

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
Dominion Energy Utah for Approval of the)	
Alkali Gulch Acquisition as a)	Docket No. 22-057-05
Wexpro II Property)	
)	

DIRECT TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

May 18, 2022

REDACTED VERSION

1 **Q. WHAT IS YOUR NAME, BUSINESS ADDRESS AND OCCUPATION?**

2 A. My name is Béla Vastag. My business address is 160 East 300 South Salt
3 Lake City, Utah 84111. I am a Utility Analyst for the Utah Office of
4 Consumer Services (OCS).

5 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS FOR PROVIDING**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. I have a Bachelor of Science in Physics from Virginia Tech and a Master of
8 Science in Finance from the University of Utah. I have been employed by
9 the OCS for over 11 years and have testified before the Public Service
10 Commission of Utah (PSC) numerous times. Relevant to this proceeding, I
11 have been involved for several years in the review of Dominion Energy
12 Utah's (DEU) annual integrated resource plan (IRP) and testified before the
13 PSC on DEU's acquisition of the Trail Unit under the Wexpro II agreement
14 in Docket No. 13-057-13.

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. I will address DEU's request in this proceeding for the PSC to approve the
17 Alkali Gulch Acquisition as a new Wexpro II property. I will review the
18 potential risks and benefits of this acquisition and provide the OCS's
19 recommendation on whether DEU's request should be approved.

20 **Q. WHAT INFORMATION DID YOU USE IN YOUR REVIEW OF THE ALKALI**
21 **GULCH ACQUISITION?**

22 A. Because the written direct testimonies submitted by DEU's witnesses¹ for
23 this case were rather brief, I spent considerable time reviewing and
24 analyzing the information provided in DEU's seventeen (17) Application
25 Exhibits (Exhibits A through P), Mr. Mendenhall's Exhibit 2.2 and Mr.
26 Rasmussen's Exhibits 3.2 to 3.5. I attended the May 10, 2022 technical
27 conference on this matter where DEU answered many of my questions. I
28 also used DEU's responses to the Division of Public Utilities' (DPU) and the
29 OCS's data requests in my review.

30 **Q. WHAT IS THE OCS'S RECOMMENDATION ON DEU'S REQUEST TO**
31 **INCLUDE ALKALI GULCH AS A WEXPRO II PROPERTY?**

32 A. Because it appears that the potential benefits of this acquisition outweigh
33 the potential risks, the OCS recommends that the PSC approve DEU's
34 request.

35

36 **Potential Risks of the Alkali Gulch Acquisition**

37 **Q. WHAT DO YOU SEE AS POTENTIAL RISKS TO RATEPAYERS OF DEU**
38 **INCLUDING ALKALI GULCH UNDER WEXPRO II?**

39 A. I evaluated two risks that I identified as potentially relevant:

40 1. The price of natural gas could fall significantly after DEU receives
41 approval to include Alkali Gulch in Wexpro II.

¹ Direct Testimonies of Kelly B. Mendenhall and Brady B. Rasmussen filed on April 14, 2022.

42 2. Production from Alkali Gulch could push Wexpro over its
43 production cap or limit of 55% of DEU's annual gas supply.

44 **Q. WHAT RISK DOES FALLING NATURAL GAS PRICES POSE FOR THE**
45 **ALKALI GULCH ACQUISITION?**

46 A. Currently high natural gas prices, well above \$4.00/Dth,² make the
47 acquisition of the producing wells in Alkali Gulch and the drilling of future
48 wells economical. For example, for forecasted production from Alkali Gulch
49 in 2023, the cost-of-service price is estimated to be \$3.42/Dth while the
50 forecasted market price is \$3.75/Dth.³ However, if market prices fall
51 significantly in the future, fall back to near the \$2.00/Dth level that was
52 common from 2012 to 2020, no new wells would be drilled on the Alkali
53 Gulch property because their costs would now not be able to meet the
54 Wexpro requirement that new wells produce gas with costs that are at or
55 below the NYMEX adjusted 5-year forward curve for natural gas prices. If
56 this were to happen, the portion of the purchase price for the Alkali Gulch
57 property allocated to new wells would be a sunk cost, borne by ratepayers.

