
Application of Dominion Energy Utah for Approval of the Horseshoe Bend Development as a Wexpro II Property	<u>DOCKET NO. 24-057-03</u>
	<u>ORDER</u>

ISSUED: April 18, 2024

SYNOPSIS

The Public Service Commission (PSC) confirms its approval of Dominion Energy Utah's (DEU) application to include the Horseshoe Bend Development as a Wexpro II property ("Application")¹ and provides discussion, findings, and conclusions.

PROCEDURAL BACKGROUND

On February 1, 2024, DEU filed the Application, along with exhibits and supporting testimony, seeking to add recently acquired properties within the Horseshoe Bend Farmout² area ("Horseshoe Bend Development") as Wexpro II properties pursuant to procedures and conditions established in the Wexpro II Agreement,³ Trail Unit Settlement Stipulation,⁴ Canyon Creek Settlement Stipulation,⁵ and Production Cap Settlement Stipulation⁶ (collectively, "Wexpro II Agreements").

¹ See Order Approving Application issued April 1, 2024 ("April 1, 2024 Order").

² In a Farmout agreement the entity that owns the drilling rights is the "farmor" and is said to have "farmed out" its drilling rights. The entity receiving the right to drill is said to have "farmed in" and is referred to as the "farmee." In this docket, DEU is the farmee. According to the direct testimony of DEU witness Brady B. Rasmussen, the classic farmout structure gives the farmee 100 percent interest in the drill site acreage until payout and an undivided interest in acreage outside the drill site. Direct testimony of B. Rasmussen, at 2 ("B. Rasmussen Dir. Test.").

³ *Application of Questar Gas Company for Approval of the Wexpro II Agreement*, Docket No. 12-057-13, Report and Order issued March 28, 2013.

⁴ *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.

⁵ *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.

⁶ *Application of Dominion Energy Utah to Modify the Wexpro Production Cap*, Docket No. 22-057-04, Order Approving Settlement Stipulation issued April 13, 2022.

On February 13, 2024, the PSC issued a Scheduling Order, Notice of Technical Conference, and Notice of Hearing. The technical conference was held on February 21, 2024. DPU and OCS filed written testimony on March 4, 2024.⁷

On March 21, 2024, the PSC held an evidentiary hearing during which DEU, DPU, and OCS provided testimony supporting the Application.

On April 1, 2024, the PSC issued the Order Approving Application.⁸

THE APPLICATION

The Application states that on October 16, 2023, Wexpro Development Company (“WDC”) entered into a Farmout Agreement (“Farmout Agreement”) with the owner of a working interest (“WI”) in two federal leases located in Uintah County, Utah known as Horseshoe Bend. The interests acquired by WDC lie outside of the development drilling areas defined and outlined in the Wexpro I Stipulation and Agreement.⁹ The Application also states that WDC has initiated development of the Horseshoe Bend Development at its own risk and, if the Application is approved, the drilling costs incurred will be passed on to DEU customers.¹⁰ DEU further states it contemporaneously filed an application with the Wyoming Public Service Commission

⁷ On March 19, 2024, DPU filed a Hydrocarbon Monitor Report acknowledging it should have accompanied DPU's written testimony.

⁸ See April 1, 2024 Order.

⁹ See Docket No. 76-057-14, Report and Order on Stipulation and Agreement, issued December 31, 1981, *In the Matter of the Petition of the Division of Public Utilities to Consider the Proposed Transfer of Certain Wells, Leases, Lands and Related Facilities and Interests of Mountain Fuel Supply Company to Wexpro Company on Remand from the Utah Supreme Court*. Wexpro I also resolved issues in five other dockets: Docket Nos. 77-057-03, 79-057-03, 80-057-01, 81-057-01, and 81-057-04.

¹⁰ See Application at 6-7.

for approval of inclusion of the Horseshoe Bend Development in the Wexpro II property as required in the Wexpro II Agreements.¹¹

PRE-FILED TESTIMONY

DEU witnesses Kelly Mendenhall and Brady Rasmussen provided written testimony supporting the Application. Mr. Mendenhall describes the Farmout Agreement, summarizes the requirements for acquiring properties for inclusion as Wexpro II properties, and discusses the reasons the inclusion of Horseshoe Bend Development as a Wexpro II property is in the public interest. He explains that the Horseshoe Bend Development will produce gas at a price point at or below the five-year curve with stable pricing for 20-30 years and concludes that “the Horseshoe Bend Development properties will benefit Dominion Energy’s customers.”¹²

Mr. Rasmussen’s written testimony outlines WDC’s drilling program for the Horseshoe Bend Development, specifically stating that WDC had initiated drilling two wells at its own risk in December 2023. Mr. Rasmussen explains, among other things, how WDC determines its annual drilling program, how WDC can continue to drill at or below the 5-year forward curve, and what WDC is doing, and will continue to do, to help reduce the overall price of cost-of-service gas. Mr. Rasmussen asserts Horseshoe Bend Development will be “equally beneficial to shareholders if developed

¹¹ The Wexpro II Agreements state that in order for newly acquired interests and property to be included in the agreement, they must be approved by both the Utah and Wyoming Commissions.

