

Colleen Larkin Bell (5253)  
Jenniffer Nelson Clark (7497)  
333 S. State Street  
PO Box 45433  
Salt Lake City, Utah 84145-0433  
(801)324-5556  
(801)324-5935 (fax)  
[Colleen.Bell@questar.com](mailto:Colleen.Bell@questar.com)  
[Jenniffer.Clark@questar.com](mailto:Jenniffer.Clark@questar.com)

*Attorneys for Questar Gas Company*

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE  
APPLICATION OF QUESTAR GAS  
COMPANY FOR APPROVAL TO  
INCLUDE A PROPERTY UNDER THE  
WEXPRO II AGREEMENT

Docket No. 13-057-13  
**CONFIDENTIAL APPLICATION**  
**(Redacted)**

Pursuant to Utah Code Ann. § 54-4-1 *et seq.* and Utah Administrative Code. § R746-100-1 *et seq.*, Questar Gas Company (Questar Gas) submits this confidential application to the Utah Public Service Commission (Utah Commission) for an order approving inclusion of a recently acquired property located within a Wexpro I development drilling area known as the [REDACTED] as a Wexpro II property. Simultaneously with this filing, Questar Gas is applying for an order approving the [REDACTED] from the Wyoming Public Service Commission (Wyoming Commission). Under the terms of the Wexpro II Agreement, which was approved by the Utah Commission on March 28, 2013 and the Wyoming Commission on April 11, 2013, Questar Gas is required to apply for approval to include properties acquired by Wexpro, within a Wexpro I development drilling area, as Wexpro II properties. Questar Gas offers the following, in support of this Application:

## BACKGROUND

1. On September 12, 2012, Wexpro Company, Questar Gas Company, the Utah Division of Public Utilities (Division) and the Wyoming Office of Consumer Advocate entered into the Wexpro II Agreement, subject to the approval of both the Utah Commission and the Wyoming Commission. On March 28, 2013, the Utah Commission issued a Report and Order in Docket No. 12-057-13 approving the Wexpro II Agreement. On April 11, 2013, the Wyoming Commission held a public hearing and public deliberations upon the matter in Docket No. 30010-123-GA-12 and rendered a bench order approving the Wexpro II Agreement. On October 16, 2013, the Wyoming Commission issued a formal Memorandum Opinion, Findings and Order Approving the Wexpro II Agreement in Docket No. 30010-123-GA-12.

2. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] These properties are located within the development drilling areas defined in the Wexpro I Agreement.

[REDACTED]

[REDACTED]

4. The Wexpro II Agreement governs the requirements for Wexpro and Questar Gas relating to this purchase. Section IV-1 provides that “Wexpro will acquire oil and gas properties or undeveloped leases at its own risk.” Section IV-1(a) provides that “Questar Gas shall apply to the Utah and Wyoming Commissions for approval to include under this Agreement any oil and gas property that Wexpro acquires within the Wexpro I development drilling areas.”

5. Wexpro has undertaken the purchase of the [REDACTED] at its own risk and is selling production from these wells on the open market pending the outcome of a decision by the Utah and Wyoming Commissions to determine whether this acquisition should be included as a Wexpro II property. If the [REDACTED] is approved as a Wexpro II property, then the acquisition costs will be adjusted for the value of gas sold from the time Wexpro closed on the [REDACTED] until Commission approval of this property.

**SUPPORTING INFORMATION**

6. Section IV-2 of the Wexpro II Agreement provides that Questar Gas will file an application with the Utah and Wyoming Commissions requesting approval to include proposed properties under the Wexpro II Agreement and the application shall include the supporting information listed in subsections (a) through (p) which is attached to this Application as Exhibits A through P.

**Exhibit A: Purchase price and gas pricing assumptions:**

Exhibit A provides the purchase price of the [REDACTED] property and the gas and oil pricing assumptions used in the [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Exhibit B: Locations of current and future wells:**

The locations of current and future wells are depicted on a schematic attached to this Application as Exhibit B. [REDACTED]

[REDACTED]

**Exhibit C: Historical production and remaining reserves of current wells:**

Exhibit C is a spreadsheet listing [REDACTED] current wells, their cumulative production to date and their estimated remaining reserves.

**Exhibit D: Forecasted production/reserves for future wells:**

Exhibit D is a four-page spreadsheet listing [REDACTED] future wells that are planned to be drilled and their estimated production/reserves for the life of the wells.

**Exhibit E: Forecasted decline curves for current and future wells:**

Exhibit E includes a rate time plot for each current well, as well as the anticipated type curve for the pud future development wells.

**Exhibit F: Estimated drilling (capital) costs per well:**

Exhibit F is a detailed estimate of capital cost to drill a future well [REDACTED]  
[REDACTED]

**Exhibit G: Estimated operating expenses for current and future wells:**

Exhibit G is a summary of the estimated operating expenses for current and future [REDACTED] wells. This is based on historical data and Wexpro's experience operating and maintaining its wells in the [REDACTED].

**Exhibit H: Gross working interest and net revenue interest for current and future wells:**

Exhibit H is a six-page spreadsheet showing the working interest and net revenue interest for the [REDACTED] current wells and the [REDACTED] future wells.

**Exhibit I: Estimated production tax per Dth for current and future wells:**

Exhibit I is a summary of the estimated production tax per Dth for current and future [REDACTED]. [REDACTED]

[REDACTED]

[REDACTED]

**Exhibit J: Estimated gathering/processing costs per Dth for current and future wells:**

Exhibit J is a summary of the estimated gathering/processing costs per Dth for current and future [REDACTED]. [REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

[REDACTED]

**Exhibit K: Description of any land lease, title, and legal issues related to real property:**

Exhibit K provides a description of land lease, title, and legal issues including but not limited to a description of the terms under which Wexpro purchased the [REDACTED]

[REDACTED]. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Exhibit L: Forecasted long-term cost-of-service analysis:**

Exhibit L is a four-page summary showing the long-term cost-of-service analysis.

[REDACTED]

[REDACTED]

[REDACTED]

**Exhibit M: Impact on Questar Gas's gas supply:**

Exhibit M is a bar chart showing the [REDACTED]

[REDACTED]

**Exhibit N: Geologic data:**

Exhibit N is an eight-page exhibit highlighting the geology of the [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Exhibit O: Future development plan for the proposed properties:**

Exhibit O is a summary of future wells planned [REDACTED].

