–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

IN THE MATTER OF APPLICATION OF DOMINION ENERGY UTAH FOR APPROVAL OF THE ALKALI GULCH ACQUISITION AS A WEXPRO II PROPERTY	))))))))	**DOCKET NO. 22-057-05** **Exhibit No. DPU 1.0 DIR** **Direct Testimony**

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FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Direct Testimony of

Eric Orton

May 18, 2022

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INTRODUCTION

Q. PLEASE STATE YOUR NAME, BY WHOM YOU ARE EMPLOYED AND IN WHAT CAPACITY.

A. My name is Eric Orton. I work for the Utah Division of Public Utilities as a Technical Consultant.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. To provide the Division's position on the appropriateness of the Commission approving Dominion's application to include this Alkali Gulch acquisition as a Wexpro II property.

Q. IS THIS ACQUISITION SIMILAR TO OTHER PROPERTIES INCLUDED IN THE WEXPRO II AGREEMENT?

A. Yes. It is like the others in many respects, but each has its unique characteristics.

BACKGROUND

Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION APPLICABLE TO THIS APPLICATION.

A. The Wexpro II Agreement (Wexpro II or Agreement) was approved in 2012 and was derived from the Wexpro Stipulation and Agreement which was executed in 1981 (Wexpro I). The Wexpro II Agreement established a process by which additional properties may be identified, evaluated, and submitted for approved development and management.[1] The parties to the Wexpro II agreement were Wexpro Company (Wexpro), Questar Gas Company (Questar Gas or the Company), the Utah Division of Public Utilities (Division), and the Wyoming Office of Consumer Advocate (OCA) (Parties). In 2014 the Commission approved a settlement stipulation between the Parties to allow the first Wexpro II property to be included which was called the Trail Unit Stipulation. The next year, in 2015 the Commission approved another

[1] Wexpro II Agreement, page 1,

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settlement agreement between parties to include the Canyon Creek acquisition as a Wexpro II property. In 2017 the parties again entered a settlement stipulation to include the Vermillion properties under the Wexpro II agreement. This brings us to the current Wexpro II application before the Commission.

ALKALI GULCH UNIT

Q. PLEASE SUMMARIZE THE CURRENT APPLICATION.

A. Dominion is requesting this current acquisition called the Alkali Gulch Unit it acquired in March 2022 be included as a Wexpro II property. It is located near the area of some current Wexpro I production fields in Wyoming and Colorado. In support of the application, the Company provided 16 exhibits (mostly confidential) showing the property location, prospective drilling sites, expected production, historical production, and cost analysis.

Q. PLEASE BREIFLY DESCRIBE THE PROPERTY IN THE APPLICATION.

A. The Alkali Gulch Unit is a group of currently producing natural gas wells located near existing Wexpro I and Wexpro II properties (Trail, Whisky, and Canyon Units) in Southwestern Wyoming as shown in Dominion's Exhibit B of the application. Also, according to Wexpro personnel, it has been looking to acquire additional resources in the area, and these wells in particular, for quite some time.

PRODUCTION

Q. PLEASE EXPLAIN THE PRODUCTION RESULTING FROM THE PURCHASE.

A. The Alkali Gulch acquisition consists of [redacted] current well bores. Of the [redacted] are currently producing wells and are considered economic. There are [redacted] wells that are not producing enough to cover their costs or are considered uneconomic. Of these [redacted] uneconomic wells there are [redacted] that need to be abandoned and plugged in the current year and [redacted] more that need further analysis to determine if their producing lives are over or if they can be re-worked and may become productive again.

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Q. IS WEXPRO PLANNING TO SIMPLY MANAGE THESE ALREADY PRODUCING PROPERTIES?

