

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY FOR APPROVAL OF THE ALKALI GULCH ACQUISITION AS A WEXPRO II PROPERTY	Docket No. 22-057-05
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REDACTED DIRECT TESTIMONY OF KELLY B MENDENHALL

FOR DOMINION ENERGY

Dominion Energy Redacted Exhibit 2.0

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I. INTRODUCTION

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

2 A. My name is Kelly B Mendenhall. 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 Energy (Company) as Director of Regulatory and Pricing. I
6 am responsible for state regulatory matters in Utah, Idaho, and Wyoming.

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

8 A. I have listed my qualifications in Dominion Energy Exhibit 2.1.

9 **Q. Attached to your written testimony are Dominion Energy Exhibits 2.1 through 2.2.
10 Were these prepared by you or under your direction?**

11 A. Yes.

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

13 A. The purpose of my testimony is to: 1) describe Wexpro's recent acquisition of natural gas
14 producing properties in and around the Wexpro I Development Drilling area identified in
15 this proceeding as the Alkali Gulch Acquisition, 2) explain the requirements for Dominion
16 Energy Utah to bring acquisitions to the Utah Public Service Commission (Utah
17 Commission) and the Wyoming Public Service Commission (Wyoming Commission)
18 (together, Commissions) for approval as a Wexpro II property; and 3) explain why
19 including the Alkali Gulch Acquisition as a Wexpro II property is in the public interest and
20 should be approved by the Commission.

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

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

II. ALKALI GULCH ACQUISITION

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

27 A. In March 2022, Wexpro Development Company (Wexpro Development or WDC) signed
28 an agreement with HRM to acquire 26 Bcfe PDP Reserves (55 existing wells) and 21 Bcfe
29 PUD Reserves (17 future wells) for a purchase price of [REDACTED]. Wexpro
30 Development owns 100% interest in all current and future wells of the Alkali Gulch Unit,
31 which comprises the majority of the purchase price value.

32 **Q. Are there any contingencies related to this agreement with HRM?**

33 A. Yes. There are two wells in Sparks Ridge just across the state line in Colorado that are part
34 of the [REDACTED] purchase price. The seller did not file an environmental report for 2020 with
35 the state of Colorado covering these wells. Wexpro discovered this oversight during the
36 due diligence phase of the transaction and required the seller to remedy the oversight with
37 Colorado prior to taking title to the wells. After the seller submits the required report for
38 2020 and 2021 and has resolved any potential penalties from the state of Colorado, Wexpro
39 will pay seller approximately [REDACTED] and take title to those wells.

40 **Q. Will Wexpro include this [REDACTED] purchase price in the Cost of Service before the**
41 **matter is resolved?**

42 A. No. While the purchase price of these wells is before the Commissions for approval to be
43 included as Wexpro II properties, Wexpro believes that this environmental matter will be
44 resolved and the properties will eventually be included as a Wexpro property. Assuming
45 the Commissions approve the inclusion of these wells, the actual inclusion of the cost of

46 the two wells at issue in the cost of service will not occur until the environmental issues
47 have been resolved and ownership of the wells has transferred to Wexpro.

48 **III. WEXPRO II AGREEMENT REQUIREMENTS**

49 **Q. Please explain the requirements for Wexpro acquisitions related to the Wexpro II**
50 **Agreement.**

51 A. A flow diagram summarizing the requirements for including properties under the Wexpro
52 I and Wexpro II agreements is attached as Dominion Energy Exhibit 2.2. As the exhibit
53 shows, if Wexpro makes an acquisition that falls within the Wexpro development drilling
54 area, Dominion Energy is required to bring the property to the Utah and Wyoming
55 Commissions for consideration to be included as Wexpro II properties. If the acquisition
56 falls outside of the Wexpro development drilling area, Wexpro has the option to seek
57 approval to include the property as a Wexpro property or to keep it as an unregulated
58 property in Wexpro Development Company where direct costs and overheads are assigned
59 to it and none of the production or costs are included as part of the Wexpro II portfolio.