**Exhibit P: Other data as requested or as may be appropriate to an evaluation of the property:**

Exhibit P includes the Highly Confidential economic model, used in the analysis of the [REDACTED] and will be provided to the Utah Commission, the Office of Consumer Services and the Division electronically.

7. Questar Gas has filed the sworn testimony of Barrie L. McKay (QGC Exhibit 1.0) and James R. Livsey (QGC Exhibit 2.0) in support of this Application. As set forth in Mr. McKay's testimony, approval of the [REDACTED] as a Wexpro II property would provide an opportunity for Questar Gas's customers to receive cost-of-service gas that is estimated to provide lower cost gas over a 20 to 30-year period.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**PRAYER FOR RELIEF**

Based upon the foregoing, and supporting testimony, Questar Gas respectfully requests that the Utah Commission find that the [REDACTED] is in the public interest and enter an order approving the [REDACTED] as a Wexpro II property.

DATED this 5<sup>th</sup> day of November, 2013.

Respectfully submitted,

QUESTAR GAS COMPANY



Colleen Larkin Bell (5253)  
Jenniffer Nelson Clark (7947)  
Attorneys for Questar Gas Company  
333 S. State Street  
PO Box 45433  
Salt Lake City, Utah 84145-0433  
(801) 324-5556

175742

## CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Confidential Application was served upon the following persons by email on November 5<sup>th</sup>, 2013:

Patricia E. Schmid  
Assistant Attorney General  
160 East 300 South  
P.O. Box 140857  
Salt Lake City, UT 84114-0857  
[pschmid@utah.gov](mailto:pschmid@utah.gov)

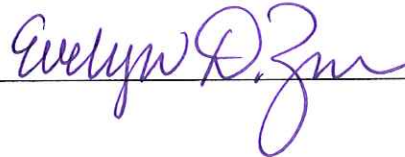
Brent Coleman  
Assistant Attorney General  
160 East 300 South, 5<sup>th</sup> Floor  
P.O. Box 140857  
Salt Lake City, Utah 84114-0857  
[brentcoleman@utah.gov](mailto:brentcoleman@utah.gov)

Chris Parker  
Director  
Division of Public Utilities  
160 East 300 South  
P.O. Box 146751  
Salt Lake City, UT 84114-6751  
[chrisparker@utah.gov](mailto:chrisparker@utah.gov)

Michele Beck  
Director  
Office of Consumer Services  
160 East 300 South  
P.O. Box 146782  
Salt Lake City, UT 84114-6782  
[mbeck@utah.gov](mailto:mbeck@utah.gov)

Bryce Freeman  
Administrator  
Wyoming Office of Consumer  
Advocate  
2515 Warren Avenue, Suite 304  
Cheyenne, WY 82002  
[Bryce.Freeman@wyo.gov](mailto:Bryce.Freeman@wyo.gov)

Ivan Williams  
Senior Counsel  
Wyoming Office of Consumer Advocate  
2515 Warren Avenue, Suite 304  
Cheyenne, WY 82002  
[Ivan.williams@wyo.gov](mailto:Ivan.williams@wyo.gov)



---

**EXHIBIT A**

**Purchase Price and Gas Pricing Assumptions**

**[REDACTED]**

**EXHIBIT B**

**Locations of Current and Future Wells**

**[REDACTED]**

**EXHIBIT C**

**Historical Production and Remaining Reserves of Current Wells**

**[REDACTED]**

**EXHIBIT D**

**Forecasted Production/Reserves for Future Wells**

**[REDACTED]**

**EXHIBIT E**

**Forecasted Decline Curves for Current and Future Wells**

**[REDACTED]**



**EXHIBIT F**

**Estimated Drilling (Capital) Costs Per Well**

**[REDACTED]**

**EXHIBIT G**

**Estimated Operating Expenses for Current and Future Wells**

**[REDACTED]**

**EXHIBIT H**

**Gross Working Interest and Net Revenue Interest for Current and Future Wells**

**[REDACTED]**

**EXHIBIT I**

**Estimated Production Tax Per Dth for Current and Future Wells**

[REDACTED]

**EXHIBIT J**

**Estimated Gathering/Processing Costs Per Dth for Current and Future Wells**

**[REDACTED]**

**EXHIBIT K**

**Description of Any Land Lease, Title and Legal Issues Related to Real Property**

**[REDACTED]**

**EXHIBIT L**

**Forecasted Long Term Cost of Service Analysis**

**[REDACTED]**

**EXHIBIT M**

**Impact on Questar Gas' Gas Supply**

**[REDACTED]**



**EXHIBIT N**  
**Geologic Data**

**[REDACTED]**

**EXHIBIT O**

**Future Development Plan for Proposed Properties**

**[REDACTED]**

**EXHIBIT P**

**Highly Confidential Economic Model**

**[REDACTED]**



BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION  
OF QUESTAR GAS COMPANY FOR  
APPROVAL TO INCLUDE A PROPERTY  
UNDER THE WEXPRO II AGREEMENT

Docket No. 13-057-13

**REDACTED DIRECT TESTIMONY OF BARRIE L. McKAY**

**FOR QUESTAR GAS COMPANY**

November 5, 2013

**QGC Exhibit 1.0**

**I. INTRODUCTION**

1 **Q. Please state your name and business address.**

2 A. My name is Barrie L. McKay. My business address is 333 South State Street, Salt Lake  
3 City, Utah.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Questar Gas Company (Questar Gas or Company) as Vice President of  
6 State Regulatory Affairs. I am responsible for state regulatory and energy-efficiency  
7 matters in Utah and Wyoming.

8 **Q. What are your qualifications to testify in this proceeding?**

9 A. I have listed my qualifications in QGC Exhibit 1.1.

10 **Q. Attached to your written testimony are QGC Exhibits 1.1 through 1.5. Were these  
11 prepared by you or under your direction?**

12 A. Yes.

13 **Q. What is the purpose of your testimony in this Docket?**

14 A. The purpose of my testimony is to: 1) describe Wexpro's recent acquisition of natural gas  
15 producing properties within the Wexpro I development drilling area known as the [REDACTED]  
16 [REDACTED]; 2) explain why Questar Gas is mandated to bring this property to the Utah and  
17 Wyoming Commissions for approval as a Wexpro II property; and 3) explain why this  
18 acquisition is in the public interest for the Company's customers.

