Burbridge  
Chief Counsel

2.4.22  
Date

DOMINION ENERGY UTAH / WYOMING

  
\_\_\_\_\_  
Craig C. Wagstaff  
Senior Vice President and General Manager –  
Western Distribution

1/19/22  
Date