

# **Hydrocarbon Monitor**

## **David E Evans**

### **Evans Consulting Company**

- Hydrocarbon Monitor since January 1998
- Registered Professional Engineer
- Prior Experience:
  - Independent consultant since 1992
  - Ryder Scott Company - Sr. VP and Manager Denver office
  - Exxon Production and Exxon Production Research - Texas

# Overview of Presentation

- Wexpro Agreement History
- Objectives of Parties
- Basics of Wexpro Agreement
- Duties of Hydrocarbon Monitor
- Performance

# History prior to Agreement

- Properties acquired and developed by the Company since before 1930 with support and approval of the Commission
- Certain properties drilled prior to 1977 were classified as “non-utility” oil properties
- Effective 1-1-1977 non-utility properties were transferred to Wexpro
- Objections to transfer by the Division and Committee resulted in lawsuits

# **The Wexpro Agreement**

## **Effective August 1, 1981**

### **Parties:**

- Mountain Fuel Supply Company
- Wexpro Company
- Utah Department of Business Regulations,  
Division of Public Utilities
- Utah Committee of Consumer Services
- Staff of Wyoming Public Service  
Commission

# Objectives of Parties

- Benefits from the Properties will be used to reduce or suppress natural gas rates for customers
- Wexpro to have incentive to prudently and energetically exploit the Properties to their full potential for the benefit of the Company's customers and shareholders
- Agreement to provide a self-governing means of encouraging the development of natural gas for the benefit of the Company's customers and its shareholders.

# Wexpro Agreement

## Property Ownership in 1981

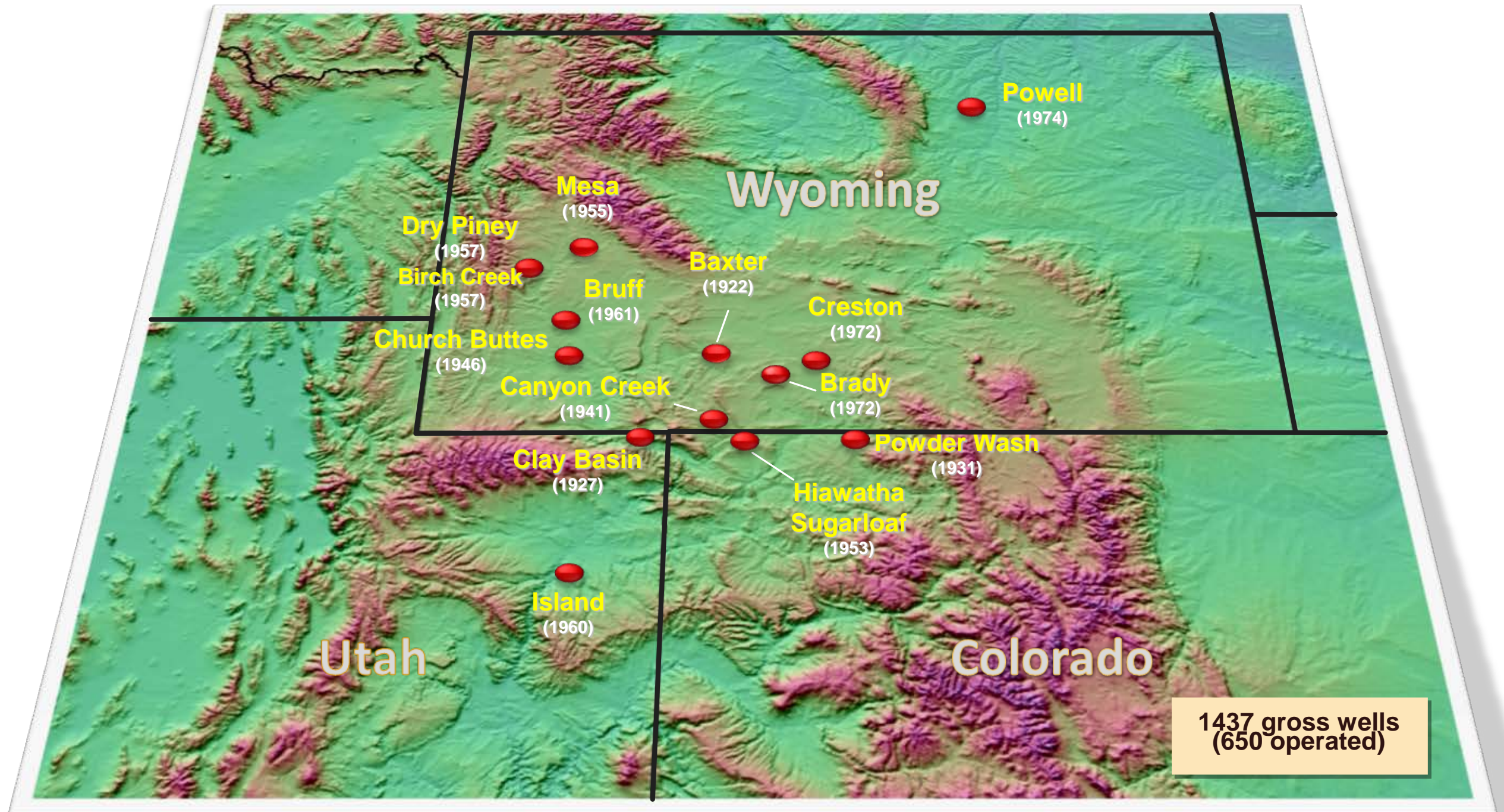
- Questar Gas (QG) owns *existing* gas wells and associated hydrocarbons; gas is delivered at cost-of-service
- Wexpro owns oil wells with associated gas sold to QG at lower of cost-of-service or market. Oil profit shared 54% to QG and 46% to Wexpro. QG portion used to reduce gas cost.
- Established future development drilling areas
- Non-developed leaseholds subject to 7% Override to QG to reduce gas cost

