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| Application of Dominion Energy Utah for Approval of the Alkali Gulch Acquisition as a Wexpro II Property | <u>DOCKET NO. 22-057-05</u> |
|  | <u>ORDER</u>                |

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ISSUED: June 10, 2022

SYNOPSIS

The Public Service Commission (PSC) approves Dominion Energy Utah’s (DEU) application to include the Alkali Gulch property as a Wexpro II Property under the Wexpro II Agreements.

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**1. PROCEDURAL HISTORY**

On April 14, 2022, DEU filed an application with required exhibits and supporting testimony (the “Application”) seeking authority to add its recently acquired Alkali Gulch fields (“Alkali Gulch”) as a Wexpro II Property under the Wexpro II Agreement,<sup>1</sup> Trail Unit Settlement Stipulation,<sup>2</sup> and Canyon Creek Settlement Stipulation<sup>3</sup> (collectively, the “Wexpro II Agreements”).

On April 28, 2022, the PSC issued its Scheduling Order, Notice of Technical Conference, and Notice of Hearing. The Division of Public Utilities (DPU) and the Office of Consumer Services (OCS) filed direct testimony on May 18, 2022, and on May 31, 2022, the PSC held a hearing during which DEU, DPU, and OCS testified in support of the Application.

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<sup>1</sup> *Application of Questar Gas Company for Approval of the Wexpro II Agreement*, Docket No. 12-057-13, Report and Order issued March 28, 2013.

<sup>2</sup> *Application of Questar Gas Company for Approval to Include Property Under the Wexpro II Agreement*, Docket No. 13-057-13, Report and Order issued January 17, 2014.

<sup>3</sup> *Application of Questar Gas Company for Approval of the Canyon Creek Acquisition as a Wexpro II Property*, Docket No. 15-057-10, Order Approving Stipulation issued November 17, 2015.

## **2. BACKGROUND**

### **a. The Application**

The Application states that on March 25, 2022, Wexpro Development Company (WDC) acquired additional natural gas interests in Alkali Gulch which lie within and outside of the Development Drilling Areas defined in the Wexpro I and Wexpro II Agreements. Further, it states that WDC has been selling the production from these wells on the open market. DEU explains that if regulatory approval is achieved, the acquisition costs will be lower than the price set forth in its Application to reflect the depreciation of the gas sold from March 25, 2022 to the date of approval by both the Utah and Wyoming Public Service Commissions (together, the “Commissions”).<sup>4</sup>

In direct testimony, DEU witness Kelly Mendenhall provides additional details about the acquisition, including a specific contingency about two Alkali Gulch wells located in Colorado.<sup>5</sup> According to DEU, the wells did not have an environmental report on file with the appropriate state agency in Colorado by March 25, 2022; thus, DEU did not take ownership until the report was filed.<sup>6</sup>

Mr. Mendenhall explains that Alkali Gulch will produce gas at a price point below the forward five-year price curve and helps stabilize DEU’s gas supply.<sup>7</sup> At hearing, Mr. Mendenhall testified that the Colorado wells’ permits had been filed, and DEU expects to close

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<sup>4</sup> The Wexpro II Agreements require approval by both Commissions for inclusion of newly acquired interests as Wexpro II Property.

<sup>5</sup> DEU direct testimony of Kelly Mendenhall, at ll. 33-39.

<sup>6</sup> *Id.*

<sup>7</sup> The Wexpro II Agreements require that the forward five-year price curve show the acquisition cost is equitable for DEU customers.

on the two wells the next month. Since the permits were filed, DEU is including the wells in the Application.<sup>8</sup>

The direct testimony of DEU witness Brady Rasmussen also discusses the acquisition process and explains WDC's drilling program and the reasons why DEU customers will benefit from WDC's drilling program.<sup>9</sup> Mr. Rasmussen further testifies that if the Application is approved, DEU and WDC will continue to ensure that cost-of-service production does not exceed the 55 percent supply limitation set in the Wexpro II Agreements.<sup>10</sup>

**b. DPU and OCS Written Testimony**

DPU's testimony analyzes Alkali Gulch and WDC's proposed drilling plan, describing which Alkali Gulch wells are currently profitable, and which are not.<sup>11</sup> DPU states that the first year cost of production from Alkali Gulch will be higher resulting from the plugging and abandonment of a few unprofitable wells, as well as to determine the future of other wells that are currently uneconomic.<sup>12</sup> According to DPU, WDC's drilling plan includes drilling additional wells to increase production after the acquisition.<sup>13</sup> Ultimately, DPU recommends that the PSC approve the acquisition, stating that it reviewed the Application and all accompanying exhibits, met with DEU and WDC for several hours, and met with DPU's Hydrocarbon Monitor in making its recommendation.<sup>14</sup>

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<sup>8</sup> Hearing Stream, at 4:10-4:25.