19 **Q. Are there others who will provide testimony in this proceeding?**

20 A. Yes, Mr. James R. Livsey, Executive Vice President and Chief Operating Officer of  
21 Wexpro Company, will also provide an overview of Wexpro's current inventory, a  
22 general discussion of the natural gas market, and a summary of the [REDACTED].

23

II. [REDACTED]

24 **Q. Please describe the recent purchase by Wexpro of natural-gas producing properties**  
25 **in the [REDACTED].**

26 A. On September 4, 2013, Wexpro closed on its purchase of properties in the Wexpro I  
27 development drilling area known as the [REDACTED]. Wexpro purchased these properties  
28 for approximately [REDACTED]. (Note: If approved as a Wexpro II property, this  
29 amount would be adjusted to reflect the volumes Wexpro has sold since it has acquired  
30 the property. See QGC Exhibit 2.5.) This purchase consists of a [REDACTED] interest in [REDACTED]  
31 producing wells and approximately [REDACTED] future wells. This acquisition increased  
32 Wexpro's ownership interest from [REDACTED] to [REDACTED] on average throughout the field.

33 **Q. Is this a Wexpro property acquisition that the Company must bring to the Utah and**  
34 **Wyoming Commissions for approval?**

35 A. Yes, under the terms of the Wexpro II Agreement, the Company is required to apply for  
36 Utah and Wyoming Commission approval of Wexpro property acquisitions in the  
37 Wexpro I development drilling areas. The [REDACTED] is a property within a  
38 Wexpro I development drilling area.

39

III. PUBLIC INTEREST

40 **Q. Is Questar Gas pleased with the [REDACTED]?**

41 A. Yes. As explained in Mr. Livsey's testimony, the [REDACTED] is in an area  
42 where Wexpro currently operates and already has significant experience. Wexpro  
43 currently has [REDACTED] wells in this area. These wells were drilled by Mountain Fuel and  
44 Wexpro over the last 60 years. Wexpro understands the geology, engineering and  
45 production levels of these wells. [REDACTED]

46 [REDACTED] The Wexpro II concept was

47 conceived to accommodate adding these types of acquisitions to Questar Gas's supply  
48 portfolio.

49 **Q. Why should the Company secure this supply at a time when market prices are low**  
50 **and the forward curves indicate that those prices may remain low for the next few**  
51 **years?**

52 A. There are several important reasons. First, this asset is comparable to estimated market  
53 prices of natural gas. Application Exhibit L shows that the forecasted, undiscounted cost-  
54 of-service price [REDACTED]  
55 [REDACTED] This compares to today's market price of natural gas of approximately  
56 \$3.97/Dth that was filed in the Company's most recent pass-through/pass-on filings.

57 [REDACTED]  
58 [REDACTED]  
59 [REDACTED]  
60 [REDACTED] This was the type of opportunity that  
61 the Parties anticipated when they developed the Wexpro II Agreement.

62 Third, the cost to provide customers this option of a 40 year supply of low-cost gas from  
63 future wells, that also comes with gas supplies from current wells, will be approximately  
64 1.5% of today's total annual bill. Even in this current low-price environment, given the  
65 history of market volatility, as shown in QGC Exhibit 1.2, this seems like a reasonable  
66 option to secure long term supply.

67 **Q. What portion of the Company's annual gas supply has been supplied by cost-of-**  
68 **service production since the inception of Wexpro I?**

69 A. Attached as QGC Exhibit 1.3 is a summary of the percentage of cost-of-service  
70 production of Questar Gas' overall supply portfolio on an annual basis from 1981



71 through 2012. The range has been from 16% in 1981 to 68% in 2012 with an average  
72 amount of approximately 50% over the last two decades.

73 **Q. What is your understanding of why cost-of-service production increased in 2012?**

74 A. There are several important reasons. Wexpro's average capital budget has been  
75 approximately [REDACTED] million for the past several years. However, due to the application of  
76 new technology, the drilling of wells in Pinedale in accordance with BLM mandates and  
77 Wexpro's management of the Company's assets to more productive reservoirs; cost-of-  
78 service production has increased to approximately 68% without increasing its capital  
79 spending. Additionally, through low-cost compression, Wexpro has been able to recover  
80 reserves that heretofore were not able to be produced. Thus, the per dekatherm price of  
81 cost-of-service production has been lower than it would have been. Said another way, for  
82 the same amount of capital investment, Wexpro has provided Questar Gas with  
83 approximately 15% more production.

84 **Q. Given the increase in volumes over the past few years, at what level can Questar Gas**  
85 **effectively manage its cost-of-service production?**

86 A. Questar Gas can manage its cost-of-service production to approximately 65% of annual  
87 forecasted demand without incurring significant shut-in costs.

88 **Q. How did you determine that 65% of the annual forecasted demand can be met with**  
89 **Company-owned production without incurring significant shut-in costs?**

90 A. The maximum percentage of Company-owned production that can be managed through  
91 existing storage contracts without shutting in any wells is approximately 60%. This  
92 assumes production is provided evenly throughout the year and injections are made using  
93 current storage contracts. The Company can manage an additional 5% of total demand  
94 by shutting in low-priced cost-of-service gas supplies. [REDACTED]  
95 [REDACTED]

96 [REDACTED]  
97 [REDACTED]  
98 [REDACTED]  
99 [REDACTED]  
100 [REDACTED]  
101 [REDACTED]  
102 [REDACTED]  
103 [REDACTED]  
104 [REDACTED]

105 **Q. In the past, what portion of its gas portfolio has the Company hedged through either**  
106 **fixed-priced contracts or cost-of-service production?**

107 A. QGC Exhibit 1.3 shows that approximately 50% of the Company's gas supplies have  
108 historically come from cost-of-service production. Additionally, the Company has  
109 typically hedged a portion of its winter base-load gas-purchase agreements for a total  
110 hedged amount ranging between 60% to 65%. Currently, the production forecast for  
111 Company-owned production is about 65% without hedging any purchase agreements.

112 **Q. How do Questar Gas and Wexpro plan to manage the level of cost-of-service**  
113 **production going forward?**

114 A. Questar Gas and Wexpro will continue working together to ensure that customers have a  
115 long-term reliable supply of low-cost gas. [REDACTED]  
116 [REDACTED]  
117 [REDACTED] This will ensure that the Company does not incur  
118 significant shut-in costs and that its cost-of-service production and hedged gas-supply  
119 portfolio will continue to be managed at approximately 65%.