# **Properties Initially Covered by The Agreement**

- 501 Prior Company gas wells in Colorado, Montana, Nevada, New Mexico, Utah and Wyoming
- 154 Prior Wexpro oil wells in Colorado, Nevada Utah, and Wyoming
- Undeveloped leases subject to 7% overriding royalty



# ***Wexpro operates in WY, UT, and CO***





# Wexpro Agreement Designed to be Self-Governing

- Designed to be self-governing with arbitration procedures defined in Agreement
- Oversight assigned to:
  - Utah Division of Public Utilities
  - Staff of Wyoming PSC
  - Two Independent monitors:
    - Hydrocarbon Monitor (Evans Consulting)
    - Accounting Monitor (Schmitt, Griffiths, Smith and Co.)
- New wells must meet “*paying well*” determination approval by Hydrocarbon Monitor to be included

# **Duties of Hydrocarbon Monitor**

- Division is entitled to monitor the performance of the Company and Wexpro. Division (along with Staff) and Wexpro select Hydrocarbon Monitor to review the performance and advise all parties
- Approve new wells/recompletions for Classification under Agreement
- Advise Division on Guideline letters
- Review Wexpro operations under Sec. VIII-13 for prudent, standard and accepted field and reservoir management and engineering practices, with due regard for the benefits provided the Company's utility operations.