<sup>9</sup> DEU direct testimony of Brady B. Rasmussen, at ll. 69-101.

<sup>10</sup> *Id.*, at ll. 124-129.

<sup>11</sup> DPU direct testimony of Eric Orton, at ll. 45-48.

<sup>12</sup> *Id.*, at ll. 82-96.

<sup>13</sup> *Id.*, at ll. 54-55.

<sup>14</sup> *Id.*, at ll. 109-123.

The OCS's testimony discusses the potential benefits and risks tied to WDC and the development of Alkali Gulch. OCS states that current high natural gas prices favor the development of additional production wells.<sup>15</sup> However, OCS explains that the acquisition could nevertheless have a negative impact on customers if natural gas prices were to drop to the two dollar (\$2.00) range, as natural gas sales at that price would not be sufficient to cover production costs at Alkali Gulch.<sup>16</sup> OCS states that the war in Ukraine and COVID-19 supply disruptions make it unlikely that gas prices will return to the two dollar range (\$2.00) in the near future. After reviewing the Application, all the attached exhibits, and attending the May 10, 2022 technical conference, OCS ultimately recommends the PSC approve the Application.<sup>17</sup>

**c. Testimony at Hearing**

At hearing, DEU witness Kelly Mendenhall testified that DEU entered a contract through the end of June 2022 to sell the production from Alkali Gulch. Further, he testified that if the Commissions approve the applications, DEU will begin crediting the proceeds of the acquisition back to customers. Mr. Mendenhall also testified that, starting July 1, 2022, the gas from Alkali Gulch will flow exclusively to DEU customers, and concluded by testifying that the acquisition is just, reasonable, and in the public interest.

DPU witness Mr. Orton testified that “[t]he Alkali Gulch unit is a group of natural gas wells located near existing Wexpro II and Wexpro I properties in southwestern Wyoming.”<sup>18</sup> Mr. Orton further testified that Alkali Gulch will add about ten percent to the existing levels of

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<sup>15</sup> OCS direct testimony of Bela Vastag, at ll. 32-34.

<sup>16</sup> *Id.*, at ll. 50-57.

<sup>17</sup> *Id.*, at ll. 65-74.

<sup>18</sup> Hearing Stream at 8:15.

Wexpro production, and would slightly lower the average price of Wexpro cost-of-service gas. Mr. Orton also highlighted key terms of the Application, and testified that DPU supports the Application. Mr. Orton concluded by testifying that the Application is just and reasonable in result and in the public interest, and recommended PSC approval.

OCS witness Bela Vastag testified that the OCS carefully reviewed the exhibits submitted by DEU and DEU's responses to data requests. Mr. Vastag concluded that based on his review, the OCS determined the potential benefits of the Alkali Gulch acquisition outweigh the potential risks, and ultimately recommended the PSC approve the Application.<sup>19</sup>

No party opposed the Application.

### **3. DISCUSSION, FINDINGS OF FACT, AND CONCLUSIONS OF LAW**

In evaluating the Alkali Gulch acquisition, we reviewed the Application, its compliance with the requirements under the Wexpro II Agreements and past PSC orders, and considered DEU's, DPU's, and OCS's testimony. Based on our analysis, we find and conclude that the Alkali Gulch acquisition for the Wexpro II Property portfolio will likely reduce the price of cost-of-service gas produced by WDC, provide a supply hedge to DEU customers given current natural gas price volatility, and maintain cost-of-service gas production below the 55 percent production cap mandated in the Wexpro II Agreements. Though some risk exists that natural gas prices will decrease and jeopardize the economic viability of Alkali Gulch, we conclude that DEU, DPU, and OCS each offered sufficient evidence indicating the risk is currently acceptably low given current economic conditions, the war in Ukraine, and COVID-19 supply disruptions.

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<sup>19</sup> *Id.*, at 15:25.

Accordingly, and given no one opposed the Application, there is substantial evidence in the record to find and conclude that the acquisition of Alkali Gulch is just, reasonable, and in the public interest and meets all of the requirements under the Wexpro II Agreements.

**4. ORDER**

The Application is approved.

DATED at Salt Lake City, Utah, June 10, 2022.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Gary L. Widerburg  
PSC Secretary  
DW#324467

Notice of Opportunity for Agency Review or Rehearing

Pursuant to Utah Code Ann. §§ 63G-4-301 and 54-7-15, a party may seek agency review or rehearing of this written order by filing a request for review or rehearing with the PSC within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the PSC fails to grant a request for review or rehearing within 30 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the PSC's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. §§ 63G4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on June 10, 2022, a true and correct copy of the foregoing was served upon the following as indicated below:

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