In the Matter Of:

In Re: Questar Gas Company - Vermillion Acquisition

HEARING PROCEEDINGS DOCKET NO. 17-057-01

March 09, 2017

Job Number: 369025A

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) Docket No.17-057-01 Wexpro II Property)) HEARING PROCEEDINGS TAKEN AT: Utah Public Service Commission 160 East 300 South Salt Lake City, Utah DATE: TIME: March 9, 2017 9:00 a.m. REPORTER: Mary R. Honigman, R.P.R. Job Number: 369025A

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4	David Clark, Commissioner	
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1	Page 4 PROCEEDINGS
2	COMMISSIONER LEVAR: This is Public
3	Service Commission Docket #17-057-01 In the Matter
4	of the Application of Questar Gas Company for
5	approval of the Vermillion Acquisition as a Wexpro
6	II Property. Why don't we start with appearances
7	for the Utility.
8	MS. CLARK: Thank you. Jennifer
9	Nelson Clark. I'm an attorney for the applicant,
10	and I have with me Barrie McKay who is the director
11	of customer rates and regulation for Questar Gas;
12	and Brady Rasmussen, the vice president and general
13	manager of Wexpro Company.
14	COMMISSIONER LEVAR: Thank you.
15	MS. SCHMID: Good morning. Patricia
16	E. Schmid with the Attorney General's Office
17	representing the Division of Public Utilities. With
18	me this morning as the Division's witness is Douglas
19	W. Wheelwright. Sorry, D. Wheelwright.
20	COMMISSIONER LEVAR: That's an
21	important clarification.
22	MS. SCHMID: It is.
23	MR. SNARR: And my name is Steven W.
24	Snarr. I'm counsel for the Office of Consumer
25	Services. With me today is Gavin Mangelson, who is
1	

1	Page 5 a utility analyst.
2	COMMISSIONER LEVAR: Any preliminary
3	matters before we go to Ms. Clark?
4	MS. CLARK: Yes. We have a couple of
5	housekeeping issues. The first deals with
6	confidential information. The vast majority of Mr.
7	McKay's summary that he will offer today is not
8	confidential; however, there is a piece that sort of
9	fits in the middle that we'll need to treat as
10	confidential information. So for purposes of your
11	record and also if we're streaming, I wanted to note
12	that in advance.
13	And then the second matter that I
14	wanted to raise was the issue of cross-examination.
15	Counsel has spoken and if it's appropriate and if
16	you feel comfortable, we're happy to do all of the
17	summaries at the same time, and then perhaps have
18	questioning via the panel. We recognize that
19	Mr. McKay will be our only testifying witness today.
20	We've brought Mr. Rasmussen with us in anticipation
21	of questions, so if that works with the Commission,
22	we think that would be an appropriate way to
23	proceed.
24	COMMISSIONER LEVAR: And if there's
25	no objection from any other party and it sounds

1	Page 6 like there's not to handling any potential
2	cross-examination, that makes sense.
3	With respect to the first issue, I
4	think the way we'll need to handle that is if at the
5	appropriate moment you want to make a motion to
6	close the proceeding to the public, there's a
7	required finding. The Commission has to find that
8	it's in the public interest to do so. So we can
9	deal with that at the appropriate time and make sure
10	that only appropriate people are in the room and the
11	streaming is discontinued for that portion.
12	MS. CLARK: That raises one other
13	question in my mind, and it is possible, I guess,
14	during cross-examination and examination by the
15	Commission that they may also raise issues that are
16	confidential and so if I interject, I will apologize
17	for the rudeness in advance.
18	COMMISSIONER LEVAR: If anyone asks a
19	question that you think would require any
20	confidential information, please jump in and stop us
21	before we keep going.
22	MS. CLARK: Thank you.
23	COMMISSIONER LEVAR: Any other
24	preliminary matters? Okay, then, Ms. Clark.
25	MS. CLARK: The Company calls
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Page 7 Mr. Barrie L. McKay. 1 2 BARRIE L. MCKAY, 3 having been first duly sworn to tell the truth, was examined 4 and testified as follows: BY MS. CLARK: 5 6 Q. Mr. McKay, will you state your name and business address for the record? 7 Barrie L. McKay, and I think I'm at 333 8 Α. 9 South State, Salt Lake City, Utah. 10 And are you the same Barrie McKay that 0. filed pre-filed direct testimony in this matter 11 12 along with accompanying Exhibits 2.1, 2.2, and also 13 a Supplemental Exhibit 2.2.1-S? 14 Α. Yes. Did you actively participate in this 15 Q. 16 docket and in the development of the Settlement Stipulation of this before the Commission today? 17 I did. 18 Α. 19 Q. Can you please summarize that Settlement 20 Stipulation? 21 Α. I can. Turning to the Stipulation, I want 22 to at least touch these first few paragraphs -- I 23 don't need to go through them in detail -- but I do want to recognize what's included in them. 24 25 Actually, the first paragraph in the Stipulation is