DIRECT TESTIMONY OF  
BARRIE L. MCKAY

120 Q. What plan year will [REDACTED] Questar Gas use to determine the 65% level of  
121 production?

122 A. [REDACTED] Questar Gas propose to use the Questar Gas Integrated Resource Plan (IRP)  
123 plan year starting with the June 2015 – May 2016 IRP to determine annual forecasted  
124 demand. [REDACTED]

125 [REDACTED]  
126 [REDACTED]  
127 [REDACTED]

128 [REDACTED] Each  
129 year in June, the Company will calculate the actual cost-of-service production that has  
130 been recorded in the 191 account for the previous IRP plan year. This number will be  
131 divided by the IRP annual total firm demand from the previous IRP plan year, so long as  
132 the demand does not go below the Minimum Threshold. The resulting percentage will be  
133 the actual percentage of cost-of-service production for that IRP plan year.

134 Q. [REDACTED]  
135 [REDACTED]  
136 [REDACTED]  
137 [REDACTED]  
138 [REDACTED]  
139 [REDACTED]

140 [REDACTED]  
141 [REDACTED]  
142 [REDACTED]  
143 [REDACTED]

144 [REDACTED]

145 [REDACTED]

146 [REDACTED]

147 **Q. Should this property be approved as a Wexpro II property?**

148 A. Yes, both the Utah and Wyoming Commissions should approve this acquisition as a  
149 Wexpro II property and find that it is in the public interest. The production from Wexpro  
150 I wells comes from a defined set of properties that are clearly set forth in the Wexpro I  
151 Agreement. Because of technological improvements in drilling, completion, and  
152 production methods, these properties have produced longer and at greater levels than the  
153 original parties to the Wexpro I Agreement anticipated. However, Wexpro production is  
154 finite and limited to defined areas. [REDACTED]

155 [REDACTED]

156 [REDACTED]

157 [REDACTED]

158 [REDACTED]

159 [REDACTED]

160 **Q. Does this conclude your testimony?**

161 A. Yes.

State of Utah            )  
                                  ) ss.  
County of Salt Lake    )

I, Barrie L. McKay, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

  
\_\_\_\_\_  
Barrie L. McKay

SUBSCRIBED AND SWORN TO this 4<sup>th</sup> day of November, 2013.

  
\_\_\_\_\_  
Notary Public





## **Qualifications of Barrie L. McKay**

### Current Responsibilities

As Vice President of Regulatory Affairs and Energy Efficiency, I am responsible for managing the state regulatory and energy-efficiency matters of Questar Gas. I supervise the regulatory activities in Utah and Wyoming. I am responsible for the preparation and filing of general rate cases, pass-through cases and other general tariff and compliance filings. I have appeared as an expert witness on numerous occasions before the Utah and Wyoming Commissions.

### Prior Responsibilities and Experience

I was first employed by Mountain Fuel Supply (now Questar Gas) in 1993 as a Senior Analyst in the Rate Department.

From 1983 - 1993, I worked for UP&L/PacifiCorp in the Rate Accounting and Economic Regulation Departments in various positions. I was responsible for the preparation of the results of operations and the development and continued evolution of the allocation modeling. I have previously presented testimony before the Utah Public Service Commission and the FERC.