A. No. The expected upside to this purchase is Wexpro's plan to drill [redacted] additional well locations in the Almond formation of the Mesa Verde stratigraphy by 2025. Assuming these new wells produce as forecasted, future production for this acquisition is estimated at [redacted] billion cubic feet (bcf) over the next five-year period or [redacted] bcf/year. These additional incremental volumes represent approximately a [redacted] increase over the existing production base for the current Wexpro I and II properties of [redacted] bcf/year. Wexpro personnel who will be managing these new properties already have decades of experience managing similar producing areas nearby.

COSTS

Q. WHAT IS THE COST OF THIS ACQUISITION?

A. The total purchase price agreed to on March 24, 2022, was [redacted] However, the final price will be adjusted for the amount of gas depreciated between March 24, 2022 and June 16, 2022, when the acquisition is expected to close. The intent is for the ratio of gas reserves to the final price to remain the same and thereby the price should be reduced to correlate with the remaining reserves that are available to customers as of June 16, 2022, as a percentage. In other words, the [redacted] was for the reserves as of March 24, 2022. Since that time the wells kept producing thereby reducing the total reserves available to customers on June 16, 2022. According to information provided by Wexpro, the sale of estimated reserves between March 24, 2022, and June 16, 2022, will reduce the price by approximately [redacted] based on a ratio of forecasted production.

Also, there is an outstanding issue with two wells in Colorado known as Sparks Ridge that are currently included in the March 24, 2022, purchase agreement. The total March-price assumes these issues are resolved, however, if they are not, the price paid would be reduced by roughly [redacted]. Therefore, the final price in June

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is expected to be somewhere near [redacted] or [redacted] depending on the resolution of this issue. See below.

[redacted]

Q. ARE THE GAS COSTS OF THIS ACQUISITION THE SAME OR NEARLY THE SAME EACH YEAR FOR THE NEXT FIVE YEARS OF THE FORECAST?

A. No. Wexpro is required to use the forward five-year price curve to determine if this purchase is equitable for Dominion Energy's natural gas customers. Confidential Exhibit 3.5 shows that the costs in the first year are significantly higher at [redacted]/dth than in the next four years which average [redacted]/dth.

Q. PLEASE EXPLAIN WHY THE COSTS OF PRODUCTION ARE HIGHER IN THE FIRST YEAR?

A. There are two main reasons. First, the effect of the [redacted] uneconomic wells mentioned above will result in increased costs in the first year, but not thereafter as Wexpro assumed zero production from these wells going forward. Basically, these first year costs are to plug and abandon [redacted] wells and to complete the additional work to determine the future of the other [redacted] currently uneconomic wells. Second, there are requirements that natural gas production companies accrue a portion of the end-of-life expenses over the life of the well. Since most of these wells have been producing for quite some time, there are some costs that need to be included to catch-up the bookkeeping and establish a reserve account for future plug and abandon costs. These two items increase costs in the first year and are the major reason why the price is higher in year one than in the rest of the forecast period.

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DIVISION'S POSITION

Q. DOES THE EVIDENCE PROVIDED BY THE APPLICANT SHOW THAT THIS PURCHASE IS BENEFICIAL TO RATEPAYERS?

A. Yes. According to the information in the application in Confidential Exhibit 3.5 Columns B and D, the price that Dominion Energy's customers would pay for their Wexpro gas will be less with this purchase included than it would be otherwise.

Q. WHAT ANALYSIS DID THE DIVISION DO TO DETERMINE ITS POSITION AND MAKE A RECOMMENDATION TO THE COMMISSION?

A. The Division examined the application as well as all exhibits. We also met with both Dominion Energy and Wexpro personnel for several hours. The Wexpro Hydrocarbon Monitor was intensely involved in providing his expertise to assist us in making our determination. He reviewed the production projections, hyperbolic exponents, drilling costs, operating expenses, and decline rates and concluded that the Company's projections are in-line with forecasts currently used in the area for existing Wexpro-managed wells.

Q. WHAT IS THE RESULT OF THIS ANALYSIS?

A. The Division recommends that the Alkali Gulch property be admitted as a Wexpro II property as outlined in the application.