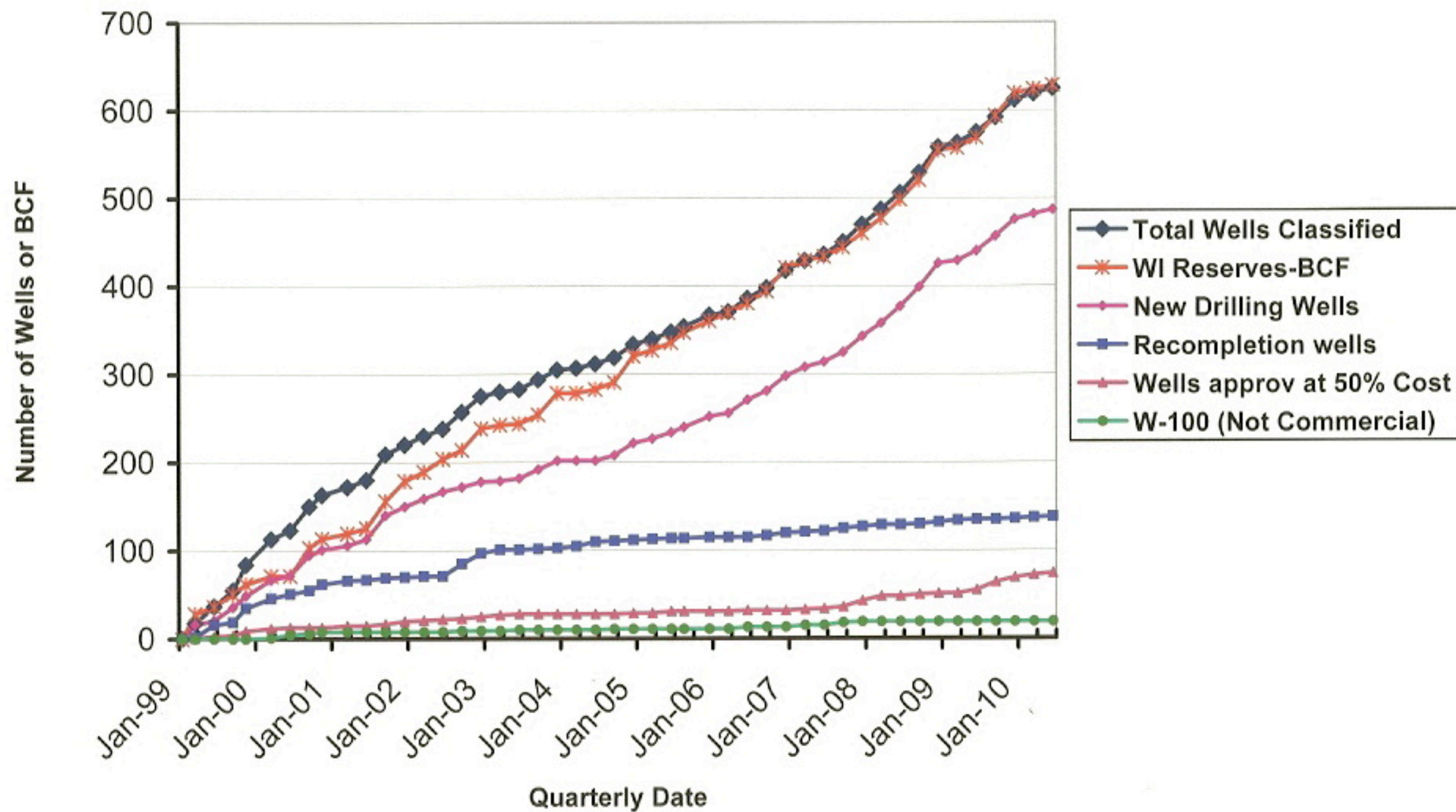
# Classification of New Wells and Recompletions

- For inclusion as a ***Development*** well under the Agreement, a well must meet the requirements of Section I-20 as a ***Commercial*** Well:
  - ***Clearly*** produces sufficient quantities to pay, at market prices, for all drilling, development, and operation of the well
  - Or, will pay the expenses of operating the well, plus ***50%*** of the drilling costs to completion to the wellhead
- Wexpro pays ***all*** drilling and production costs and receives any revenue from wells that do not meet the above (***Dry Hole*** under Section I-19).

# Terms used to refer to Classifications

- **D-21:** A development oil well that earns a nominal 21 percent on investment
- **D-24:** A development gas well that earns a nominal 24 percent rate-of-return on investment
- **W-100:** A producing well that does not qualify under the Agreement - Wexpro pays all drilling and operating costs and receives all revenues. The Company has the right to include any well in the agreement within 10 days of being notified
- **C-7:** Well that produces royalty gas only

## Cumulative Wells Classified Since 1999





# Guideline Letters

- Initiated in 1983 to clarify various aspects of the Agreement (8 letters 1983 to 1988)
- Formalized in 1989 as “Guideline Letters”
- 17 additional Letters issued afterwards, 12 since I became Monitor in 1998
  - 3D Seismic participation approval
  - Asset retirement obligation fund
  - Marginal Intervals and non-consent interests