Page 8 simply recognizing that both this Commission and the 1 2 Wyoming Commission needs to approve these 3 properties, or, shall we say, at least this 4 stipulation before it becomes effective. The first numbered paragraph is a 5 reference back to Wexpro I, second one is a 6 7 reference back to Wexpro II, third paragraph is a reference to the Trail Settlement Stipulation, and 8 9 fourth paragraph is referencing the Canyon Creek Settlement Stipulation, all of which govern how we 10 11 go about having these properties approved before the 12 Commission and then develop them and the criteria 13 that must be reached in order for them to continue 14 to be part of that. 15 We then recognize that within the Wexpro 16 II agreement, there's two specific parts in paragraph 5 that we were relying on and that 17 required us to come before both the Utah Commission 18 and the Wyoming Commission. One paragraph 19 20 identifies that there are certain properties that we 21 shall bring before the Commission, and we have about three of those -- we'll point those out in a 22 23 minute -- and then for the first time before any of 24 the Commissions, Questar Gas and Wexpro have brought a couple of properties where it was our choice to do 25

1 that.

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2	Then we simply summarize in paragraph 6
3	the timing of the acquisition of the Kinney Unit,
4	which was in April of 2015. Paragraph 7 identifies
5	the Trail, Whiskey Canyon, and the Canyon Creek
6	Units and their purchase, which was in December of
7	2015. Then we did make the filing before this
8	Commission the beginning of this year, January 9th,
9	and we point out in this paragraph that it is the
10	Trail, the Kinney Unit, and the Canyon Creek
11	Override that fell into the category that we shall
12	or that we must bring that before the Commission.
13	All of those properties were in the Development
14	Drilling Area. And then the Whiskey Canyon and the
15	Canyon Creek outside the PA that stands for
16	"outside the participating area" for properties that
17	was a choice or that we may bring them we
18	identify them in that paragraph. We have properly
19	filed, including all of the information that was
20	thought of as we had the process of approving the
21	Wexpro II Agreement. The Hydrocarbon monitor
22	performed his responsibilities in reviewing all of
23	that and filing his initial report within the seven
24	days of filing of our Application. We obviously had
25	some scheduling conferences, we held two technical

Page 10 conferences within the two dockets -- the one that 1 2 is of importance here would be the February 2nd one 3 that we held in Utah -- answered numerous data 4 requests, filing direct testimony, and then in paragraph 14, the parties met for the first time on 5 the 23rd of February along with the Hydrocarbon 6 monitor. I want to point that out, as you'll see 7 here in a minute, we needed to rely on his expertise 8 9 and actually his third-party verification for a 10 settled-upon change of how Wexpro will be developing 11 one of the properties, and he helped in that 12 process. Then, simply, in 16 is the recognition 13 that this resolves all the issues in the docket before this Commission. 14

15 So the key things are the Terms and 16 Conditions, which begin in paragraph 17 where it's 17 identified that the Trail Unit and the Whiskey 18 Canyon Unit shall be approved as Wexpro II properties. In paragraph 18, we identify that the 19 20 Canyon Creek property, which includes the "outside 21 the participating area" as well as the overriding 22 royalties, will be approved as a Wexpro II property, 23 subject to a change in the way that Wexpro will develop the properties. And they will replace what 24 was originally anticipated as a horizontal well with 25

	Page 11
1	a vertical drilling program in an area outside the
2	participating area. And after those first three
3	wells are drilled, Wexpro has agreed that they will
4	bring the results, costs, the volumes that are
5	anticipated before the parties and will not proceed
6	with further drilling until that has happened, as
7	well as the opportunity for the Hydrocarbon monitor
8	to review the results of those first three wells and
9	deem it reasonable in moving forward.
10	And then as we worked through this, we
11	wanted to make sure that everybody realized that we
12	are agreeing to this approach, but we are also
13	recognizing that overarching the development of the
14	Canyon Creek Unit are still the criteria of the
15	issues that were settled in the Trail Stipulation,
16	as well as the Canyon Creek, which is the limiting
17	amount of volumes that Wexpro can provide to Questar
18	Gas, as well as needing to meet the 5-year forward
19	curve before they drill and meeting the
20	commerciality test. So we make a reference to that
21	at the end of that paragraph.
22	And I think, now, to provide further
23	clarity and to get some additional evidence on the
24	record, we've prepared a few, I guess we call them
25	hearing exhibits, but those are going to be