60 **Q. Does the Alkali Gulch acquisition fall within the Wexpro development drilling area?**

61 A. [REDACTED]
62 [REDACTED]
63 [REDACTED]
64 [REDACTED]
65 [REDACTED]
66 [REDACTED]
67 [REDACTED]

68 **Q. Does Dominion Energy support the Alkali Gulch Acquisition?**

69 A. Yes. For a number of reasons, the Company believes that all of the wells, both those inside
70 and those outside of the development drilling area are beneficial to Dominion Energy

71 customers. As explained in Mr. Rasmussen's testimony, the Alkali Gulch Acquisition is in
72 an area where Wexpro already operates and has significant experience. Wexpro also has
73 had a significant interest in wells in this area. These wells were drilled by Mountain Fuel
74 and Wexpro over the last 60 years. Wexpro understands the geology, engineering and
75 production of these wells. These properties are currently some of the higher-producing and
76 the lowest-cost properties in the Wexpro I development drilling areas. The Wexpro II
77 concept was conceived to accommodate adding these types of acquisitions to Dominion
78 Energy's supply portfolio. In addition, given the volatility of the natural gas market,
79 increasing gas prices, and the project economics, which indicate that the Alkali Gulch
80 Acquisition will lower the cost of service for Wexpro gas, the Company believes the timing
81 of this acquisition and its inclusion as a Wexpro II Property is beneficial to the Company's
82 customers.

83 **Q. If the Alkali Gulch Acquisition is approved as a Wexpro II Property, would Wexpro**
84 **be able to develop the property in today's gas market?**

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

88 **Q. Does Dominion Energy Utah want Wexpro to develop gas reserves at or below today's**
89 **current 5-Year Forward Curve?**

90 A. Yes. Events like the Texas weather event in February 2021 and the Russia/Ukraine
91 geopolitical conflict highlight the value of gas supply that is reliable and stable in price. It
92 is good for customers anytime Wexpro can develop natural gas that will produce for 20 to
93 30 years at stable prices. Second, as more fully explained by Mr. Rasmussen, an ongoing
94 drilling program helps lower the per-unit cost of cost-of-service production and preserves
95 Wexpro's expertise and efficiencies in developing these properties.

IV. PUBLIC INTEREST

96 **Q. How could this acquisition be beneficial to customers?**

97 A. As Company Exhibit M shows, absent any new production, the percentage of Wexpro
98 production is expected to decline [REDACTED]

99 [REDACTED]
100 additional supply to help to stabilize the production. Additionally, these reserves will
101 provide natural gas production at prices that are expected to beat the five-year curve.

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

103 A. Yes, both the Utah and Wyoming Commissions should approve the Alkali Gulch
104 Acquisition as a Wexpro II property and find that it is in the public interest. The production
105 from Wexpro I wells comes from a defined set of properties that are clearly set forth in the
106 Wexpro I Agreement. Because of technological improvements in drilling, completion, and
107 production methods, these properties have produced longer and at greater levels than the
108 original parties to the Wexpro I Agreement anticipated. However, Wexpro production is
109 finite and limited to defined areas. The Company and Wexpro believe that including the
110 Alkali Gulch Acquisition properties will benefit Dominion Energy's customers.

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

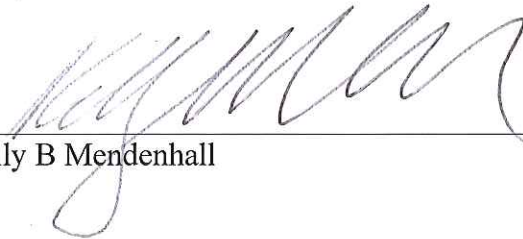
112 A. Yes.

State of Utah)

) ss.

County of Salt Lake)

I, Kelly B Mendenhall, 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.



Kelly B Mendenhall

SUBSCRIBED AND SWORN TO this 14th day of April, 2022.





Notary Public