SUMMARY OF PRINCIPAL TERMS OF THE SETTLEMENT

BETWEEN MOUNTAIN FUEL SUPPLY COMPANY

AND THE STATE OF UTAH

The purpose of this statement is to outline the principal provisions agreed upon by the parties as a foundation leading to a final settlement of multiple controversies and litigation matters involving Mountain Fuel Supply Company ("MFS") and its subsidiary, Wexpro Company ("Wexpro"), The Utah Department of Business Regulation, Division of Public Utilities, and The Utah Committee of Consumer Services. Before summarizing the principal terms of the Agreement, several points need to be made:

A. The Agreement settles more than the so-called "Wexpro" proceeding currently pending before the Utah Public Service Commission. Since the Utah Supreme Court handed down its "Wexpro" decision in May of 1979, the parties have become embroiled in a plethora of pending and threatened litigation before the Utah and Wyoming Public Service Commissions, Federal Courts, Federal Energy Regulatory Commission, and courts of the States of Utah and Wyoming. This complex and growing cancer of litigation, while logically related to the issues raised by the original transfer of certain "oil" properties to Wexpro by MFS in 1977, raises additional issues, such as the jurisdiction of the Utah and Wyoming Public Service Commissions over MFS to transfer property or personnel to subsidiaries without Public Service Commission approval, whether MFS will continue to sell gas to its customers at cost-of-service, and how and when the exploratory and producing acreage held by MFS and Wexpro will be explored and developed for the benefit of customers and the company. Consequently, it became undesirable to setle the "Wexpro" remand case without dealing with the related issues.

B. While the terms of the settlement have been discussed exhaustively and the major items have been agreed upon, the drafting of the full scale, detailed written settlement agreement and finalization of all terms in connection with the settlement have not been completed. It is expected that the drafting of

this complex 40-50 page document may take two weeks or so to complete.

The essential terms of the agreement are as follows:

1. The gas wells, as of August 1, 1981, and reservoirs from which they produce, will remain capitalized in the utility (MFS). The natural gas and gas liquids from such wells will be supplied to the utility as they now are at cost of service. Wexpro will be the operator.

2. The producing oil wells and the reservoirs, other than after-acquired properties, from which they produce will remain capitalized in Wexpro. Wexpro will be the operator. It will receive an agreed rate of return (initially 16%) on the capital invested in the oil wells and production facilities (which total investment was approximately $50 million as of August 1, 1981). The agreed initial rate of return will be indexed to a third party standard and will fluctuate annually.

After deducting the agreed expenses and providing for the agreed return on investment (now 16%) the oil and gas liquids produced from the presently producing oil reservoirs (not including wells on after-acquired property) will be divided 54% to the utility and 46% to Wexpro. In this regard it is agreed that the expenses will not hereafter include any of the costs of unsuccessful exploration, such as dry hole costs.

The natural gas produced from present oil reservoirs will be sold to the utility by Wexpro at cost of service, which again will not include the cost of unsuccessful exploration, such as dry hole costs.

3. Development wells necessary or desirable to the production of hydrocarbons from the presently producing gas reservoirs will be drilled by Wexpro on the following basis:

(a) All expense of unsuccessful drilling and exploration, including dry hole costs, shall be borne by Wexpro.

(b) The costs and expenses in developing successful wells will be capitalized into the Wexpro accounts, and

Wexpro will earn an agreed rate of return thereon (now 16%), which rate will be indexed to a third party standard and adjusted annually, as heretofore noted.

(c) All natural gas developed thereby will be delivered to the utility at cost of service.

(d) Natural gas liquids and condensate from such new development wells will be divided under the 16-54/46% formula for oil stated above.

(e) In consideration for Wexpro bearing all of the expenses and risks of unsuccessful gas development drilling, Wexpro shall, in addition to the 16% (fluctuating) return noted above, receive an additional 8% (which will not fluctuate) on Wexpro capital invested in such successful development gas wells and related production facilities. If an oil well is developed, the oil and gas liquids will be divided under the 16-54/46 formula, and gas will go to the utility at cost of service.

(f) The wells will be drilled as needed, and not less than $40,000,000 will be expended for that purpose by Wexpro within the next five years.