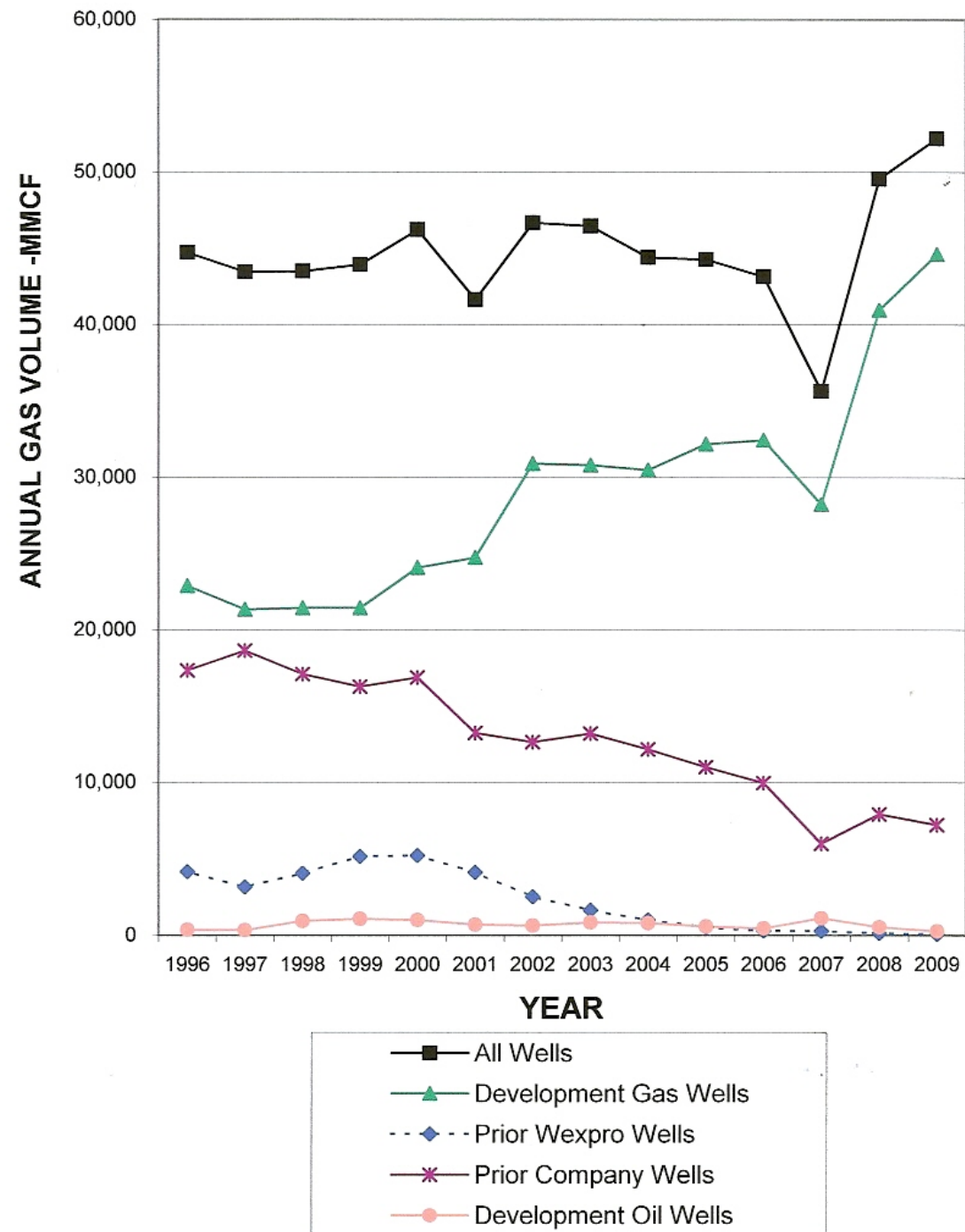
# **Results of Non-Consent and Marginal Interval Drilling**

- Letters initiated to cover two situations:
  - Deeper intervals below Wexpro Agreement depths not commercial on full well basis, but commercial on incremental basis for Wexpro
  - Non-consent by partners in development wells
- 44 wells approved since 2005:
  - 12 in 2009 and 10 so far in 2010
- 33 wells completed as of June review:
  - 22 approved at full cost, 7 at 50% costs, 4 unsuccessful

