

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
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DIRECT TESTIMONY OF BRADY B. RASMUSSEN

FOR QUESTAR GAS COMPANY

QGC Exhibit 3.0

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I. INTRODUCTION

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

2 A. My name is Brady B. Rasmussen. My business address is 333 South State Street, Salt
3 Lake City, Utah.

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

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

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

10 A. I have listed my qualifications in QGC Exhibit 3.1.

11 **Q. Attached to your written testimony are QGC Exhibits 3.1 through 3.8. Were these
12 prepared by you or under your direction?**

13 A. Yes.

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

15 A. The purpose of my testimony is to: 1) provide an overview of the Vermillion acquisition;
16 2) explain how Wexpro determines its annual drilling program; 3) explain how Wexpro
17 can continue to drill at or below the 5-Year Forward Curve; 4) explain what Wexpro is
18 doing and will continue to do to help reduce the overall price of cost-of-service gas; and 5)
19 identify the guideline letters that will apply to the Vermillion Acquisition if it is included
20 as a Wexpro II property.

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

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

23 **II. VERMILLION ACQUISITION**

24 **Q. What led to Wexpro’s purchase of the Vermillion Acquisition?**

25 A. [REDACTED]
26 [REDACTED]
27 [REDACTED]
28 [REDACTED] Wexpro also purchased working interests and
29 assumed operations in an additional Vermillion Basin field, Whiskey Canyon, which
30 borders Canyon Creek and shares similar geologic features and production trends. In a
31 separate transaction, Wexpro was able to obtain the Kinney property from North Shore
32 Exploration and Production, LLC (North Shore). Application Exhibit B shows the
33 locations of each of these properties. [REDACTED]
34 [REDACTED]

35 **Q. Why would these properties be valuable for Questar Gas’ customers?**

36 A. Each of the assets, Trail, Whiskey Canyon, Canyon Creek, and Kinney, offer many low
37 risk and low-finding-cost drilling opportunities and they are within or directly adjacent to
38 Wexpro’s current operating footprint. Wexpro felt confident that the properties would
39 receive Commission approval but was willing to purchase them at its own risk, regardless
40 of whether these properties are included as Wexpro II properties. Wexpro believes these
41 properties would be equally beneficial to shareholders if developed outside the Wexpro II
42 Agreement.

43 **Q. Please describe the acquisition of Trail, Whiskey Canyon and Canyon Creek.**

44 A. In December 2015, [REDACTED] Wexpro
45 purchased QEP's remaining working interests and overriding royalty interests in the Trail
46 Unit, a working interest in the Whiskey Canyon Unit, overriding royalty interests in the
47 Canyon Creek Mesaverde Participating Area from the surface to the base of the Mesaverde
48 formation, as well as a working interest in the Mesaverde formation outside of the Canyon
49 Creek Mesaverde Participating Area within the Canyon Creek Unit. A copy of the Purchase
50 and Sale Agreement between QEP, Wexpro Development, and Wexpro (as operator) is
51 attached to the Application as Confidential Exhibit K. Trail, Whiskey Canyon, Canyon
52 Creek, and Kinney are repeatable low-risk and low-cost development locations. They are
53 ideal for supplementing Wexpro production at a low cost-of-service price for customers.

54 **Q. Please describe the Kinney acquisition.**

55 A. The transaction, which involved a small working interest in the Kinney Unit, closed in
56 April 2015. [REDACTED]

57 [REDACTED]

58 [REDACTED]

59 [REDACTED]

60 [REDACTED]

61 The \$350,000 associated with the [REDACTED] was credited to Questar Gas
62 customers via the Wexpro Operator Service Fee in April 2015. A copy of the Agreement
63 between North Shore and Wexpro is attached to this Application as Confidential Exhibit
64 K [REDACTED]

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65

[REDACTED]

66

[REDACTED]

67

[REDACTED]. The Kinney recompletions are in

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68 their infancy stage and, therefore, the benefits have not been included in the analysis that
69 accompanies the Application in this Docket. [REDACTED]

70 [REDACTED]

71 [REDACTED].