58 In addition, if natural gas prices fall, Wexpro may have the option to
59 purchase properties like Alkali Gulch in the future at a lower price and/or
60 DEU could likely rely more heavily on lower-cost market purchases for its

² Front month NYMEX futures prices for natural gas were as high as \$6/Dth in the Fall of 2021 (October 2021) and recently (May 2022) have often been trading between \$7 and \$8/Dth (<https://tradingeconomics.com/commodity/natural-gas>).

³ See DEU's May 10, 2022 technical conference presentation, page 12. According to DEU, the 5-year price curve used for its analysis of Alkali Gulch is from February 2022 when market prices were lower than in May 2022.

61 gas supply providing savings for ratepayers versus the cost of Wexpro cost-
62 of-service gas.

63 **Q. HOW CONCERNED ARE YOU THAT NATURAL GAS PRICES COULD**
64 **FALL SIGNIFICANTLY?**

65 A. In our current environment which is still suffering from the effects of the
66 COVID-19 pandemic supply disruptions, much higher inflation than normal
67 and the war in Ukraine, I am not too concerned that natural gas prices could
68 fall back near the \$2.00/Dth level in the near future. Further mitigating my
69 concern is that Wexpro forecasts Alkali Gulch costs to decline in 2024 and
70 2025 to \$3.02/Dth and \$3.05/Dth, respectively.⁴ In my opinion, due to the
71 current environment and because the forecasted cost of Alkali Gulch gas in
72 2023 through 2026 is fairly low, i.e. considerably below \$4.00/Dth, I believe
73 the risk that natural gas market prices could drop to near \$2.00/Dth is a risk
74 worth taking.

75 **Q. WHAT ABOUT YOUR CONCERN THAT LOW PRICES IN THE FUTURE**
76 **COULD MAKE DRILLING NEW WELLS ON THE ALKALI GULCH**
77 **PROPERTY NOT ECONOMICAL AND THUS THE PURCHASE COST OF**
78 **THESE WELLS IS LOST?**

79 A. I am also not too concerned about this risk. Of the [REDACTED] purchase
80 price for the property, only [REDACTED] was allocated to new drill locations.⁵

⁴ Ibid.

⁵ May 10, 2022 technical conference presentation, page 17.

81 This represents only about [REDACTED] of the purchase price for Alkali Gulch. Also,
82 Confidential Exhibit L of DEU's Application shows that the annual
83 forecasted cost for these new wells is between [REDACTED]/Dth and [REDACTED]/Dth for
84 2023 through 2026. These prices are quite low, further reducing risk.

85 **Q. IF FUTURE MARKET PRICES ALLOW NEW WELLS TO BE DRILLED**
86 **ON THE ALKALI GULCH PROPERTY, WOULD WEXPRO BE IN**
87 **DANGER OF EXCEEDING ITS 55% CAP OF DEU'S ANNUAL GAS**
88 **SUPPLY?**

89 A. No. Confidential Exhibit M shows that Wexpro's production including the
90 forecasted output from existing and new Alkali Gulch wells remains
91 comfortably below the 55% cap through 2027. And as discussed later in
92 my testimony, Wexpro could even make a request to temporarily move its
93 cap up to 65% and thus the Alkali Gulch acquisition would easily be
94 manageable within the cap.

95

96 **Potential Benefits of the Alkali Gulch Acquisition**

97 **Q. WHAT DO YOU SEE AS THE POTENTIAL BENEFITS FROM ADDING**
98 **THE ALKALI GULCH PROPERTY TO THE WEXPRO II AGREEMENT?**

99 A. I see the following benefits of adding Alkali Gulch:

- 100 1. DEU already has experience drilling new wells in the area where
101 Alkali Gulch is located.
- 102 2. We are currently in a high price environment and Alkali Gulch can
103 provide lower cost natural gas for ratepayers.

- 104 3. Recent events such as wars, extreme weather and the pandemic
105 have caused natural gas price volatility to increase and Alkali
106 Gulch cost-of-service gas can provide additional supply hedging
107 and increased price stabilization.
- 108 4. By increasing the supply of DEU-owned cost-of-service gas,
109 Alkali Gulch can also support natural gas supply reliability and
110 help mitigate the risk of supply disruptions like those seen in
111 some regions during the February 2021 deep freeze event in the
112 central US.

