

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION
OF QUESTAR GAS COMPANY FOR
APPROVAL OF THE CANYON CREEK
ACQUISITION AS A WEXPRO II
PROPERTY

Docket No. 15-057-10
REDACTED

DIRECT TESTIMONY OF BRADY B. RASMUSSEN

FOR QUESTAR GAS COMPANY

QGC Exhibit 2.0

TABLE OF CONTENTS

I. INTRODUCTION.....3

II. CANYON CREEK ACQUISITION4

III. WEXPRO’S DRILLING PROGRAM.....6

IV. MANAGEMENT OF CANYON CREEK ACQUISITION PRODUCTION8

V. APPLICABLE GUIDELINE LETTERS9

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 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 compliance associated with oil and gas operations and compliance with the Wexpro I and
9 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 2.4. 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) provide an overview of the Canyon Creek
17 Acquisition; 2) explain how Wexpro determines its annual drilling program; 3) explain
18 how the proposed changes would allow Wexpro to continue drilling at or below the 5-
19 Year Forward Curve; 4) explain what Wexpro is doing and will continue to do to help
20 reduce the overall price of cost-of-service gas; and 5) identify the guideline letters that
21 will apply to the Canyon Creek Acquisition if it is included as a Wexpro II property.

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
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

II. CANYON CREEK ACQUISITION

Q. What led to Wexpro’s purchase of the Canyon Creek Acquisition?

A. Wexpro had an opportunity to acquire properties in one of its high-performing fields for a competitive purchase price. Our criteria for acquiring properties include low-acquisition costs, repeatable low-risk and low-finding cost, future drilling locations, and when available, assets within our current operating footprint and have abundant experience. Wexpro is at risk for property acquisitions and must ensure they meet shareholder approval regardless of whether these properties are included as Wexpro II properties. As a result, Wexpro believes the properties proposed for inclusion as Wexpro II properties have been fully vetted to ensure Wexpro meets its fiduciary duties and obligations to its shareholders.

Q. Please describe the Canyon Creek Acquisition.

A. In early 2014, Wexpro became aware that Devon Energy was selling its Canyon Creek property along with many of its other properties to Linn Energy with an effective date of April 2014. This created the unique circumstance referred to in Mr. McKay’s testimony. Devon Energy sold a package of assets, approximately 275 MMcfe/d, to Linn Energy for 2.3 billion dollars. The package of properties was located in the Mid-Continent, east Texas, north Louisiana and south Texas regions, with a small amount in the Rockies.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

This created the opportunity for Wexpro to exercise its right of first refusal and purchase the Canyon Creek Acquisition at a lower value than could be purchased in an open competitive bid process. Wexpro exercised its right of first refusal that initially was not acknowledged by Devon Energy for the Canyon Creek property. By December 2014, Wexpro successfully exercised its right and closed on the property purchase for approximately \$52.7 million.

51 The Canyon Creek Acquisition consisted of a 30 % working interest in 100 producing
52 wells and 30 additional future well locations given current data. Wexpro already owned a
53 70% working interest in these same properties. This acquisition increases Wexpro's
54 interest to 100%. Canyon Creek's repeatable low-risk and low-cost development
55 locations are ideal for supplementing Wexpro production at a low cost-of-service price
56 for customers. A copy of the Purchase and Sale Agreement is attached to the Application
57 as Confidential Exhibit K.

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

60 A. Wexpro bears the burden and risk of purchasing these properties and producing the gas
61 until such time as there is a determination by the Commissions as to whether these
62 properties should be approved as Wexpro II properties. Currently, Wexpro is selling
63 production from this acquisition on the open market.

64 **Q. If the Canyon Creek Acquisition is approved as a Wexpro II Property, will the**
65 **acquisition cost be adjusted for the gas that Wexpro has sold?**

66 A. Yes. Attached as QGC Exhibit 2.2 is an estimate of the acquisition cost adjusted for the
67 gas that has been or will be sold by Wexpro up to the time of Commission approval.

68 **Q. If the Canyon Creek Acquisition is not included as a Wexpro II Property, does**
69 **Wexpro plan to produce this property for other potential customers?**

70 A. Yes. Wexpro would produce the natural gas from the Canyon Creek Acquisition for
71 other customers. The price at which we purchased the Canyon Creek Acquisition will
72 allow Wexpro to effectively market this production.

73

III. WEXPRO'S DRILLING PROGRAM

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

75 A. Throughout the year, Wexpro reviews its inventory of potential future wells to determine
76 an efficient mix of low-cost wells, leasehold obligation wells, and wells that must be
77 drilled in accordance with BLM mandates governing well development (Pinedale).