¹² Kelly Mendenhall Written Direct Testimony at lines 98-100.

outside the Wexpro II Agreement”¹³ and states 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. Mr. Rasmussen concludes that “[c]onsistently adding wells to the portfolio keeps costs lower and avoids the ‘boom and bust’ approach that is often associated with this industry.”¹⁴

OCS’s written testimony identifies the following potential benefits to DEU customers based on its review of the Application, attached Exhibits, technical conference presentation, and DEU responses:

1. The Farmout Agreement does not include up-front property acquisition costs that ratepayers would lose if the drilling was halted. Specifically, OCS refers to the aspect of the Farmout Agreement that has the farmor retain ownership and thereby eliminating “the risk of stranded costs if drilling new wells on the property becomes uneconomical.”¹⁵
2. The Horseshoe Bend Development will deliver a new long-term gas supply at reasonable costs, as OCS observed in DEU’s Confidential Exhibit 3.3, column C, which contains the projected cost of gas per Dth.
3. The addition of the Horseshoe Bend Development “helps maintain a higher production level of Wexpro cost of service ... gas supply which serves as a physical hedge against volatility in both natural gas market prices and supply reliability.”¹⁶

Based upon the above identified benefits, OCS recommends the PSC approve the Application.

¹³ B. Rasmussen Direct Testimony at lines 72-73.

¹⁴ *Id.* at lines 116-118.

¹⁵ Bela Vastag Written Direct Testimony at lines 80-81.

¹⁶ *Id.* at lines 59-62.

DPU's written testimony summarizes the Farmout Agreement stating that “[i]n order to fulfill its part of the agreement, Wexpro has to keep the WI in the leases alive, which it has done by drilling two wells (which have not been completed as yet) by the end of 2023. Now that those two wells are drilled, and under the terms of the Farmout Agreement, Wexpro will have the rights to drill additional wells.”¹⁷ DPU states that under the Farmout Agreement, WDC retains 100 percent of the WI in the first two wells until it has recovered its costs, but WDC will have smaller WI in the additional wells drilled in the Horseshoe Bend Development.

DPU states the Application, exhibits, testimony, and the information provided in the technical conference provides sufficient information for DPU to recommend approval. Specifically, DPU states the Net Present Value (“NPV”) is positive, drilling costs are reasonable, and potential of significant gas recovery is high. DPU concludes that the drilling project should lower the overall cost of service per dekatherm, while keeping the WDC-managed gas below the limit of 55 percent. Based on these observations, DPU recommends the PSC approve the Application.¹⁸

TESTIMONY AT HEARING

DEU testified the Horseshoe Bend Development is unique in that it does not have proven reserves, which is unlike the properties for which DEU has previously sought approval. Mr. Mendenhall identified benefits to customers that would result

¹⁷ Eric Orton Written Direct Testimony at lines 45-49.

¹⁸ See *id.* at lines 228-229.

from approval of the Application, including the value of having a long-term gas supply with stable pricing in light of the recent gas pricing volatility. Additionally, he stated that the property is expected to beat the 5-year curve and is forecasted to bring the overall cost of service down. Mr. Mendenhall concluded that, based on the benefits identified, he believes the inclusion of the Horseshoe Bend Development property is just, reasonable, and in the public interest, and asks the PSC to approve the Application.

For DPU, Mr. Orton testified the Horseshoe Bend Development has different risks than previous properties included in the Wexpro II Agreements. Specifically, there is no current production outside the drilling area defined in the Wexpro II Agreements, and the Horseshoe Bend Development wells are expected to cost slightly more on a per well basis. Additionally, Mr. Orton stated that DPU relied heavily on the expertise of the hydrocarbon monitor's report. He added that the NPV is positive, the expected market price is favorable, potential recoverable gas is significant, and the drilling costs appear to be reasonable. Mr. Orton concluded customers will benefit more by the inclusion of the Horseshoe Bend Development than without it stating, "[e]ven with minor adjustments or forecasting errors, the acquisition should lower the overall cost of service gas for the utility's customers and increase the amount of gas

available[,] while keeping the total production below the allowed cap of 55 percent.”¹⁹

Mr. Orton testified DPU recommends approval of the Application.

OCS witness Mr. Vastag testified the addition of the Horseshoe Bend Development will provide additional supply of cost-of-service gas at reasonable prices, which will increase Wexpro’s ability to supply a hedge against volatile market prices and potential disruption of service.

No other party offered testimony or opposed the Application.

FINDINGS AND CONCLUSIONS

We evaluate the Application’s compliance with the Wexpro II Agreements and past PSC orders. We find the Horseshoe Bend Development reasonably demonstrates the likelihood to reduce the price of cost-of-service gas produced by WDC, provides a supply hedge to DEU customers, and maintains cost-of-service gas production below the 55 percent production cap established in the Wexpro II Agreements.

Accordingly, based on our review of the Application, the testimony of DEU, DPU, and OCS witnesses, and the recommendations of DPU and OCS, we find that substantial evidence exists to conclude that the Horseshoe Bend Development acquisition meets all the requirements outlined in the Wexpro II Agreements and is just, reasonable, and in the public interest.

¹⁹ Evidentiary Hearing 16:25-17:4.

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ORDER

Pursuant to the above discussion, and our findings and conclusions, we confirm our April 1, 2024 Order approving the Application to include the Horseshoe Bend Development as a Wexpro II property.

DATED at Salt Lake City, Utah, April 18, 2024.

/s/ John E. Delaney
Presiding Officer

Approved and Confirmed April 18, 2024 as the Order of the Public Service Commission of Utah.

/s/ David R. Clark, Commissioner

/s/ John S. Harvey, Ph.D., Commissioner

Attest:

/s/ Gary L. Widerburg
PSC Secretary
DW#333444

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 April 18, 2024, a true and correct copy of the foregoing was served upon the following as indicated below:

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