4. There are approximately 1.4 million acres of leasehold properties which have been acquired under the so-called joint program, and which are presently held in the 105 Utility Account. This acreage will be transferred to Wexpro, but MFS will retain a 7% overriding royalty thereon. Said royalty shall apply to 100% of the gross interest so transferred. All expense incurred after the effective date hereof in holding and exploring said properties shall be borne by Wexpro. MFS will have a first right of refusal, for a reasonable time, to purchase at market Wexpro's share of the gas found and produced from such land.

5. The parties do not anticipate that there will be extensive new development oil well drilling on lands now producing oil mentioned in Par. 2 above, but to the extent such drilling is deemed necessary or desirable, Wexpro shall do such drilling at its own cost, with all expenses of unsuccessful exploration and drilling, including dry hole costs to be borne by Wexpro. If the

well is successful, the costs associated therewith will be capitalized into the Wexpro accounts, and Wexpro shall receive a 16% (fluctuating) return thereon, plus 5% to compensate for such risk. Oil and gas liquids will be divided under the 16-54/46 formula; natural gas will go to the utility at cost of service.

6. Approximately 128,000 acres of potential oil and gas properties acquired by Wexpro from third parties since the date of its organization in January of 1977 until the date of the Utah Supreme Court opinion herein (May 10, 1979), shall be subject to an overriding royalty of 2½%. There shall be excluded from properties acquired by Wexpro prior to May 10, 1979 approximately 26,000 acres in Idaho and 3,000 additional acres earned by Wexpro under "farm-ins, and properties acquired before that date in the states of Washington, Oregon, Nebraska, North Dakota and South Dakota. The acreage acquired by Wexpro after May 10, 1979, (except the "Bug" area in Utah noted hereafter) shall not be subject to any such royalty, and the utility shall have no right, title, estate or interest therein, or in the hydrocarbons or other minerals produced therefrom. Such 2½% overriding royalty on the approximately 128,000 acres shall be conveyed by Wexpro to the utility. The overriding royalty shall be on Wexpro's gross working interest, without regard to any royalty interests which may already be outstanding. Thus, if Wexpro holds a 100% interest, the 2½% royalty shall apply to said 100%; and if Wexpro now holds 50%, said 2½% royalty shall apply to said 50%.

7. It is mutually acknowledged that the reserve for exploration account designated as No. 186 has been maintained in the utility for the purpose of covering the utility's share of unsuccessful drilling costs. That account as of the effective date of this agreement, has a deficit of approximately $4.1 million. There is presently an expense item reflected in gas rates charged to the customer of approximately $3.1 million per year, which, it is agreed, will remain in effect so long, but only so long, as is necessary to reduce that deficit balance of $4.1 million to zero. Thereafter there will be no such expense reflected in rates. All of the cost of unsuccessful drilling on

all of the properties involved herein shall remain the sole cost and expense of Wexpro.

8. In order to implement the agreement and to adjust the accounts between the utility and Wexpro for the past drilling and production program, it is agreed as follows:

(a) The effective date of this agreement shall be August 1, 1981.

(b) As to the division of the product from the presently producing oil wells, the product shall be divided in accordance with the agreed formula, commencing August 1, 1981. As to the presently producing gas wells, the rate effect of withdrawing the leases and the leasehold expense from rate base through reduction of rates, will occur when the Public Service Commission makes effective the necessary adjustment to rates. The parties acknowledge that since December 29, 1977, there has been an order and/or a stipulation for an appropriate adjustment of rates, in response to a final resolution of the Wexpro issues. The parties have agreed, as set forth next following, on the adjustment to be made therefor.

(c) As soon hereafter as the Public Service Commissions of Utah and Wyoming can implement it, there will be a reduction in rates, using the 191 account, to effectuate a total pre-tax rate reduction for the gas customers of MFS of $21,000,000. Approximately 10% of this will accrue to customers who are in Wyoming, and approximately 90% will accrue to customers who are in Utah. Said rate reduction shall be accomplished over an anticipated 12-month period, which shall begin approximately October 1, 1981, and end approximately September 30, 1982. MFS will book said entire rate reduction obligation and expense the same in calendar year 1981, so that the total impact thereof on earnings will reflect in earnings for the calendar year 1981. Said obligation includes and fully compensates the utility account for all oil actually produced by Wexpro from the producing oil wells involved herein for all past periods, and through the