Page 12 confidential. 1 2 MS. CLARK: They are, and if I can 3 approach, I'll give you copies and we can just 4 briefly make the motion and lay the reasoning for calling it confidential. 5 6 COMMISSIONER LEVAR: Okay. So you'll provide us with three copies prior to the motion and 7 8 to the two parties. Okay. Thank you. 9 MS. CLARK: The parties have them. 10 COMMISSIONER LEVAR: They already 11 have them? Okay. Thank you. 12 MS. CLARK: Now that we have them in 13 front of us, the Company would move that the hearing be closed for the portion of Mr. McKay's testimony 14 when he testifies to these four exhibits you have in 15 16 front of you. And if we can previously flip through them, I would preface it by saying these are either 17 updates or supplements to exhibits that have been 18 previously filed as confidential exhibits. You'll 19 20 note that the first one has some information related 21 to drilling and costs that the Company deems 2.2 confidential. The second is supplemental to Application Exhibit B. It also contains future 23 drilling plans which the Company deems confidential. 24 25 The third that you can see has to do with total gas

Page 13 supply, and the right-hand side of that exhibit 1 2 contains some forecasts; and, again, the Company deems that forecast information to be confidential. 3 And, finally, Confidential Hearing 4 5 Exhibit 4 is the future drilling plan, Wexpro's future drilling plan for these properties, and the 6 Company deems that confidential as well. 7 The Company would argue that disclosure of this 8 9 information would put it at a competitive disadvantage for negotiations in the future, and it 10 11 would also cause the Company to disclose information 12 that it views proprietary. 13 COMMISSIONER LEVAR: Thank you. Is 14 there any objection to this motion. Ms. Schmid? 15 MS. SCHMID: No objection. 16 COMMISSIONER LEVAR: Mr. Snarr? 17 MR. SNARR: No objection. COMMISSIONER LEVAR: We find that it 18 is in the interest of the public to grant the motion 19 20 and to close the hearing to anyone who's not a party 21 until we complete discussion of confidential 2.2 information. So we will discontinue streaming at 23 this point. Is there anyone in the room -- I don't 24 know the names of everyone in the room, but if everyone at the table is comfortable with those in 25

	Page 14
1	the room, then we can proceed.
2	MS. CLARK: It's fine. I think we
3	recognize everyone here.
4	COMMISSIONER LEVAR: Okay. Do we
5	have the streaming turned off? Okay. Thank you.
6	(The following testimony was deemed confidential.)
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Page 18 (End of confidential testimony.) 1 2 COMMISSIONER LEVAR: We will reopen 3 the meeting then to the public. Any objection to 4 reopening the meeting? We'll start the streaming 5 again. Thank you. 6 MS. CLARK: The Company would now move for the admission of Confidential Hearing 7 Exhibits 1, 2, 3, and 4. 8 9 COMMISSIONER LEVAR: Any objection to that motion, Ms. Schmid? 10 11 MS. SCHMID: No objection. 12 COMMISSIONER LEVAR: Mr. Snarr? 13 MR. SNARR: No objection. 14 COMMISSIONER LEVAR: The motion is 15 granted. Thank you. BY MS. CLARK: 16 Please proceed, Mr. McKay. 17 Q. 18 That gets us to paragraph 19. In Α. 19 paragraph 19, the parties agreed that the Kinney 20 Unit at this time would be withdrawn for 21 consideration before this Commission, and then we 22 would give Wexpro the opportunity to be able to 23 prove that this unit can be economically developed if they can. And based on a verification 24 25 recognizing that the Wexpro Agreement is

Page 19 self-governing here, we know the Hydrocarbon monitor 1 2 would be reviewing their work in that area and 3 assuming that it can be economically developed, then 4 we -- Questar Gas, Wexpro -- shall bring this property back before the Commission. We're not 5 committing the Commission or any parties that it has 6 to become part of Wexpro I, but simply giving 7 parties a free option, if you will, on this. 8 And 9 our concern was, is that the way that the Wexpro II Agreement, I think, contemplated properties being 10 11 brought before the Commission is that you would 12 bring a property and it would either be included or 13 not included, and that's the way we would live going We didn't want that decision to have to be 14 forward. 15 made on this if the property looks promising, but there wasn't enough evidence at this time, and we 16 agreed that we would delay that official decision 17 before this Commission by us withdrawing that. And 18 then assuming that it's a good property and parties 19 20 don't want us -- if it doesn't prove to be a good 21 property -- to have us, quote, waste our time with 22 having to see that the numbers aren't good, we 23 recognize the Hydrocarbon monitor in the review of that process will be able to satisfy that concern. 24 But if it can be economically developed, Wexpro and 25

Page 20 1 Questar Gas would bring it back before the 2 Commission and give the parties an option to have it 3 become a Wexpro II property.