113 **Q. HOW IS THE LOCATION OF THE ALKALI GULCH PROPERTY A**
114 **BENEFIT IN TERMS OF PROVIDING LOW PRICED COST-OF-SERVICE**
115 **GAS FOR RATEPAYERS?**

- 116 A. The Alkali Gulch property is in an area where Wexpro already operates and
117 has a long history of drilling successful wells. DEU witness Brady
118 Rasmussen states that "[REDACTED]
119 [REDACTED]"⁶ When
120 reviewing the projected new well capital costs for Alkali Gulch from
121 Confidential Exhibit F, the costs are very comparable to what Wexpro
122 projected for the [REDACTED]
123 [REDACTED] Wexpro's experience in this area is a benefit which should help
124 reduce the cost of new wells drilled on the Alkali Gulch property.

⁶ Rasumssen Direct Testimony, lines 44 – 45.

125 **Q. WHY IS LOCKING IN THE ALKALI GULCH COST-OF-SERVICE PRICE**
126 **A BENEFIT FOR RATEPAYERS AT THIS TIME?**

127 A. As I discussed earlier in my testimony, we have seen market prices for
128 natural gas as high as \$6.00/Dth in late 2021 and are currently seeing prices
129 sometimes above \$8.00/Dth. DEU provides evidence in its filing that
130 starting in 2023, gas produced from the Alkali Gulch property will have a
131 cost-of-service price well below \$4.00/Dth.⁷ At this time of high gas prices,
132 this additional lower priced cost-of-service natural gas would be a clear
133 benefit to ratepayers.

134 **Q. IN ADDITION TO THE IMMEDIATE COST SAVINGS, ARE THERE**
135 **OTHER BENEFITS FOR RATEPAYERS FROM THE ALKALI GULCH**
136 **ACQUISITION?**

137 A. Yes. Cost-of-service natural gas from Alkali Gulch would act as a hedge
138 against future market price volatility (i.e. provide price stabilization) and
139 could also provide for increased supply reliability in the event of a supply
140 disruption.

141 **Q. HAVE THE OCS, DPU AND DEU WORKED TOGETHER RECENTLY TO**
142 **ADDRESS THE NEED FOR MORE NATURAL GAS PRICE**
143 **STABILIZATION AND SUPPLY RELIABILITY?**

⁷ See DEU Confidential Exhibit L and Confidential Exhibit 3.5 and the May 10, 2022 technical conference presentation pages 12, 25 and 27.

144 A. Yes, the natural gas supply disruptions and related extreme price spikes
145 that occurred in February 2021 caused parties to work together to explore
146 ways to protect ratepayers from these types of events. As discussed in
147 more detail in the OCS's October 1, 2021 comments on DEU's 2022 IRP,⁸
148 this one-week event in February 2021 cost DEU ratepayers an additional
149 \$60 million and exposed the need for additional fixed price, reliable gas
150 supply. One strategy the parties agreed upon was to allow Wexpro to
151 increase production above its 55% cap in certain circumstances. Soon
152 after, a Settlement Stipulation was filed on February 2, 2022 in Docket No.
153 22-057-04 that now allows DEU to request approval from the PSC to
154 increase the Wexpro cap up to 65% under certain conditions to benefit
155 ratepayers.⁹

156 As discussed earlier in my testimony, even with the addition of new
157 gas from Alkali Gulch, Wexpro will remain below its current 55% cap.
158 However, the addition of Alkali Gulch would provide some gas supply
159 hedging and reliability benefits that parties were seeking in their discussions
160 in late 2021 and in developing the Wexpro Cap Stipulation in early 2022.
161 These benefits are also factors supporting the OCS's recommendation that
162 the PSC approve Alkali Gulch as a Wexpro II property.

163

⁸ See Docket No. 21-057-01, OCS Comments on October 1, 2021, pages 5 - 7
(<https://psc.utah.gov/2021/01/07/docket-no-21-057-01/>)

⁹ The PSC issued an Order approving the Wexpro Cap Settlement on April 13, 2022.

164

165 **Recommendation**

166 **Q. DOES THE OCS RECOMMEND THAT THE PSC APPROVE DEU'S**
167 **REQUEST TO INCLUDE ALKALI GULCH AS A WEXPRO II PROPERTY?**

168 A. Yes. As I describe above, the benefits of including Alkali Gulch in Wexpro
169 outweigh the risks and the OCS recommends that the PSC approve DEU's
170 request.

171

172 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

173 A. Yes it does.

REDACTED