72 **Q. Who bears the risk of the property acquisition until the Utah and Wyoming**
73 **Commissions either approve or reject the new properties as Wexpro II Properties?**

74 A. Wexpro bears the burden and risk of purchasing these properties and producing the gas
75 until the Commissions decide whether they should be approved as Wexpro II properties.
76 Currently, Wexpro is selling production from this acquisition on the open market.

77 **Q. If the Vermillion Acquisition is approved as a Wexpro II Property, will the acquisition**
78 **cost be adjusted for the gas that Wexpro has sold?**

79 A. Yes. Attached as QGC Exhibit 3.2 is an estimate of the acquisition cost adjusted for the
80 gas that has been or will be sold by Wexpro up to the estimated time of Commission
81 approval.

82 **Q. If the Vermillion Acquisition is not included as a Wexpro II Property, does Wexpro**
83 **plan to produce this property for other potential customers?**

84 A. Yes. Wexpro would produce the natural gas from the Vermillion Acquisition for other
85 customers. The price at which the Vermillion Acquisition was purchased will allow
86 Wexpro to effectively market this production.

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87 Q. [REDACTED]
88 [REDACTED]
89 A. [REDACTED]
90 [REDACTED]
91 [REDACTED]

92 [REDACTED]

93 [REDACTED]

94 [REDACTED]

95 [REDACTED]

96 [REDACTED]

97 [REDACTED]

98 [REDACTED]

99 [REDACTED]

100 [REDACTED]

101 [REDACTED]

102 [REDACTED]

103 **Q.** [REDACTED]

104 **A.** [REDACTED]

105 [REDACTED]

106 [REDACTED]

107 [REDACTED]

108 [REDACTED]

109 [REDACTED]

110 **Q. Please explain.**

111 **A.** [REDACTED]

112 [REDACTED]

113 [REDACTED]

114 [REDACTED]

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115

[REDACTED]

116

[REDACTED]

117

[REDACTED]

118 [REDACTED]
119 [REDACTED]
120 [REDACTED]
121 [REDACTED]
122 [REDACTED]
123 [REDACTED]
124 [REDACTED]

125 Q. [REDACTED]
126 [REDACTED]

127 A. [REDACTED]
128 [REDACTED]
129 [REDACTED]
130 [REDACTED]
131 [REDACTED]
132 [REDACTED]
133 [REDACTED]
134 [REDACTED]
135 [REDACTED]
136 [REDACTED]
137 [REDACTED]

138 Q. [REDACTED]

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139 A. [REDACTED]
140 [REDACTED]
141 [REDACTED]
142 [REDACTED]

143 Q. [REDACTED]

144 A. [REDACTED]

145 [REDACTED]

146 [REDACTED]

147 [REDACTED]

148 **III. WEXPRO'S DRILLING PROGRAM**

149 Q. **Please explain how Wexpro determines its annual drilling program?**

150 A. Throughout the year, Wexpro reviews its inventory of potential future wells to determine
151 an efficient mix of low-cost wells, leasehold obligation wells, and wells that must be drilled
152 in accordance with Bureau of Land Management mandates governing well development
153 (e.g., Pinedale).

154 Q. **How does Wexpro help ensure that development drilling properties are cost effective?**

155 A. Wexpro will only contract for a drilling rig once Wexpro has developed a drilling program,
156 the Hydrocarbon Monitor has reviewed the program, and the wells can provide cost-of-
157 service production that is, on average, at or below the 5-Year Forward Curve. Contracting
158 for drilling and completion services typically occurs six months before the first well in the
159 program is spud. Wexpro works with service vendors to minimize the planning time
160 required between the contracts and the first well in the program.

161 Q. **Given today's natural gas prices, can Wexpro continue a drilling program and
162 provide cost-of-service gas at or below the 5-Year Forward Curve?**

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163 A. Yes, for a number of reasons. First, the Canyon Creek Stipulation lowered the return
164 Wexpro earns from newly drilled wells. Second, Wexpro has significantly lowered general
165 and administrative (G&A) and operating expenses (O&M) in recent years and

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166 will continue to decrease these costs into 2017 which, in turn, decreases forecasted cost-
167 of-service gas (see attached Exhibit 3.4). Third, Wexpro's reduction of drilling/completion
168 costs and positive production results in this area all contribute to Wexpro delivering gas
169 from new wells drilled under the Wexpro Agreement below the current 5-Year Curve (see
170 attached Exhibit 3.5). Finally, Wexpro recently entered into a field-wide compression
171 agreement that will deliver incremental gross field volumes [REDACTED]
172 [REDACTED] Trail Unit.