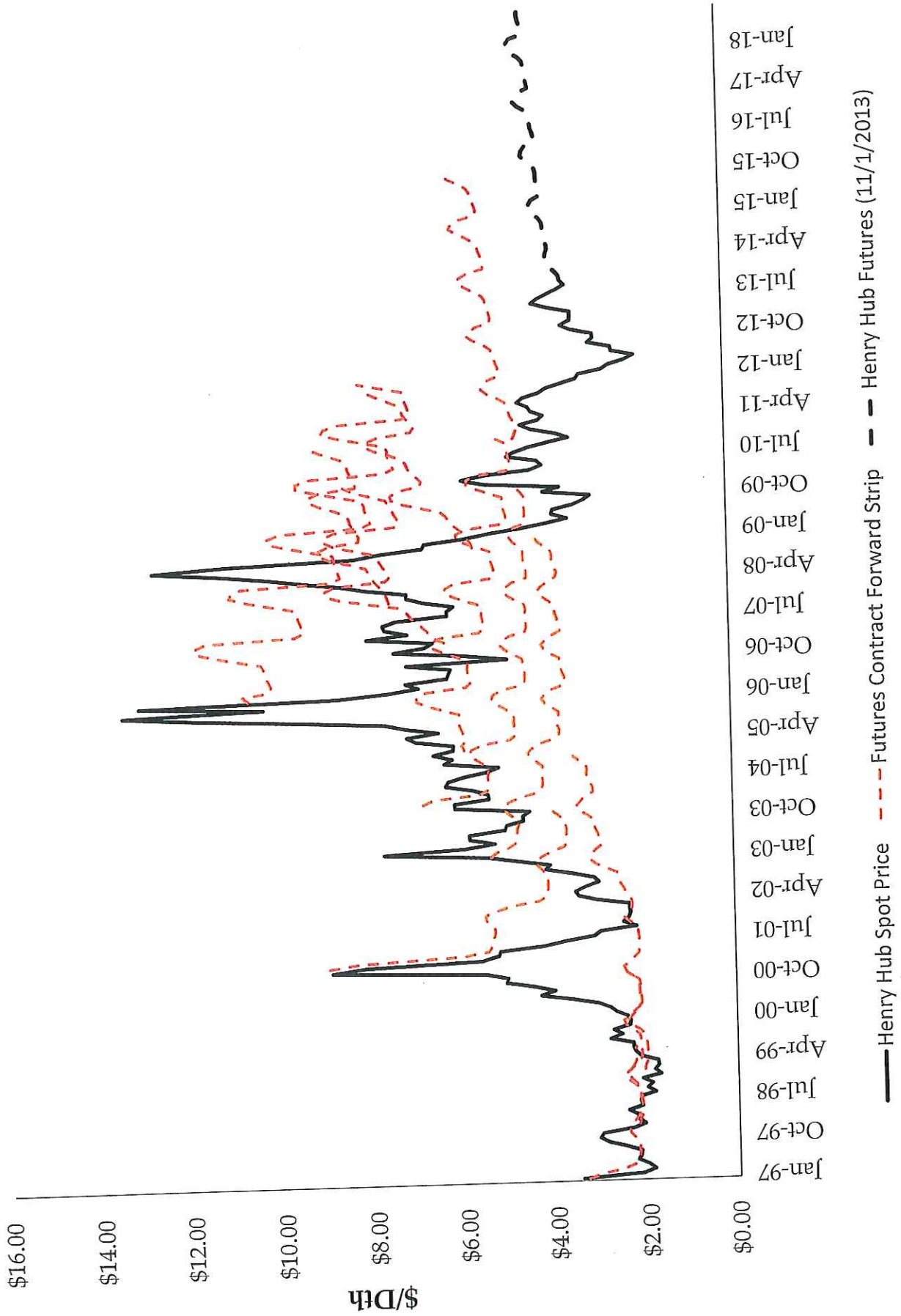
### Educational Background

I received a Bachelor of Science degree in accounting from Brigham Young University in 1983. I received a Master of Business Administration from Brigham Young University in 1986. I am a Certified Public Accountant (CPA) in the State of Utah and belong to the Utah Association of Certified Public Accountants (UACPA). I am a member of the AGA Rate Committee and have participated in numerous seminars and conferences on rate and regulatory matters including AGA, PCGA, EEI, WEI and NARUC.



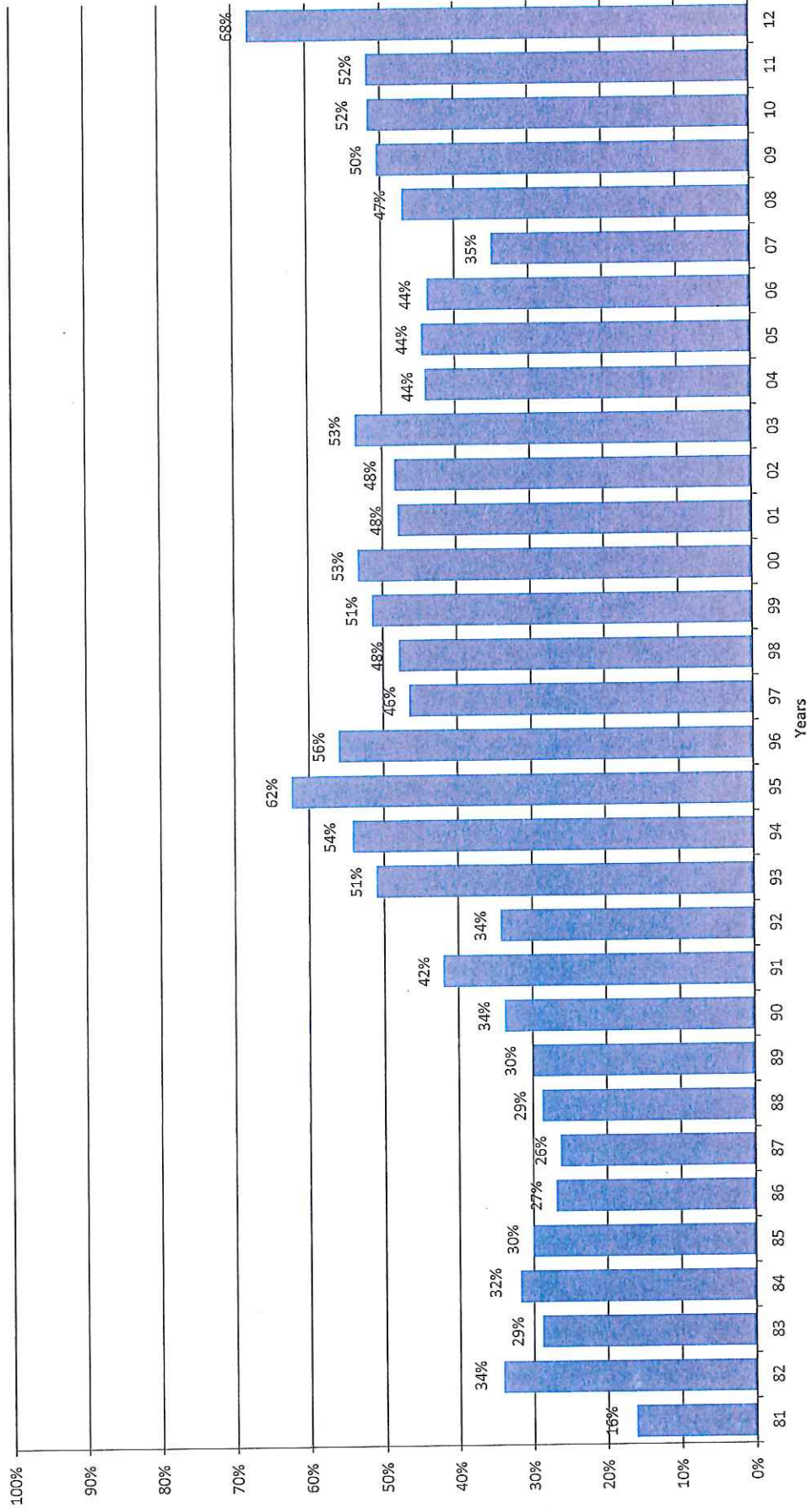


# Historical Futures Prices





### Historical Cost-of-Service Production Percentage of Total Gas Supply





Questar Gas Company  
Docket 13-057-13  
QGC Exhibit 1.4

Cumulative Shut-in Cost/Dth

[REDACTED]



Questar Gas Company  
Docket 13-057-13  
QGC Exhibit 1.5

## Annual Gas Supply Management Plan

**[REDACTED]**





BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION  
OF QUESTAR GAS COMPANY FOR  
APPROVAL TO INCLUDE A PROPERTY  
UNDER THE WEXPRO II AGREEMENT

Docket No. 13-057-13

**REDACTED DIRECT TESTIMONY OF JAMES R. LIVSEY**

**FOR QUESTAR GAS COMPANY**

November 5, 2013

**QGC Exhibit 2.0**

**TABLE OF CONTENTS**

**I. INTRODUCTION.....3**

**II. WEXPRO I INVENTORY.....4**

**III. OVERVIEW OF THE NATURAL GAS MARKET.....5**

**IV. [REDACTED] .....8**

**V. WEXPRO'S DRILLING PROGRAM.....10**

**VI. MANAGEMENT OF TRAIL UNIT PRODUCTION.....11**

**VII. APPLICABLE GUIDELINE LETTERS .....12**

**I. INTRODUCTION**

1 **Q. Please state your name and business address.**

2 A. My name is James R. Livsey. My business address is 333 South State Street, Salt Lake  
3 City, Utah.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Wexpro Company (Wexpro) as Executive Vice President and Chief  
6 Operating Officer. I oversee and am responsible for managing drilling, development, and  
7 operations associated with Wexpro's cost-of-service properties. I am also responsible for  
8 regulatory compliance associated with oil and gas operations and Wexpro's compliance  
9 with the Wexpro I and Wexpro II Agreements.