4 That leads us to paragraph 20, which they're in the process of discovery and 5 There were concerns related to at 6 negotiations. least three areas, and we wanted to memorialize 7 8 those and agree that -- assuming approval of the 9 Settlement Stipulation in both Utah and Wyoming -the parties would meet within 45 days and discuss 10 11 the mitigation of risks associated with other 12 participating areas. Right now, our discussion has 13 been that it's not imminent, but we wanted to make sure we all had an understanding of what that might 14 be out there and provide the evidence to make sure 15 16 everyone had understanding with it.

We also wanted to evaluate the -- talk 17 about and discuss the evaluating and the 18 implementing of future sale or retirement exchange 19 20 of Wexpro I assets as their useful life comes to an 21 end, and then specifically talk about the timing. Ι 22 think it's a little odd -- we will freely admit 23 that -- that time that happened between Wexpro 24 acquiring these properties and then bringing them 25 before the Commission has some unique circumstances,

Page 21 1 but we wanted to discuss that timing which has not 2 been specifically addressed.

3 Then the last paragraph in the Terms and 4 Conditions is 21, and is essentially a paragraph that has existed in our other stipulations that 5 recognizes that Wexpro -- the paragraphs in the 6 Settlement Stipulation of Wexpro I are still in 7 force as it relates to regulation, or, shall we say 8 9 not regulation of Questar -- sorry, of Wexpro. So 10 I'm going to make one more attempt on that. This 11 paragraph refers to Wexpro and how they are not 12 considered a regulated entity, and that's spelled 13 out in the Wexpro I Agreement.

The rest of this is the General Terms and 14 15 Conditions, stating that we feel that this is a just and reasonable resolution of the issues and it's in 16 the public interest. In paragraph 22, it doesn't 17 set any precedent as far as other issues bringing 18 before the Commission in the future. We'll be happy 19 20 to provide witnesses, and I think you're seeing that 21 happen today. And then, if, in fact, we're not 22 approved by the Commissions, how the parties would 23 respond and act.

But in summary, we feel this is anexcellent resolution of the issues in this case, and

Page 22 1 it's just and reasonable and ought to be approved by 2 this Commission. Does that conclude your summary? 3 0. 4 Α. Yes. 5 MS. CLARK: Before the Company surrenders the floor, it would move for the 6 7 admission pursuant to paragraph 24 of the Stipulation of those exhibits referenced in Questar 8 Gas Company's Exhibit Index. The parties and the 9 10 court reporter have been provided with the index, 11 and you will find it if you just open the cover of 12 the binder in front of you. It includes the 13 exhibits -- the Application and the exhibits that 14 accompanied it, Exhibits A through P including 15 subparts. It also includes the supplemental information that was filed in this docket; the 16 17 direct testimony of Mr. McKay with accompanying Exhibits 2.1, 2.2, and 2.2.1-S; and then also the 18 19 direct testimony of Brady B. Rasmussen, which is 20 Exhibit 3 with accompanying exhibits; Questar Gas 21 Exhibit 3.1, 3.2, 3.2.1-S, 3.3, 3.4, 3.5, 3.6, 3.7, 2.2 and we'll just say with the subparts of 3.7. Those 23 were filed with the supplemental information and 24 3.8. 25 COMMISSIONER LEVAR: Thank you.

Page 23 Ms. Schmid, any objection to that motion? 1 2 MS. SCHMID: No objection. 3 COMMISSIONER LEVAR: Mr. Snarr? 4 MR. SNARR: No objection. COMMISSIONER LEVAR: Okay. 5 The 6 motion is granted. Thank you. 7 MS. CLARK: Thank you. The Company does not have any other witnesses to offer at this 8 9 time. 10 COMMISSIONER LEVAR: Okay. With the understanding there might be questions later, we 11 12 will move on to Ms. Schmid. 13 MS. SCHMID: Thank you. The 14 Division's witness this morning is Mr. Douglas D. 15 Wheelwright. Could he please be sworn? 16 DOUGLAS D. WHEELWRIGHT, 17 having been first duly sworn to tell the truth, was examined 18 and testified as follows: BY MS. SCHMID: 19 20 Mr. Wheelwright, could you please tell us Q. 21 by whom you are employed, your position, and your 22 business address? Yes. I'm a technical consultant with the 23 Α. Division of Public Utilities. My address is 160 24 25 East 300 South.

