

Jenniffer Nelson Clark
333 S. State Street
PO Box 45433
Salt Lake City, Utah 84145-0433
(801)324-5392
(801)324-5935 (fax)
Jenniffer.Clark@questar.com

Attorney for Questar Gas Company

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

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

Docket No. 30010-162-GA-17
**VERMILLION SETTLEMENT
STIPULATION**

Pursuant to Utah Code Ann. § 54-7-1 and Utah Admin. Code R746-100-10.F.5, and pursuant to Wyoming Statute 37-2-101 et seq. and Chapter 2, Section 25 of the Wyoming Public Service Commission Rules, Questar Gas Company (Questar Gas or Company); Wexpro Company (Wexpro); the Utah Division of Public Utilities (Division); the Utah Office of Consumer Services (the Utah OCS); and the Wyoming Office of Consumer Advocate (the Wyoming OCA) (collectively Parties or singly Party) submit this Settlement Stipulation. This Settlement Stipulation shall be effective upon the entry of a final order of approval by the Public Service Commission of Utah (Utah Commission) and the Wyoming Public Service Commission (Wyoming Commission) (together Commissions) as provided in the Wexpro II Agreement Article IV-5 and Article IV-9(c).

BACKGROUND

1. On October 14, 1981, Questar's predecessor, Mountain Fuel Supply Company, Wexpro Company, the Utah Division of Public Utilities, the Utah Committee of Consumer Services, and the Staff of the Wyoming Public Service Commission entered into the Wexpro Agreement. The Wexpro Agreement was approved by the Wyoming Public Service Commission on October 28, 1981 and by the Utah Public Service Commission on December 31, 1981 (Wexpro Agreement).

2. On March 28, 2013, the Utah Commission issued its Report and Order approving the Wexpro II Agreement. On April 11, 2013, the Wyoming Commission held a hearing in the matter of the application of Questar Gas Company for approval of the Wexpro II Agreement and issued a bench ruling approving the Wexpro II Agreement. On October 16, 2013, the Wyoming Commission issued its Memorandum Opinion, Findings and Order approving the Wexpro II Agreement.

3. On January 17, 2014, the Utah Commission issued its Report and Order approving the Trail Unit Settlement Stipulation. On March 18, 2014, the Wyoming Commission issued its Memorandum Opinion, Findings and Order approving the Trail Unit Settlement Stipulation.

4. On November 17, 2015, the Utah Commission issued its Report and Order approving the Canyon Creek Settlement Stipulation. On February 24, 2016, the Wyoming Commission issued its Memorandum Opinion, Findings and Order approving the Canyon Creek Settlement Stipulation.

5. The Wexpro II Agreement, the Trail Unit Settlement Stipulation and the Canyon Creek Settlement Stipulation govern Wexpro and Questar Gas with respect to the inclusion of the recently-acquired Vermillion properties as Wexpro II properties. Section IV-1 of the Wexpro II Agreement 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.” Section IV-1(b) provides that “Wexpro may also acquire additional oil and gas properties or undeveloped leases outside the Wexpro I development drilling areas. Questar Gas may apply for Commission approval to include these properties under this Agreement.”

6. On April 16, 2015, Wexpro Company closed on the acquisition of additional interests in the natural gas producing properties within the Kinney Unit. These interests are within the Development Drilling Area defined in the Wexpro Agreement.

7. On December 15, 2015, Wexpro Development Company (WDC) closed on an acquisition of additional interests in natural-gas producing properties in the Vermillion Basin in the Trail, Whiskey Canyon, and Canyon Creek Units. The Trail Unit interests are located within the Development Drilling Area as defined in the Wexpro Agreement. The Canyon Creek Unit included overriding royalty interests within the Development Drilling Area, as well as property interests adjacent to the Development Drilling Area. The Whiskey Canyon Unit is adjacent to the Development Drilling Area. These properties, including the Canyon Creek Unit overriding royalty interests, together with the Kinney Unit, are referred to herein as the “Vermillion Acquisition.”

QUESTAR GAS' APPLICATIONS
REGARDING THE VERMILLION ACQUISITION

8. On January 9, 2017, Questar Gas filed its Applications seeking approval of the Vermillion Acquisition as a Wexpro II property before the Utah and Wyoming Commissions. As noted above, the Trail Unit interests, the Canyon Creek overriding royalty interests, and the Kinney Unit are located within the Development Drilling Area and under the terms of the Wexpro II Agreement, Questar Gas is required to bring those properties before both the Utah and Wyoming Commissions for approval. In addition, Questar Gas opted to bring the remainder of the Vermillion Acquisition before both Commissions for approval. The Applications were accompanied by Exhibits A through P and the direct testimonies of Mr. Barrie L. McKay and Mr. Brady B. Rasmussen.