173 **Q. How does having an ongoing drilling program benefit Questar Gas customers?**

174 A. Attached as QGC Exhibit 3.6 is a chart representing the typical cumulative production of
175 a well. About half of the production from a typical well is produced during the first five
176 years of its 20 to 30-year life. If these volumes are not replaced with volumes from new
177 wells, then fixed costs of producing wells will be spread over fewer and fewer volumes
178 thus causing the cost per-unit to go up. A drilling program helps to keep costs per-
179 decatherm lower.

180 **Q. Are there other benefits of having an ongoing drilling program?**

181 A. Yes, having a continuous drilling program ensures Wexpro can continue to provide
182 customers cost-efficient operations. Starting and stopping a drilling program by erratically
183 adding and removing drilling and completions personnel can be very costly and inefficient.
184 Also, in times of industry growth, Wexpro struggles to find and retain qualified personnel,
185 which it has experienced many times over the decades. Consistently adding wells to the
186 portfolio keeps costs lower and avoids the "boom and bust" approach that is often

187 associated with this industry. The key is being able to add wells at or below the current 5-
188 Year Forward Curve.

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189 **Q. Has Wexpro taken steps in the last year to reduce the price of cost-of-service**
190 **production?**

191 A. Yes. As shown in Exhibit 3.7, Column B, the reduced G&A and O&M expenses, decreased
192 drilling and completion costs, increased production results, and the Trail Compression
193 agreement have all contributed in decreasing overall forecasted cost-of-service gas even
194 beyond what was previously shown in FDR 1.01 in the Canyon Creek proceeding, Docket
195 No. 15-057-10. (Exhibit 3.7, Column A).

196 **Q. If the Commissions approve the Vermillion Acquisition to be included as a Wexpro**
197 **II property, will it reduce the overall cost-of-service?**

198 A. Yes. Column C of Exhibit 3.7 shows the cost-of-service from the Vermillion Acquisition.
199 Column D shows the overall impact of including the Vermillion Acquisition as a Wexpro
200 II property.

201 **IV. MANAGEMENT OF VERMILLION ACQUISITION PRODUCTION**

202 **Q. How will Wexpro manage the Vermillion Acquisition if it is approved as a Wexpro II**
203 **property?**

204 A. Wexpro and Questar Gas will continue to coordinate to manage cost-of-service production
205 to ensure that customers have a long-term reliable supply of low-cost gas now and in the
206 future. Wexpro understands the dynamics surrounding Questar Gas' current gas supply.

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207 **Q. Can Wexpro continue to comply with the supply limitations (65% through 2019 and**
208 **55% thereafter) if the Commissions approve the inclusion of the Vermillion**
209 **Acquisition as a Wexpro II property?**

210 **A. Yes. Application Exhibit M shows that the addition of the Vermillion Acquisition as a**
211 **Wexpro II property will enable Wexpro to produce volumes up to the supply limit.**

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212 Doing so will maximize the benefit of allocating fixed costs over the greater number of
213 volumes. This helps to reduce the cost of service.

214 **V. APPLICABLE GUIDELINE LETTERS**

215 **Q. If the Vermillion Acquisition is approved as a Wexpro II property, are there**
216 **Guideline Letters that will apply to the property?**

217 A. Yes, attached as QGC Exhibit 3.8 are copies of all the Guideline Letters that will apply to
218 the Canyon Creek Acquisition.

219 **Q. In summary, what are your recommendations regarding the Vermillion Acquisition?**

220 A. This is a logical time to acquire this property because acquisition prices for natural gas
221 reserves are low. The Vermillion Acquisition Area is our best performing property.
222 Wexpro believes it can manage the Vermillion Acquisition properties as part of the Questar
223 Gas portfolio for the benefit of Questar Gas's customers for years to come.

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

225 A. Yes.

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

I, Brady B. Rasmussen, 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.

Brady B. Rasmussen

SUBSCRIBED AND SWORN TO this _____ day of January, 2017.

Notary Public