Page 24 On behalf of the Division, have you 1 0. 2 participated in this docket? 3 Α. Yes, I have. 4 ο. Did that participation include preparing and causing to be filed DPU Exhibit No. 1.0 Direct, 5 along with DPU Exhibit No. 1.01 Direct, 1.02, which 6 were confidential, 1.01, 1.02 Redacted, and then DPU 7 1.0 Direct, your corrected prefiled direct testimony 8 along with redacted Exhibits 1.01 and 1.02? 9 10 Α. Yes. 11 Why was corrected prefiled direct Q. 12 testimony filed? 13 The only correction to the original filing Α. 14 was a change in our summary. We removed some of the redacted portion of that summary. 15 MS. SCHMID: The Division would like 16 to move to admit the exhibits previously identified. 17 You also have been provided with an exhibit list. 18 19 COMMISSIONER LEVAR: Mr. Snarr, any 20 objection to that motion? 21 MR. SNARR: No objection. 2.2 COMMISSIONER LEVAR: Ms. Clark? 23 MS. CLARK: No objection. 24 COMMISSIONER LEVAR: The motion is 25 granted.

Page 25 1 MS. SCHMID: Thank you. 2 BY MS. SCHMID: Mr. Wheelwright, did you participate in 3 Q. 4 the settlement meetings? Yes, I did. 5 Α. 6 Q. Do you have summary statements to provide? 7 Yes, I do. Α. 8 Please proceed. Q. Thank you, Commissioners. The objective 9 Α. of the Wexpro II Agreement was to create a structure 10 11 and a mechanism that could potentially allow 12 additional properties to be included in future cost 13 of service gas production. The Vermillion Application before you today represents the third 14 time additional properties have been presented for 15 16 approval. The Regional Application in this docket represented the purchase of varying ownership 17 interest in four separate properties identified as 18 the Vermillion Acquisition. In direct testimony, 19 20 the Division recommended approval of the additional 21 interest in the Trail property and approval of the 22 Whiskey Canyon property. The Division expressed 23 concern with the original proposal for wells in Canyon Creek and concerns with the cost of service 24 from the Kinney field. In response, the Company 25

Page 26 prepared a modification to the proposed drilling in 1 2 Canyon Creek and prepared a revised cost of service calculation that excluded the additional ownership 3 4 in the Kinney property. These two modifications to the original Application are the basis for the 5 6 Settlement Stipulation which has been signed by all the interested parties and has been outlined today 7 8 by Mr. McKay.

9 The calculations and the assumptions used 10 in the original Application and the assumptions used 11 in the Settlement Stipulation have been reviewed and 12 evaluated by Mr. David Evans, the independent Hydrocarbon monitor. The first confidential report 13 from the Hydrocarbon monitor was filed with the 14 Commission on January 19th, and the second report 15 16 was filed on February 27th. In both reports, Mr. Evans indicated that in his opinion, the reserves 17 and associated economic information represented by 18 Wexpro were reasonable. The specifics of the cost 19 20 of service price projections from this acquisition 21 are confidential, but have been included in Exhibits 22 L-1 through L-5 of the original filing and in 23 subsequent updates. A comparison of the cost of 24 service price from the Vermillion properties along with the total cost of service price for all of the 25

Page 27 Wexpro production and the projected market price was 1 2 included in my direct testimony. 3 The revised projections of Exhibit L-5 4 with a modified drilling in Canyon Creek and excluding the Kinney property show a slight decrease 5 in the total cost of service price for the three 6 remaining Vermillion properties. It should be noted 7 that a total volume of natural gas production from 8 9 the Vermillion Acquisition represents a small percentage of the total Wexpro production and will 10 11 have a minor impact on the total price of cost of 12 service gas produced by Wexpro. 13 The Division has reviewed the Company's 14 Application and subsequent updates and has 15 participated in the settlement negotiations. Key provisions of the stipulation will allow the Company 16 to resubmit the Kinney property in the future and 17 require further discussions with the Company to 18 19 clarify procedures for property sale or exchange and 20 potential expansion of participation area. 21 It is the Division's recommendation that 2.2 the Commission approve the properties identified in 23 the Vermillion Settlement Stipulation and that these properties be included under the Wexpro II 24 25 Agreement. Approval of the Vermillion Acquisition