10 **Q. What are your qualifications to testify in this proceeding?**

11 A. I have listed my qualifications in QGC Exhibit 2.1.

12 **Q. Attached to your written testimony are QGC Exhibits 2.1 through 2.6. Were these  
13 prepared by you or under your direction?**

14 A. Yes.

15 **Q. What is the purpose of your testimony in this Docket?**

16 A. The purpose of my testimony is to 1) [REDACTED]  
17 [REDACTED] 2) provide an overview of the natural gas market; 3) provide an  
18 overview of the [REDACTED] 4) [REDACTED]  
19 [REDACTED] 5) [REDACTED]  
20 [REDACTED] and 6) [REDACTED]  
21 [REDACTED]

22 Q. Are you familiar with the Application and its exhibits filed in this Docket?

23 A. Yes. Many of the exhibits were prepared under my supervision and direction.

24 II. WEXPRO I INVENTORY

25 Q. Please describe the current Wexpro I inventory.

26 A. The inventory under the Wexpro I Agreement began in 1981 with 498 Company-owned  
27 wells. Since that time, Wexpro has drilled 1600 commercial wells under the Wexpro I  
28 Agreement and provided natural gas production to Questar Gas' customers at cost of  
29 service.

30 [REDACTED]

31 [REDACTED]

32 [REDACTED]

33 [REDACTED]

34 [REDACTED]

35 [REDACTED]

36 [REDACTED]

37 [REDACTED]

38 [REDACTED]

39 [REDACTED]

40 [REDACTED]

41 [REDACTED]

42 [REDACTED]

43 [REDACTED]

44

45

46 **Q. If prices return to higher levels, is there additional inventory that can be developed?**

47 A. Yes. Depending on price level, there are other wells that can be developed. But this  
48 illustrates why the [REDACTED], as further explained later in my testimony, is a  
49 valuable asset to add to Questar Gas' cost-of-service portfolio. The [REDACTED]

50

51

52 **Q. Are there other facts to remember when building an inventory of future wells and**  
53 **cost-of-service production?**

54 A. Yes. The old adage of "Rome wasn't built in a day" comes to mind. It took years of  
55 work and foresight to develop the gas supply inventory that Questar Gas customers enjoy  
56 today. From the 1920s through the 1970s, Mountain Fuel Supply Company acquired  
57 valuable leases, drilled wells, and proved up the fields that are the foundation of today's  
58 inventory. Today's customers enjoy the benefits from the property acquisitions and  
59 decisions that were made decades ago. With this same foresight, decisions we make  
60 today can benefit customers for decades to come.

61

### III. OVERVIEW OF THE NATURAL GAS MARKET

62 **Q. Can you describe the current natural gas market in the United States?**

63 A. Yes. The current natural gas market has been shaped by many important variables.  
64 Improved implementation of technology applied to resource rocks, which provided the  
65 source of gas for conventional reservoirs that have been drilled and produced over the  
66 past century, has unleashed large amounts of gas supplies over the past five years. This

67 occurred at a time when natural gas demand was declining due to the economic downturn  
68 and has resulted in sustained low gas prices.

69 **Q. How have sustained low gas prices affected natural gas producers?**

70 A. These low gas prices have influenced producers to shift investment to oil drilling where  
71 oil prices and returns are much higher. At the same time, natural gas hedges have rolled  
72 off over the past few years which influenced some producers to divest their natural gas  
73 assets.

74 **Q. How have sustained low gas prices affected demand for natural gas?**

75 A. Lower natural gas prices have recently fueled long-term demand in the industrial sector  
76 as well as recent US Government approval of 4 LNG export terminals. It is also worth  
77 noting that the current rapid expansion of gas power electrical generation in Mexico is  
78 increasing US exports at the same time Canadian imports of natural gas into the US have  
79 been cut in half over the past decade. In addition to this new demand as well as reduced  
80 import supplies, EPA regulations (Mercury and Air Toxics Standards - MATS) have also  
81 increased gas demand in the electric generation sector as electric utilities begin to convert  
82 some coal plants to natural gas. Although many of these demand factors are mostly  
83 likely priced into the forward curve, items such as the impending EPA CO<sub>2</sub> emissions  
84 reduction on existing electric generating units, namely coal-fueled, which are expected in  
85 early 2014, are most likely not factored into the forward curve. If a 10% CO<sub>2</sub> reduction  
86 is imposed, this could have an 8 Bcf per day impact on demand which could send a shock  
87 into the current supply/demand balance.

88 **Q. How will gas supply be affected by the current low gas prices and new expected**  
89 **demand?**

90 A. Sustained low gas prices have caused the number of gas-directed drilling rigs to plummet  
91 from over 1600 rigs in 2008 to approximately 350 rigs currently. As a result, some  
92 analysts have questioned how gas supply can meet the large oncoming demand. The  
93 difficulty in increasing gas supply given relative prices of oil and gas is exacerbated due  
94 to the cost of moving rigs back to gas drilling. For every 100 gas rigs required to meet  
95 on-coming demand, \$10 billion will move away from oil-directed drilling with higher  
96 margins. Meeting future natural gas demand will most likely require parity between oil  
97 and gas prices which would then provide producers equal margins for oil and gas-  
98 directed drilling. Groups such as America's Energy Advantage comprised of heavy  
99 industrial natural gas users including Alcoa, Dow, Huntsman, and Nucor, have voiced  
100 similar concerns regarding this increased demand and its effects on higher gas prices.  
101 These groups have lobbied the government to reject LNG approvals. Nucor, one of these  
102 companies, has recently entered into a long-term agreement with Encana to protect  
103 against rising prices and ensure that it maintains a sustainable gas supply at competitive  
104 prices.

