

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

---

IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY FOR APPROVAL OF THE VERMILLION ACQUISITION AS A WEXPRO II PROPERTY	Docket No. 17-057-01
--	----------------------

---

**DIRECT TESTIMONY OF BARRIE L. McKAY**

**FOR QUESTAR GAS COMPANY**

**QGC Exhibit 2.0**

**TABLE OF CONTENTS**

**I. INTRODUCTION.....1**  
**II. VERMILLION ACQUISITION.....2**  
**III. PUBLIC INTEREST .....4**

**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 Dominion Questar Corporation (Company) as Director of Customer  
6 Rates and Regulations for Questar Gas. I am responsible for state regulatory matters in  
7 Utah, Idaho, and Wyoming.

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

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

10 **Q. Attached to your written testimony are QGC Exhibits 2.1 through 2.2. 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 in and around the Wexpro I Development Drilling area known as the  
16 Vermillion Acquisition Area and explain why Questar Gas is required to bring this property  
17 to the Utah and Wyoming Commissions for approval as a Wexpro II property; and 2)  
18 explain why including the Vermillion Acquisition as a Wexpro II property is in the public  
19 interest and should be approved by this Commission.

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

21 A. Yes, Mr. Brady B. Rasmussen, Vice President and General Manager of Wexpro Company,  
22 will also provide an overview of the Vermillion Acquisition and explain how the proposed  
23 properties improve the overall cost-of-service.

## II. VERMILLION ACQUISITION

24 **Q. Please describe the recent purchases by Wexpro of natural-gas producing properties**  
25 **in the Vermillion Acquisition Area.**

26 A. During the past 12 to 18 months Wexpro Development Company (Wexpro Development  
27 or WDC) has acquired four different properties. First, the Kinney Unit was acquired in  
28 April of 2015 for approximately \$350,000. This interest consists of seven producing wells  
29 and one future well. Wexpro Development owns approximately 15% interest in all current  
30 and future wells of the Kinney property.

31 **Q. What was the next purchase?**

32 A. In December 2015, Wexpro Development closed on its purchase of the Trail, Whiskey  
33 Canyon and Canyon Creek properties for approximately [REDACTED]  
34 [REDACTED] (Note: If approved as Wexpro II properties, these amounts would be adjusted  
35 to reflect the volumes Wexpro has sold since acquiring the properties. See QGC Exhibit  
36 3.2). The Trail Unit purchase consists of approximately an additional 3% interest in 73  
37 producing wells and approximately 73 future wells. The Whiskey Canyon purchase  
38 consists of approximately 75% interest in four producing wells and 15 future wells. The  
39 Canyon Creek purchase consists of 100% interest in seven producing wells, and overriding  
40 royalty interests in 105 existing wells within the Canyon Creek Mesaverde Participating  
41 Area, one future well outside of the Canyon Creek Mesaverde Participating Area, and 27  
42 overriding royalty interests in future wells within the Canyon Creek Mesaverde  
43 Participating Area.

44 **Q. Does the Wexpro II Agreement require the Company to bring these properties to the**  
45 **Utah and Wyoming Public Service Commissions for approval?**

46 A. The Trail and Kinney properties both are within the Wexpro I Development Drilling Areas,  
47 and under the terms of the Wexpro II Agreement, the Company is required to apply for the  
48 Utah and Wyoming Commissions' approval for inclusion as a Wexpro II Property.  
49 Additionally, the overriding royalty interest within the Canyon Creek

50 Mesaverde Participating Area are related to wells within the Development Drilling Area  
51 and must be brought to the Utah and Wyoming Commissions' for an option to be included  
52 as a Wexpro II Property. The Whiskey Canyon and Canyon Creek properties are outside  
53 the Development Drilling Area and are not required to be brought before this Commission.  
54 However, The Company believes the properties outside the Development Drilling area are  
55 beneficial to Questar Gas customers and is therefore offering these properties as Wexpro  
56 II Properties.

57 **Q. Does Questar Gas support the Vermillion Acquisition?**

58 A. Yes. As explained in Mr. Rasmussen's testimony, the Vermillion Acquisition is in an area  
59 where Wexpro operates and already has significant experience. Wexpro has had a  
60 significant interest in wells in this area. These wells were drilled by Mountain Fuel and  
61 Wexpro over the last 60 years. Wexpro understands the geology, engineering and  
62 production of these wells. These properties are currently some of the higher-producing and  
63 the lowest-cost properties in the Wexpro I Development Drilling areas. The Wexpro II  
64 concept was conceived to accommodate adding these types of acquisitions to Questar Gas'  
65 supply portfolio.

66 **Q. If the Vermillion Acquisition is approved as a Wexpro II Property, would Wexpro be**  
67 **able to develop the property in today's gas market?**

68 A. Yes, as more fully explained by Mr. Rasmussen, if today's natural gas prices continue as  
69 forecasted, then based on Wexpro's current model Wexpro would drill new wells according  
70 to the plan submitted in this Application.

71 **Q. Does Questar Gas want Wexpro to develop gas reserves at or below today's current**  
72 **5-Year Forward Curve?**

73 A. Yes, for at least two reasons. Recognizing that the long-term history of natural gas prices  
74 is volatile and given the likelihood of some future inflation, it is good for customers  
75 anytime Wexpro can develop natural gas that will produce for 20 to 30 years at today's low  
76 prices. Second, as more fully explained by Mr. Rasmussen, an ongoing drilling

77 program helps lower the per-unit cost of cost-of-service production and preserves  
78 Wexpro's expertise and efficiencies in developing these properties.

### III. PUBLIC INTEREST

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

82 A. There are several important reasons. The Trail and Canyon Creek areas are among the best  
83 performing properties in our cost-of-service portfolio due to the low finding costs and low  
84 operating expenses. Whiskey Canyon is adjacent to the Canyon Creek property, has similar  
85 economics to Canyon Creek and, as a result of this acquisition, Wexpro owns the gathering  
86 rights for this property. Kinney will offer predictable cost-of-service volumes. To be able  
87 to add to the best producing area is a great opportunity. These properties will produce gas  
88 at prices that are competitive in today's low-market-price environment, and will continue  
89 to be competitive for the next 20 to 30 years.

90 **Q. Have you prepared an Exhibit that illustrates this point?**

91 A. Yes. On Exhibit 2.2, the blue line shows the average of the current EIA and CERA 22 year  
92 forecast for natural gas prices. The green line is the forecasted combined (Trail, Whiskey  
93 Canyon, Canyon Creek, and Kinney) per decatherm price for new wells for the next 22  
94 years.

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

96 A. Yes, both the Utah and Wyoming Commissions should approve the Vermillion Acquisition  
97 as a Wexpro II property and find that it is in the public interest. The production from  
98 Wexpro I wells comes from a defined set of properties that are clearly set forth in the  
99 Wexpro I Agreement. Because of technological improvements in drilling, completion, and  
100 production methods, these properties have produced longer and at greater levels than the  
101 original parties to the Wexpro I Agreement anticipated. However,

102           Wexpro production is finite and limited to defined areas. The Company and Wexpro  
103           believe that these properties will benefit Questar Gas' customers and Wexpro.

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

105   **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 \_\_\_\_ day of January, 2017.

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