Page 28 1 as a Wexpro II property represents the purchase of a 2 long-term resource that could be advantageous to 3 ratepayers for many years. The Division believes 4 the terms of the Stipulation Agreement taken as a whole are just and reasonable and are in the public 5 interest. That concludes my summary. 6 7 MS. SCHMID: Thank you. COMMISSIONER LEVAR: That concludes 8 9 your presentation? MS. SCHMID: That concludes the 10 Division's presentation. 11 12 COMMISSIONER LEVAR: Thank you. Mr. Snarr? 13 14 MR. SNARR: Yes. Thank you. Appearing today in support of the Office of Consumer 15 16 Services is Gavin Mangelson. He has prepared testimony. May he be sworn? 17 18 GAVIN MANGELSON, 19 having been first duly sworn to tell the truth, was examined 20 and testified as follows: 21 BY MR. SNARR: 22 Q. Mr. Mangelson, what is your name, business 23 address, and by whom are you employed? 24 My name is Gavin Mangelson. My business Α. 25 address is 160 East 300 South, Salt Lake City, Utah.

Page 29 1 I'm a utility analyst for the Office of Consumer 2 Services. Did you submit prefiled direct testimony 3 0. in this docket? 4 On February 21st, 2017, I submitted 5 Α. Yes. ten pages of confidential direct testimony. 6 7 COMMISSIONER LEVAR: Mr. Snarr, I'm 8 sorry to interrupt, but I think you're not picking up on our streaming. If you could maybe move the 9 microphone a little closer to you. 10 11 MR. SNARR: Certainly. 12 COMMISSIONER LEVAR: Thank you. 13 BY MR. SNARR: How is that testimony identified in the 14 0. proceeding here today? 15 16 Α. As OCS-1-D. And are there any corrections or 17 Q. modifications to that testimony as you present that 18 19 today? 20 Α. No. 21 MR. SNARR: We would move to have 2.2 Mr. Mangelson's previously filed testimony to be 23 admitted as part of the record. 24 COMMISSIONER LEVAR: Thank you. Ms. Schmid, do you have any objection to that? 25

Page 30 1 MS. SCHMID: No objection. 2 COMMISSIONER LEVAR: Thank you. Ms. 3 Clark? 4 MS. CLARK: No objection. 5 COMMISSIONER LEVAR: Thank you. The 6 motion is granted. BY MR. SNARR: 7 Mr. Mangelson, did you participate in the 8 0. settlement discussions related to the issues raised 9 in this docket? 10 11 Α. I participated in the development of Yes. 12 the Vermillion Settlement Stipulation which has been 13 submitted to this Commission. The Office of 14 Consumer Services is a party to that agreement. 15 Have you prepared a statement or summary Q. of the Office's position? 16 17 Α. Yes, I have. Could you please provide that? 18 Q. Thank you. Good morning, Mr. Chairman, 19 Α. 20 Commissioners. The Office of Consumer Services 21 conducted detailed analysis of the proposal to 22 include new properties within the Wexpro II 23 Agreement. In accordance with our statutory 24 mandate, we approached our analysis from the perspective of residential and small commercial 25

Page 31 1 customers who together represent a substantial 2 portion of the customers receiving cost of service 3 gas under the Wexpro Agreements.

4 The Office's direct testimony identified 5 cost information for cost of service gas from each 6 of the four properties individually and further 7 divided those properties by existing proven 8 developed producing, or PDP wells, and future 9 development wells. We included comparisons of this 10 cost information to current market rates.

11 In addition to the cost analysis of the 12 proposed properties, the Office's Direct Testimony 13 identified other issues that are important to 14 consider in this and any future applications to 15 include properties under the Wexpro II Agreement. These additional issues can be summarized into three 16 17 main points. First, although a combination of existing wells and new development wells may result 18 in a combined cost of service that is below market 19 20 prices, acceptance of these wells into the agreement 21 means that ratepayers will be required to purchase 2.2 the additional volumes that come from these existing 23 wells, even though prices may be, at times, above 24 market prices.

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Second, the cap on the level of Wexpro Gas

Page 32 as a percentage of total gas supply established in 1 2 the Canyon Creek Stipulation is a ceiling and should not be treated as a target for levels of Wexpro Gas. 3 4 And, third, declining volumes of Wexpro Gas should be replaced only if the additional 5 volumes can be justified based on their independent 6 advantage when compared to market prices. 7 The Office believes that the Vermillion 8 Settlement Stipulation filed on March 2, 2017 in 9 this docket reasonably satisfies the issues and 10 concerns that we identified. 11 12 Cost information was used as the principal 13 basis for our recommendations for each individual 14 property, and cost information was the principal 15 factor in developing the terms of the Settlement 16 Stipulation. Regarding the Whiskey Canyon and Trail properties, the combined cost of service gas 17 produced from PDP and development wells from these 18 properties is expected to be below current rates. 19 20 Therefore, the Office supports the inclusion of 21 these properties into the Wexpro II Agreement as 22 stated in paragraph 17 of the Stipulation. 23 Regarding the Canyon Creek property, I will note that the Canyon Creek property referred 24 both to the overriding royalty interest of certain 25