105 In summary, the economic response to low gas prices creates the addition of new gas  
106 demand. While the natural gas industry is in a period of supply growth, notably from the  
107 Marcellus Shale as well as associated-gas from oil-directed drilling, if supply and  
108 demand are not in sync over the coming years, the volatility of the past, as shown in QGC  
109 Exhibit 1.2, could return and higher gas prices could be seen.

110 **Q. Is there any risk to regional Rocky Mountain natural gas prices in the foreseeable**  
111 **future?**

112 A. As shown in QGC Exhibit 2.4, spare Rockies' export capacity is forecasted over the next  
113 five years by Bentek, a division of Platts, to be approximately 4 Bcf per day compared to

114 nonexistent excess capacity in 2008, which led to a significant decrease in gas prices,  
115 relative to Henry Hub (basis blowout). Given the current 4 Bcf per day of excess  
116 capacity, even if prices were to rise, bringing back large amounts of gas-directed drilling,  
117 the risk of a basis blowout is minimal. Therefore, Rockies gas prices should mirror  
118 Henry Hub prices for the foreseeable future, with the cost of transportation being the  
119 difference.

120 IV. [REDACTED]

121 Q. What led to Wexpro's acquisition of the [REDACTED]?

122 A. In the Wexpro II application, both Mr. McKay and I indicated that this was a good time  
123 to acquire new properties for customers. [REDACTED]

124 [REDACTED]  
125 [REDACTED]  
126 [REDACTED]  
127 [REDACTED]

128 Due to the provisions of the Wexpro II Agreement, Wexpro is at risk for property acquisitions and  
129 must ensure they meet shareholder approval regardless of whether these properties are  
130 included as Wexpro II properties. As a result, Wexpro believes the properties that  
131 Wexpro proposes for inclusion as Wexpro II properties have been fully vetted to ensure  
132 Wexpro meets its fiduciary duties and obligations to its shareholders.

133 Q. How does the [REDACTED] meet these criteria?

134 A. Proved reserves were purchased for under \$[REDACTED] per Mcf which is well below the 2013  
135 average of \$[REDACTED] per Mcf for gas reserves. This low acquisition cost also leads to lower  
136 delivered costs of gas to customers, or higher income margins should the property not be  
137 included in Wexpro II. [REDACTED]



138 [REDACTED]  
139 [REDACTED] We know the geology and are confident that  
140 we can drill an additional [REDACTED] wells with good results. [REDACTED]  
141 [REDACTED] Wexpro believes this new acquisition will be a high-  
142 performing asset for Wexpro either within the Wexpro II Agreement or outside the  
143 Agreement.

144 **Q. Please describe Wexpro's recent acquisition of the [REDACTED] properties.**

145 A. Wexpro entered into a Purchase and Sale Agreement dated July 25, 2013 with [REDACTED]  
146 [REDACTED] to purchase a [REDACTED] interest in the [REDACTED] including [REDACTED] existing  
147 wells and approximately [REDACTED] future wells for [REDACTED]. This acquisition allows  
148 Wexpro to increase its interest from approximately [REDACTED] to [REDACTED] [REDACTED].

149 [REDACTED]  
150 [REDACTED] Wexpro closed this purchase on September 4, 2013. A  
151 confidential copy of the Purchase and Sale Agreement is attached to the Application as  
152 Exhibit K-2.

153 **Q. Who bears the risk of this property acquisition until the Utah and Wyoming**  
154 **Commissions either approve or reject the new properties as a Wexpro II Property?**

155 A. Wexpro bears the burden and risk of purchasing these properties and producing the gas  
156 until such time as there is a determination by the Commissions as to whether these  
157 properties should be approved as Wexpro II properties. [REDACTED]

158 [REDACTED]  
159 [REDACTED]

160 **Q. If the [REDACTED] is approved as a Wexpro II property, will the acquisition cost be**  
161 **adjusted for the gas that Wexpro has sold?**

162 A. Yes. Attached as QGC Exhibit 2.5 is an estimate of the acquisition cost adjusted for the  
163 gas that has been or will be sold by Wexpro up to the time of Commission approval.

164 **Q. If the properties are not included as Wexpro II properties, does Wexpro plan to**  
165 **produce these properties for other potential customers?**

166 A. Yes. Wexpro would produce these properties for other customers. The price at which we  
167 purchased these properties will allow Wexpro to effectively market this production.

168 **V. WEXPRO'S DRILLING PROGRAM**

169 [REDACTED]

170 [REDACTED]

171 [REDACTED]

172 [REDACTED]

173 [REDACTED]

174 [REDACTED]

175 [REDACTED]

176 [REDACTED]

177 [REDACTED]

178 [REDACTED]

179 [REDACTED]

180 [REDACTED]

181 [REDACTED]

182

[REDACTED]

183

[REDACTED]

184

[REDACTED]

185

[REDACTED]

186

[REDACTED]

187

[REDACTED]

188

[REDACTED]

189

[REDACTED]

190

[REDACTED]

191

[REDACTED]

192

[REDACTED]

193

[REDACTED]

194

[REDACTED]

195

[REDACTED]

196

[REDACTED]

197

[REDACTED]

198

[REDACTED]

199

[REDACTED]

200

[REDACTED]

201

[REDACTED]

202

[REDACTED]

203

[REDACTED]

204

[REDACTED]

205 **VII. APPLICABLE GUIDELINE LETTERS**

206 **Q. If the [REDACTED] is approved as a Wexpro II property, are there Guideline Letters**  
207 **that will apply to the property?**

208 A. Yes, attached as QGC Exhibit 2.6 are copies of all the applicable Guideline Letters that  
209 will apply to the [REDACTED].

210 **Q. In summary, what are your recommendations regarding the [REDACTED]?**

211 A. This is a logical time to acquire this property because prices are low. [REDACTED]  
212 [REDACTED] There are limited acquisitions that fit as well as  
213 the [REDACTED] in Wexpro's portfolio. [REDACTED]  
214 [REDACTED] Given the  
215 history of how the foundation of Wexpro I was established between the 1920's and  
216 1970's and considering the uncertainty of future gas demand, prices, and levels of  
217 volatility, Wexpro believes an asset like the [REDACTED] could provide customers with  
218 benefits for decades to come.