Q. WHAT IS THE BASIS OF THIS RECOMMENDATION?

A. The additional gas supply resources are expected to slightly decrease the price of cost-of-service gas produced by Wexpro, as well as provide a supply hedge to Dominion's ratepayers. Also, even with the additional production volumes, Wexpro will remain below the established 55% production cap.

SUMMARY

Q. PLEASE SUMMARIZE THESE BENEFITS.

A. Of the [redacted] currently producing wells, [redacted] are currently uneconomic and will require extra work which results in increased costs the first year. However, the incremental Cost of Service (COS) for this acquisition is estimated to be less than the forecast market price per decatherm averaged over the next 5 years. Assuming the estimates are close to actual results, this acquisition would slightly reduce the average price of Wexpro cost-of-service gas. When combining the acquisition properties with current assets, the overall COS drops by a few cents per decatherm.

Q. WOULD THE INCREASED PRODUCTION FROM THIS ACQUISTION TAKE THE PERCENTAGE OF WEXPRO PRODUCTION ABOVE THE 55% THRESHOLD?

A. No. Based on the current projections of this production summed with the total Wexpro I and II production as shown in the applicants Confidential Exhibit M, the total Wexpro production will still be below the 55% IRP forecasted demand for gas over the next 6 years.

Q. PLEASE SUMMARIZE THE DIVISION'S POSITION.

A. The Division recommends the Commission approve the application and admit the Alkali Gulch Unit acquisition into the Wexpro managed properties. The existing production and additional drilling locations appear in line with past production and expectations from new drills for this area. Even with minor adjustments or forecasting errors, the acquisition should lower the overall COS for the customer and increase the gas volumes available while keeping their total production below the 55% IRP threshold allowed.

ADDITIONAL COMMENTS

Q. IS THERE ANYTHING ELSE THAT YOU WANT TO MENTION?

A. Yes. In Mr. Rasmussen's testimony beginning on line 54 he addresses what happens to the production from these wells and the associated revenues collected by Wexpro between the date the purchase is consummated and the date it becomes

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a Wexpro II managed property (assuming it is approved by the Commission). These numbers are shown in its Confidential Exhibit 3.5, which basically demonstrates that the ultimate purchase price will be reduced by the depreciation for the months Wexpro Development Company obtains control of the properties and the time it becomes a Wexpro II managed property. In essence it is telling us that the revenue generated by selling gas during that time frame goes to Wexpro Development Company. With the current high market price, the Division estimates that Wexpro Development could be earning as much as [redacted] per day or approximately [redacted] per month since it purchased this property in March 2022. The Division does not believe that Wexpro is acting contrary to the Wexpro II agreement or orders, and it does not appear that there has been any deliberate delay in presenting this property for approval. The Division recognizes that Wexpro Development is not required to bring all its acquisitions to the Commission for approval as a Wexpro II managed property. Based on the Division's review, it appears that Wexpro is managing cost-of-service gas for the best interest of the utility's customers.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

I certify that on May 18, 2022, I caused a true and correct copy of the foregoing Direct Testimony of Eric Orton to be filed with the Public Service Commission and served by the Utah Division of Public Utilities to the following in Utah Docket 22-057-05 as indicated below:

BY Electronic-Mail:

Dominion Energy Utah	
Austin Summers	austin.summers@dominionenergy.com
Jenniffer Nelson Clark	jenniffer.clark@dominionenergy.com
Kelly Mendenhall	kelly.mendenhall@dominionenergy.com
Cameron L. Sabin	csabin@mayerbrown.com
Office of Consumer Services	
Michelle Beck	mbeck@utah.gov
Alyson Anderson	akanderson@utah.gov
Alex Ware	aware@utah.gov
Utah Attorney General's Office	
Assistant Attorney Generals	
Patricia Schmid	pschmid@agutah.gov
Robert Moore	rmoore@agutah.gov

/S/ *Madison Galt*

Madison Galt, Legal Assistant
Utah Division of Public Utilities