Page 33 wells within the participating area, as well as two 1 2 additional properties outside of the current Canyon 3 Creek participating area. The Office originally 4 opposed inclusion of the Canyon Creek property into the Wexpro II Agreement based on the uncertainty of 5 resulting actual prices. During the settlement 6 7 talks, Wexpro agreed to make certain modifications 8 to the anticipated drilling plan for this property. 9 The changes to the drilling plan are explained in paragraph 18, and initially provide for three 10 11 vertical wells in lieu of the horizontal well 12 described in the Application. The revisions to 13 Wexpro's drilling plan for this property should present less risk, result in lower cost of service 14 gas from the new wells, and thereby lower the price 15 of cost of service from the property as whole. 16 17 Based on the conditions described in paragraph 18, the Office supports inclusion of the 18 19 Canyon Creek property into the Wexpro II Agreement. 20 Regarding the additional interest in the 21 Kinney property, cost of service gas from the 22 existing wells is currently above market prices, and 23 information about the single-development well provided in the Application does not produce a 24 25 resulting cost of service gas price below current

Page 34 market rates. Parties believe that further 1 2 exploration in that field may prove additional well 3 sites that would result in a lower overall cost of 4 service price from that area. Therefore, paragraph 19 provides for the withdrawal from consideration of 5 the Kinney property at this time, along with a 6 mechanism for the property to be brought before the 7 Commission under the cost circumstances described in 8 9 that paragraph. In conclusion, the Office submits that the 10 11 Vermillion Settlement Stipulation to Questar's 12 request for the inclusion of additional properties 13 under the Wexpro II Agreement will result in just and reasonable rates and is in the public interest 14 15 and recommends that the Commission approve the Settlement Stipulation. 16 17 MR. SNARR: That concludes the 18 Office's presentation. 19 COMMISSIONER LEVAR: Thank you. Ms. 20 Clark, do you have any questions for any witnesses? 21 MS. CLARK: I do not. Thank you. 2.2 COMMISSIONER LEVAR: Thank you. Ms. Schmid? 23 24 MS. SCHMID: No questions. 25 COMMISSIONER LEVAR: Thank you. Mr.

Page 35 1 Snarr? 2 MR. SNARR: No questions. 3 COMMISSIONER LEVAR: Commissioner White? 4 5 COMMISSIONER WHITE: With respect to 6 the Kinney property, to the extent it's not confidential, what is the anticipated timing of the 7 additional exploration of potential request for 8 9 inclusion? 10 MS. CLARK: I think the Company would deem the answer to that question confidential, and I 11 12 think Mr. Rasmussen is probably best equipped to 13 answer it, and he needs to be sworn. 14 BRADY B. RASMUSSEN, 15 having been first duly sworn to tell the truth, was examined and testified as follows: 16 17 COMMISSIONER LEVAR: Is there any objection, Ms. Schmid, from closing the hearing to 18 hear the answer to this question? 19 20 MS. SCHMID: No objection. 21 COMMISSIONER LEVAR: Thank you. Mr. 2.2 Snarr? 23 MR. SNARR: No objection. 24 COMMISSIONER LEVAR: We find it is in 25 the public interest to close this hearing to the

1	Page 36 public to receive an answer to this question. Will
2	you let me know if the streaming is stopped?
3	(The following portion was deemed confidential.)
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Page 48 (Confidential portion ends.) 1 2 COMMISSIONER LEVAR: We will open the 3 hearing then back to the public. Thank you. And I 4 don't have any further questions. Any final matters before we adjourn? 5 6 MS. CLARK: Yes, thank you, 7 Commissioner. Two matters: One is that the Company recognizes that we will be before the Wyoming 8 Commission on the 17th of this month; I believe 9 that's next Friday. We would request, recognizing 10 11 that it would be helpful to have a decision from 12 this Commission prior to that hearing, we would 13 request a bench order. We recognize that's a lot to 14 ask and if you are not prepared to do so, we would 15 simply request that we get some indication prior to 16 the Wyoming hearing. 17 The other matter would be the Application did not identify an effective date. 18 We would like to treat this matter the same way we have 19 20 treated prior Wexpro II matters and seek an effective date of the first of the same month in 21 2.2 which the hearings were held. So in this case, it would be March 1st. And I think that is all the 23 24 Company has to add. 25 COMMISSIONER LEVAR: Let me ask for