9. Questar Gas submitted data in support of the Applications, including gas pricing assumptions, market data, historical production and remaining reserves of current wells, forecasted production/reserves for future wells, forecasted decline curves for current and future wells, drilling costs, operating expenses, ownership interests, taxes, gathering and processing costs, forecasted long-term cost-of-service analysis, impact on Questar Gas' gas supply, geologic data, future development plans, applicable guideline letters, and other data as requested by the Parties. Additionally, the Hydrocarbon Monitor's Report regarding the Vermillion Acquisition was filed January 18, 2017 and February 21, 2017 in Wyoming and Utah, respectively.

10. On January 20, 2017, the Utah Commission issued its Scheduling Order, Notice of Technical Conference, and Notice of Hearing, setting dates for filing testimony, technical conferences, and hearings. On January 25, 2017, the Wyoming Commission

issued its Scheduling Order setting dates for filing testimony, technical conferences, and hearings.

11. On February 2, 2017, a technical conference was held in Utah to discuss and provide information to the Division, the Utah OCS, and the Staff of the Utah Commission relating to the Vermillion Acquisition. On February 3, 2017, a technical conference was held in Wyoming to discuss and provide information to the Wyoming OCA and the Staff of the Wyoming Commission relating to the Vermillion Acquisition.

12. Since the Applications were filed, the Division, Utah OCS, Wyoming OCA, Utah Commission Staff, and Wyoming Commission Staff have asked and Questar Gas has responded to more than 50 data requests and inquiries.

13. On February 21, 2017, the Division, the Utah OCS, and the Wyoming OCA filed direct testimony in their respective dockets.

14. On February 23, 2017, and subsequently thereafter, the Parties and the Hydrocarbon Monitor met and discussed possible resolution and settlement of the issues raised by the Parties in their direct testimonies. As part of this process, Questar Gas, Wexpro and the Hydrocarbon Monitor provided the Parties with additional information.

15. On February 24, 2017, the Hydrocarbon Monitor provided a supplement to his initial report. On February 24, 2017 and February 27, 2017, that supplemental report was filed with the Wyoming and Utah Commissions, respectively.

16. The following terms and conditions represent the resolution and settlement of the issues presented in Questar Gas' Vermillion Acquisition Applications pending before the Utah and Wyoming Commissions, and the testimonies that have been filed in each respective jurisdiction.

TERMS AND CONDITIONS

17. The Parties agree for purposes of settlement that the Whiskey Canyon and Trail Unit properties, as identified in the Vermillion Applications, shall be approved as Wexpro II properties.

18. The Parties agree for purposes of settlement, that the Canyon Creek Unit, including the overriding royalty interests, as identified in the Vermillion Applications, shall be approved as a Wexpro II property, based upon Wexpro's agreement to develop the Canyon Creek properties outside the Canyon Creek Participating Area, as described in this paragraph. Wexpro will initially replace the proposed horizontal well with a vertical-drilling program. After the first three vertical wells have been drilled and before any further drilling occurs, Wexpro will provide the Parties with the capital costs, the actual and projected volumes, and the actual and projected cost of service associated with the three wells. Wexpro will not conduct any further drilling unless and until such drilling is appropriate under the terms and conditions of the existing provisions of the Wexpro II Agreement, the Trail Settlement Stipulation and the Canyon Creek Settlement Stipulation, and the Hydrocarbon Monitor has reviewed the drilling plan and deemed it reasonable. Any drilling in this area, including the first three vertical wells, is and will continue to be subject to the terms and conditions of the Wexpro II Agreement, the Trail Settlement Stipulation, and the Canyon Creek Settlement Stipulation. The provisions of this paragraph 18 shall apply only to the Canyon Creek Unit described in the Applications.

19. The Parties agree for purposes of settlement that Questar Gas will withdraw the Kinney Unit property from consideration at this time. Wexpro will continue to own and operate its current 58.81% working interest under the current Wexpro Agreement and Wexpro Development Company will retain its 15.00% working interest in this property. If future drilling or recompletions in this field show that the development of the field can economically produce cost-of-service gas that is less expensive than the 5-year forward price curve, as defined in the Trail Unit Settlement Stipulation and the Canyon Creek Settlement Stipulation, Questar Gas shall submit, within three (3) months of making that determination, a new application seeking inclusion of the additional 15.00% ownership interest as a Wexpro II property. The provisions of this paragraph 19 shall apply only to the Kinney Unit described in the Applications.