effective date hereof--August 1, 1981. For the remainder of calendar year 1981, from and after August 1, 1981, the 54/46% formula, heretofore noted, will be in effect, and no prospective adjustment needs to be otherwise made for such oil production after August 1, 1981. Therefore, after said agreed rate reduction has been in effect for one year, all adjustments required for past production of oil, and past expense for unsuccessful drilling for both oil and gas shall, except for the $4.1 million deficit, have been fully compensated for as between the parties, and neither Wexpro nor MFS shall be further liable either for such oil or unsuccessful exploration and drilling expense. In this regard it is mutually acknowledged that the drilling program has been ongoing during the course of this litigation, with part of the drilling being done under the terms of the Joint Exploration Agreement (until about the time of the Utah Supreme Court opinion.) After the Supreme Court opinion, the J.E.A. was cancelled, and thereafter the drilling was done under an informal arrangement. Later this necessary drilling and the allocation of the expenses thereof were provided for by stipulation filed with the Utah Public Service Commission. The adjustment in gas rates to the customers, provided for next above, is a figure arrived at by the parties after fully compromising and settling all such claims relating to the drilling expenses, one against the other, for and on account of the drilling program from January 1, 1977, through the effective date of this agreement. The wells drilled during this period have been classified so that gas wells have been capitalized in the utility, and oil wells in Wexpro, and said wells shall remain in the accounts where classified.

(d) As an additional consideration for the foregoing, Wexpro will convey to MFS, for the benefit of the utility account, an overriding royalty of 2½% on certain Wexpro acreage in the "Bug" area in San Juan County, Utah. This area on which the 2½% royalty will be granted presently

contains producing oil wells, and some further drilling is anticipated. Said royalty shall become effective as of August 1, 1981.

9. The parties acknowledge that it may be necessary, because of an agreement with partners, or on account of regulatory orders issued by agencies having jurisdiction, or desirable apart therefrom, to expend funds in an effort to enhance the recovery of hydrocarbons from presently producing oil reservoirs. If such investments are made, they shall be capitalized into the Wexpro accounts on which the initial 16% return (fluctuating annually) will apply. If at the time of the investment the combined oil being produced from all of the presently producing oil wells is enough to produce a 19.0% return, after deducting all agreed expenses, Wexpro shall be allowed no other amount or compensation for such investment, except the 16% (fluctuating) return and its 46% of the oil. If the yield is not more than 19.0%, then Wexpro will be allowed a 2% additional rate of return on that investment only, to be recovered from all of the oil from the presently producing reservoirs which are subject to the 54/46 split provided for herein. Since said additional investment will increase the amount of money needed to provide the agreed 16% return, Wexpro agrees that it will not voluntarily initiate enhanced recovery procedures in three areas for at least five years, to-wit, Brady Weber, Brady Negget and Dry Piney Nugget. The parties further mutually acknowledge that the Powell Field has already been shut in by the State of Wyoming until enhanced recovery procedures are initiated, and that Wexpro contemplates the initiation of such procedures for that field.

10. This agreement will not be binding on the parties unless and until it is approved by the Public Service Commission of Utah, and the Public Service Commission of Wyoming, and said orders have become final. If appeals are taken therefrom, this agreement will not be effective until the appeals are resolved, so that the agreement can go into effect, as written. All parties will fully and in good faith cooperate in obtaining those approvals.

11. To the extent any part of the settlement agreement requires approval by the Federal Energy Regulatory Commission, the parties will cooperate in seeking such approval.

12. Formations above and below presently known productive reservoirs will generally be treated as wildcat acreage, and these together with the leases covering the productive reservoirs will be transferred to Wexpro, so that Wexpro can explore these lower and upper formations. If such exploration is successful, the product from the newly discovered reservoir will be subject to the 7% royalty.

13. Wexpro is to be an oil company, unregulated by the Public Service Commission.

14. Since the terms of the agreement provide that Wexpro act as operator on oil and gas properties in which the utility retains an interest, there is provision for petroleum and accounting experts representing the Division of Public Utilities to periodically review the exploration and development program and relevant production and accounting records to ascertain that the program is being operated and accounted for in accordance with the agreement and industry standards.

The parties have entered into this agreement because they sincerely believe that continued litigation of the issues between the parties is not in the public interest. Continued litigation would be expensive, not only in terms of attorney and expert witness fees, but more importantly, could result in a total termination of exploration and development of the acreage owned by both the MFS utility and Wexpro. As a result of this agreement, continuation of the oil and gas exploration program for the benefit of both the customers and the shareholders is assured. Additionally, the agreement has insured that the utility customers will continue to receive cost-of-service gas, which in the past has resulted in some of the very lowest rates for gas in the nation.