Page 49 one clarification. If our Commission were to grant 1 2 a bench ruling today with an effective date of 3 March 1st and then subsequently issue a written 4 order confirming that, and if the Wyoming Commission were to do a bench ruling with a subsequent written 5 order, just looking at paragraph 20, when the 45 6 days -- and that's not based on effective date but 7 on Commission approval -- was it anticipated that 8 9 that would run beginning with the first -- I'm sorry, with the second bench ruling or with the 10 11 final written order? 12 MS. CLARK: I think as a technical 13 matter, it is intended to run with the final ruling that makes all of this effective. That said, I can 14 tell you and assure you that the Company and the 15 16 parties have already been talking. The Company is conducting analysis, and we will be prompt about 17 18 that. 19 COMMISSIONER LEVAR: When you say 20 final written ruling --21 MS. CLARK: I think it would be the 2.2 final bench ruling. If we were to get, for example, 23 a bench ruling from Wyoming on the 17th, we would deem the clock to begin running that day. 24 25 COMMISSIONER LEVAR: Okay. Any
Page 50 difference of opinion, Ms. Schmid? 1 2 MS. SCHMID: The Division would support the issuance of a bench order. 3 4 COMMISSIONER LEVAR: Thank you. Mr. Snarr? 5 6 MR. SNARR: We would agree with the running of the date as Ms. Clark has described. 7 8 COMMISSIONER LEVAR: Do you have any 9 position on a bench ruling today? MR. SNARR: It would be nice to have 10 11 it. We're here just to facilitate this process. 12 COMMISSIONER LEVAR: Thank you. Any 13 questions from Commissioner Clark or Commissioner White on the motion for bench ruling? 14 15 COMMISSIONER WHITE: Just to clarify, 16 is there any opposition to the effective date moving to the first of the month? Does that change the 17 position of the Office or the Division? 18 19 MS. SCHMID: It does not change the 20 position of the Division. 21 MR. SNARR: There's no objection to 2.2 that. 23 COMMISSIONER LEVAR: Why don't we then take a brief five-minute or so recess. If we 24 need longer than that, we will send somebody in the 25

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1	room to let you know that we might need longer.
2	Thank you.
3	(A brief recess was taken.)
4	COMMISSIONER LEVAR: We find that the
5	Settlement Stipulation presented in this docket is
6	just and reasonable and in the public interest, and
7	we conclude that it is consistent with the relevant
8	statutes and the previous Agreements and previous
9	Wexpro matters. We approve the Settlement
10	Stipulation with one change, and please let me know
11	if I have this change correct. On the first page of
12	the Settlement Stipulation where it says, near the
13	bottom of page 1, "This Settlement Stipulation shall
14	be effective upon the entry of final order of
15	approval by both Commissions," I think we're
16	changing that sentence to say, "It will be effective
17	March 1, 2017 contingent on approval by those two
18	Commissions." Please indicate to me if that change
19	is consistent with everybody's understanding.
20	MS. SCHMID: Consistent with the
21	Division's understanding.
22	COMMISSIONER LEVAR: Mr. Snarr?
23	MR. SNARR: Yes, it's consistent.
24	COMMISSIONER LEVAR: With that
25	change, we approve the Settlement Stipulation and we

Page 52 will, subsequent to this hearing, issue a written order confirming that bench ruling. Any other matters before we adjourn? MS. CLARK: No. Thank you. MS. SCHMID: Nothing further from the Division. MR. SNARR: Nothing further from the Office. COMMISSIONER LEVAR: Thank you. We're adjourned. (The proceedings concluded at 10:05 a.m.)

Page 53 1 2 REPORTER'S CERTIFICATE 3 STATE OF UTAH) COUNTY OF SUMMIT) 4 5 6 I, Mary R. Honigman, a Registered 7 Professional Reporter, hereby certify: THAT the foregoing proceedings were 8 taken before me at the time and place set forth in 9 10 the caption hereof; that the witness was placed 11 under oath to tell the truth, the whole truth, and 12 nothing but the truth; that the proceedings were 13 taken down by me in shorthand and thereafter my notes were transcribed through computer-aided 14 transcription; and the foregoing transcript 15 constitutes a full, true, and accurate record of 16 17 such testimony adduced and oral proceedings had, and of the whole thereof. 18 I have subscribed my name on this 19 20 20th day of March, 2017. 21 2.2 Mary R. Honigman 23 Registered Professional Reporter 24 25

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