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

80 A. Once a drilling program is identified and reviewed by the hydrocarbon monitor and can
81 provide cost-of-service production that on average is at or below the 5-Year Forward
82 Curve, Wexpro will contract for a drilling rig. Contracting for drilling and completion
83 services typically occurs 6 months before the first well in the program is spud. Wexpro
84 works with service vendors to minimize the planning time required between the contracts
85 and the first well in the program. Due to contractual obligations, Wexpro is committed to
86 move forward independent of changes in the 5-Year Forward Curve. The goal is to
87 ensure that the drilling program will provide savings, or at the very least be neutral to
88 customers over the five year period.

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

91 A. No. The recent increased production from major shale plays in the U. S. and associated
92 gas from oil wells has changed the current market outlook for natural gas supplies.
93 Without finding ways to reduce the price of cost-of-service production, Wexpro will not
94 be able to continue a drilling program in the near future.

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

96 A. Attached as QGC Exhibit 2.3 is a chart representing the typical decline curve of a well.
97 As can be seen about half of the production from a typical well is produced during the
98 first five years of its 20- to 30-year life. If these volumes are not replaced with volumes
99 from new wells then fixed costs of producing wells will be spread over fewer and fewer
100 volumes thus causing the cost per unit to go up. A drilling program helps to keep costs
101 per decatherm lower.

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

103 A. Yes, having a continuous drilling program ensures Wexpro can continue to provide
104 customers cost-efficient operations. Starting and stopping a drilling program by
105 erratically adding and removing drilling and completions personnel can be very costly
106 and inefficient. Also, in times of industry growth, Wexpro struggles to find and retain
107 qualified personnel, which it has experienced many times over the decades. Consistently
108 adding wells to the portfolio keeps costs lower and avoids the “boom and bust” approach
109 that is often associated with this industry. The key is being able to add wells at or below
110 the current 5-Year Forward Curve.

111 **Q. Would changes to the allowed return on developmental wells provide for drilling in
112 the near future?**

113 A. Yes.

114 **Q. Does Wexpro agree with and support the proposed changes that are explained in
115 Mr. McKay’s testimony?**

116 A. Yes, as Executive Vice President of Wexpro, I led the development of the proposed
117 changes. These changes will help Wexpro keep an ongoing drilling program in today’s
118 low-price gas environment and provide customers with low-priced long-term reserves.

DIRECT TESTIMONY OF
BRADY B. RASMUSSEN

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

121 A. Yes. Wexpro always tries to manage its operation and maintenance costs efficiently and
122 competitively. [REDACTED]
123 [REDACTED]
124 [REDACTED]
125 [REDACTED]
126 [REDACTED]

127 Additionally, within the last year, Wexpro has sold its interest in three separate fields that
128 had unattractive cost-of-service prices. These divestitures in the Spearhead, South Baxter
129 and Brady fields have credited customers \$6 million and relieved customers of future
130 plugging and abandonment costs associated with these fields.

131 **IV. MANAGEMENT OF CANYON CREEK ACQUISITION PRODUCTION**

132 **Q. How will Wexpro manage the Canyon Creek Acquisition if it is approved as a**
133 **Wexpro II property?**

134 A. Wexpro and Questar Gas will continue to coordinate to manage cost-of-service
135 production to ensure that customers have a long-term reliable supply of low-cost gas now
136 and in the future. Wexpro understands the dynamics surrounding Questar Gas' current
137 gas supply. With the approval of the proposed changes described in this Application and
138 testimony, Wexpro believes that it will be able to provide Questar Gas' customers with
139 cost-of-service gas that produce savings compared to the price of market gas over the life
140 of the wells. This Canyon Creek acquisition, along with Wexpro's existing working
141 interest in Canyon Creek, is forecasted to be the lowest cost-of-service developmental gas
142 available and will be the first to be developed.

DIRECT TESTIMONY OF
BRADY B. RASMUSSEN

143

V. APPLICABLE GUIDELINE LETTERS

144 **Q. If the Canyon Creek Acquisition is approved as a Wexpro II property, are there**
145 **Guideline Letters that will apply to the property?**

146 A. Yes, attached as QGC Exhibit 2.4 are copies of all the applicable Guideline Letters that
147 will apply to the Canyon Creek Acquisition.

148 **Q. In summary, what are your recommendations regarding the Canyon Creek**
149 **Acquisition?**

150 A. This is a logical time to acquire this property because acquisition prices for natural gas
151 reserves are low. The Canyon Creek Acquisition Area is our best performing property.
152 Wexpro believes it can manage its Wexpro I and Wexpro II properties for the benefit of
153 Questar Gas's customers for years to come.

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

155 A. Yes.

DIRECT TESTIMONY OF
BRADY B. RASMUSSEN

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 August, 2015.

Notary Public