20. The Parties agree for purposes of settlement that, within 45 days of the Commissions' approval of this Settlement Stipulation, they will meet and confer in good faith to establish mutually agreeable terms and provisions regarding, among other things, the following issues:

- (a) mitigation of risk associated with any Participating Area expansion,
- (b) the process for evaluating and implementing any future sale or exchange of an existing Wexpro I or Wexpro II property, and
- (c) the time within which Questar Gas will bring any future property for approval pursuant to Section IV-1(a) of the Wexpro II Agreement, after Wexpro Development Company has purchased such property at its own risk.

21. The Parties agree for purposes of settlement that under no circumstance will any Party claim that this Settlement Stipulation invokes Section 11.2 of the 1981 Utah Stipulation; Section 11.2 of the Wyoming 1981 Stipulation; or Wexpro I Agreement, Article IV-6(c). The Parties further agree that nothing in this Settlement Stipulation may be interpreted or claimed by any Party under any term or combination of terms of the 1981 Utah Stipulation and the 1981 Wyoming Stipulation to allow Wexpro to either revoke any Wexpro I or Wexpro II properties, release Wexpro or the Company from their obligations under either the Wexpro I or Wexpro II Agreements, or subject Wexpro to the jurisdiction of either the Utah or Wyoming Commissions.

GENERAL

22. The Parties agree that settlement of those issues identified above is in the public interest and that the results are just and reasonable.

23. The Parties agree that no part of this Settlement Stipulation or the formulae or methods used in developing the same, or a Commission order approving the same shall in any manner be argued or considered as precedential in any future case. All negotiations related to this Settlement Stipulation are privileged and confidential, and no Party shall be bound by any position asserted in negotiations. Neither the execution of this Settlement Stipulation nor the order adopting it shall be deemed to constitute an admission or acknowledgment by any Party of the validity or invalidity of any principle or practice of ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Party; nor shall they be introduced or used as evidence for any other purpose in a future proceeding by any Party except in a proceeding to enforce this Settlement Stipulation.

24. Questar Gas, Wexpro, the Division, the Utah OCS and the Wyoming OCA each will make one or more witnesses available to explain and support this Settlement Stipulation to their respective Commissions. Such witnesses will be available for examination. As applied to the Division, the Utah OCS, and the Wyoming OCA, the explanation and support shall be consistent with their statutory authorities and responsibilities. So that the records in these dockets are complete, all Parties' filed testimony, exhibits, and the Confidential Applications and their exhibits shall be submitted as evidence.

25. The Parties agree that if any person challenges the approval of this Settlement Stipulation or requests rehearing or reconsideration of any order of the Commissions approving this Settlement Stipulation, each Party will use its best efforts to support the terms and conditions of the Settlement Stipulation. As applied to the Utah Division, the Utah OCS, and the Wyoming OCA, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authorities and responsibilities. In the event any person seeks judicial review of a Commission order approving this Settlement Stipulation, no Party shall take a position in that judicial review opposed to the Settlement Stipulation.

26. Except with regard to the obligations of the Parties under paragraphs 23, 24, and 25 of this Settlement Stipulation, this Settlement Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commissions. This Settlement Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commissions or if the Commissions' approval is rejected or materially conditioned by a


reviewing court. If the Commissions reject any part of this Settlement Stipulation or impose any material change or condition on approval of this Settlement Stipulation, or if the Commissions' approval of this Settlement Stipulation is rejected or materially conditioned by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Settlement Stipulation consistent with the order. No Party shall withdraw from the Settlement Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Settlement Stipulation, any Party retains the right to seek additional procedures before the Commission, including presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Settlement Stipulation, and no Party shall be bound or prejudiced by the terms and conditions of the Settlement Stipulation.

27. This Settlement Stipulation may be executed by individual Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

RELIEF REQUESTED

Based on the foregoing, the Parties request that the Commission issue an order approving this Settlement Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: March 2, 2017.



Chris Parker
Director

Utah Division of Public Utilities



Michele Beck
Director

Office of Consumer Services



Colleen Larkin Bell
Vice President & General Manager

Questar Gas Company

Bryce Freeman
Administrator

Wyoming Office of Consumer Advocate



Brady B. Rasmussen
Vice President & General Manager

Wexpro Company

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Administrator

Wyoming Office of Consumer Advocate

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Vermillion Settlement Stipulation was served upon the following persons by email on March 2nd, 2017:

Patricia E. Schmid
Justin Jetter
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, UT 84114-0857
pschmid@utah.gov
jjetter@utah.gov

Steven Snarr
Assistant Attorney General
160 East 300 South, 5th Floor
P.O. Box 140857
Salt Lake City, Utah 84114-0857
ssnarr@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

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

Bryce Freeman
Administrator
Wyoming Office of Consumer
Advocate
2515 Warren Avenue, Suite 304
Cheyenne, WY 82002
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