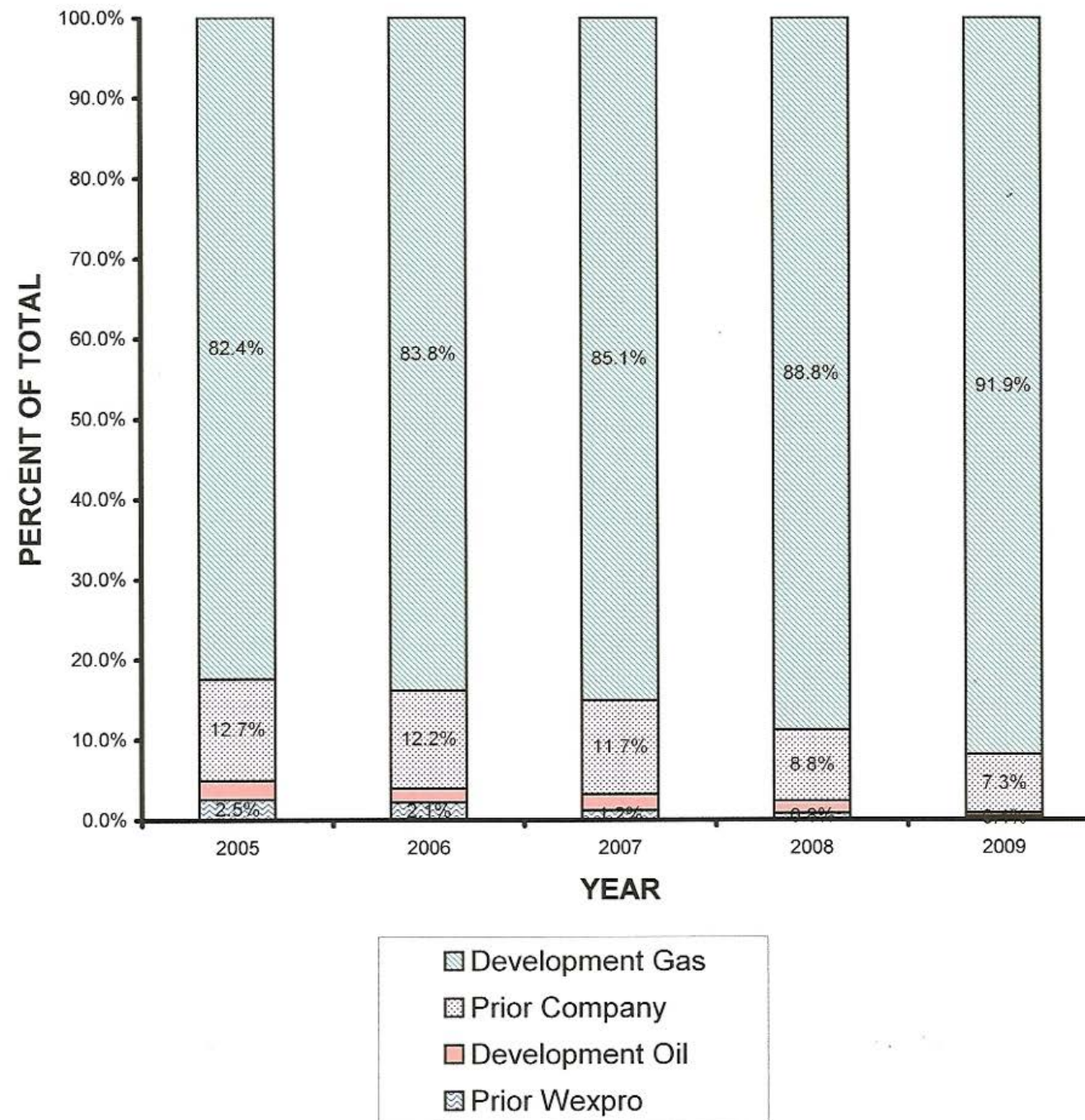
# Hydrocarbon Monitor Reports

- Quarterly reports from reviews in March, June, September and December
- Every quarterly meeting - review new drilling and recompletions for classification, review current operations, and upcoming activity
- March: also review overall year-end reserves, over/under production by field, and forecasts for selected wells in major fields
- June: also review total Wexpro operations, operating costs including comparison to outside operated wells, costs-of-service, shut-in wells, uneconomic wells, and plugged wells

**ATTACHMENT 3B  
WEXPRO COMPANY  
WORKING INTEREST GAS PRODUCTION  
By Category**



**ATTACHMENT 3C  
WEXPRO COMPANY  
Cost of Service by Gas Category\*  
2005 Through 2009**



\*Including QGC depreciation and ROI for Prior Company gas



**ATTACHMENT 3A  
WEXPRO COMPANY  
GAS COST OF SERVICE  
By Major Gas Category  
1996 through 2009**