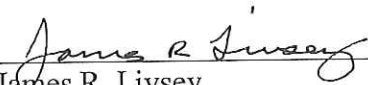
219 **Q. Does this conclude your testimony?**

220 A. Yes.

DIRECT TESTIMONY OF  
JAMES R. LIVSEY

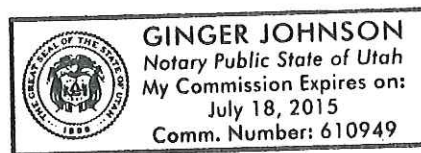
State of Utah            )  
                                  ) ss.  
County of Salt Lake    )

I, James R. Livsey, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief. Except as stated in the testimony, the exhibits attached to the testimony were prepared by me or under my direction and supervision, and they are true and correct to the best of my knowledge, information and belief. Any exhibits not prepared by me or under my direction and supervision are true and correct copies of the documents they purport to be.

  
\_\_\_\_\_  
James R. Livsey

SUBSCRIBED AND SWORN TO this   1   day of November, 2013.

  
\_\_\_\_\_  
Notary Public





## **Qualifications of James R. Livsey**

### Current Responsibilities

As Executive Vice President and Chief Operating Officer of Wexpro Company (Wexpro), I am responsible for managing drilling, development, and operations associated with cost-of-service properties. I am responsible for regulatory compliance associated with oil and gas operations and compliance with the Wexpro I and Wexpro II Agreements.

### Prior Responsibilities and Experience

I have spent 28 years in various capacities for Questar Corporation, including internal audit, planning, accounting management, and the last 15 years overseeing Wexpro either as General Manager or more recently as Executive Vice President and Chief Operating Officer. My experience prior to joining Questar Corporation includes 4 years of public accounting and 3 years at Marathon Oil in audit and treasury.

### Educational Background

I received a Bachelor of Arts degree in Accounting from the University of Utah in 1977, as well as a Master of Business Administration from the University of Utah in 1978.





Questar Gas Company  
Docket 13-057-13  
QGC Exhibit 2.2

Projected Decline of Life of Current Reserves

[REDACTED]



Questar Gas Company  
Docket 13-057-13  
QGC Exhibit 2.3

## Development Locations

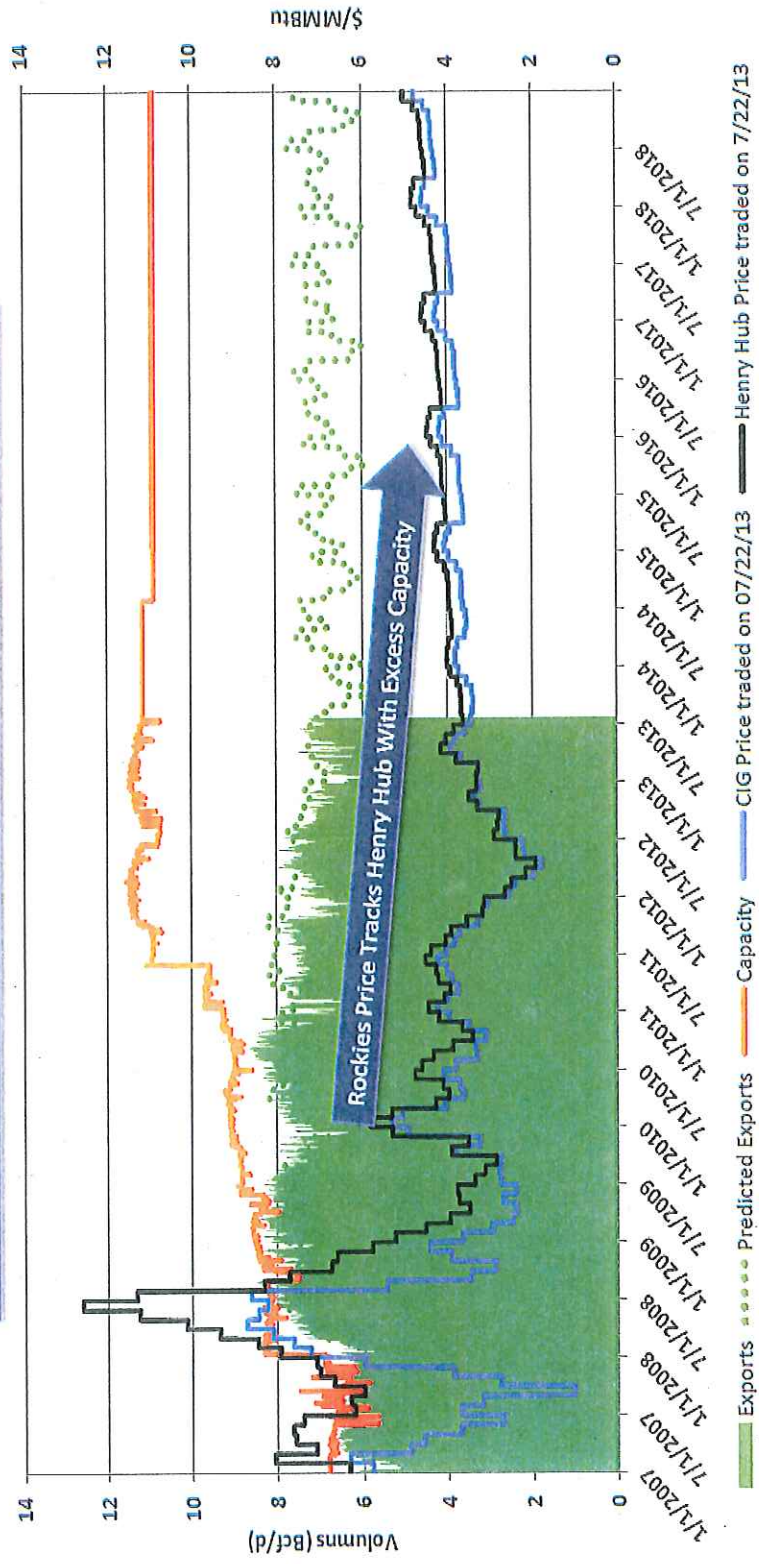
[REDACTED]



Market Dynamics  
 The current Rockies pipeline capacity overhang is expected to remain well into the future\*

  
  
**Rockies Export Capacity at 11 Bcf/d**

Forecast 4 Bcf/d of Open Rockies Export Capacity



\*Reproduced with permission from Bentek Energy



Questar Gas Company

Docket 13-057-13

QGC Exhibit 2.5

Estimated Trail Unit Acquisition Cost

[REDACTED]





Questar Gas Company  
Docket 13-057-13  
QGC Exhibit 2.6

Applicable Guideline Letters

[REDACTED]

