

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF DOMINION ENERGY FOR APPROVAL OF THE HORSESHOE BEND DEVELOPMENT AS A WEXPRO II PROPERTY	Docket No. 24-057-03
--	----------------------

REDACTED DIRECT TESTIMONY OF BRADY B. RASMUSSEN

FOR DOMINION ENERGY

Dominion Energy Redacted Exhibit 3.0

TABLE OF CONTENTS

I. INTRODUCTION.....1

II. HORSESHOE BEND DEVELOPMENT2

III. WEXPRO’S DRILLING PROGRAM.....4

IV. MANAGEMENT OF HORSESHOE BEND PROPERTY PRODUCTION7

I. INTRODUCTION

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

2 A. My name is Brady B. Rasmussen. My business address is 333 South State Street, Salt
3 Lake City, Utah.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Wexpro Company (“Wexpro”) as Vice President and General
6 Manager. I oversee and am responsible for managing drilling, development, and
7 operations associated with Wexpro’s cost-of-service properties. I am also responsible for
8 compliance associated with oil and gas operations and compliance with the Wexpro I and
9 Wexpro II Agreements.

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

11 A. I have listed my qualifications in Dominion Energy Exhibit 3.1.

12 **Q. Attached to your written testimony are Dominion Energy Exhibits 3.1 through 3.3.
13 Were these prepared by you or under your direction?**

14 A. Yes.

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

16 A. The purpose of my testimony is to: 1) provide an overview of the Horseshoe Bend
17 Farmout Agreement (“Farmout” or “Farmout Agreement”) provided as Dominion Energy
18 Confidential Exhibit K; 2) explain how Wexpro determines its annual drilling program;
19 3) explain how Wexpro can continue to drill at or below the 5-Year Forward Curve; 4)
20 explain what Wexpro is doing and will continue to do to help reduce the overall price of
21 cost-of-service gas; and 5) identify the guideline letters that will apply to the Horseshoe

22 Bend development (“Horseshoe Bend Development” or “Development”) if it is included
23 as a Wexpro II property.

24 **Q. Are you familiar with the Verified Confidential Application and accompanying**
25 **exhibits filed in this Docket?**

26 A. Yes. Many of the exhibits were prepared under my supervision and direction.

27 **II. HORSESHOE BEND DEVELOPMENT**

28 **Q. Please describe what a “farmout” is.**

29 A. An oil and gas farmout agreement is an agreement by one who owns drilling rights to
30 assign all or a portion of those rights to another in return for drilling and testing on the
31 property. The individual or entity that owns the lease, called the “farmor” is said to “farm
32 out” its rights. The person or entity that receives the right to drill, referred to as the
33 “farmee” is said to have “farmed in” to the lease or to have entered into a “farm-in
34 agreement”. The classic farmout structure gives the farmee a 100% interest in the drillsite
35 acreage until payout and an undivided interest in acreage outside the drillsite.

36 Farmouts are very common in the oil and gas industry, as they serve a variety of purposes
37 for both farmors and farmees. The farmor’s purposes for farming out acreage include (a)
38 lease preservation, (b) lease salvage, (c) risk sharing, (d) exploration and evaluation, (e)
39 access to market, or (f) obtaining reserves. The farmee’s purposes, which often overlap
40 with the farmor’s, include (1) a quick and economical way to obtain or expand an acreage
41 position to obtain reserves, (2) employing cash, or equipment and personnel that it wishes
42 to keep busy, (3) evaluating a property that the farmor has dismissed as a poor prospect,
43 or (4) becoming active in an area, but be unwilling or unable to take the risks alone. See
44 generally John S. Lowe, “Analyzing Oil and Gas Farmout Agreements,” 41 Sw. L. J. 759
45 (1987).

46 The Horseshoe Bend Farmout Agreement between Wexpro and [REDACTED]
47 (“[REDACTED]”) follows the classic definition of a farmout provided above. [REDACTED] (the farmor)
48 owns two leases and has assigned to Wexpro (the farmee) the rights to drill two wells (one
49 on each lease).

50 **Q. What led to Wexpro’s development of the Horseshoe Bend property?**

51 A. In July 2023, [REDACTED]
52 [REDACTED]
53 [REDACTED]
54 [REDACTED]
55 [REDACTED]
56 [REDACTED]
57 [REDACTED]
58 [REDACTED]

59 [REDACTED] The Agreement was signed on October 16,
60 2023 and Wexpro began drilling the two wells in mid-December 2023. A copy of the
61 Farmout Agreement is attached to this Application as Dominion Energy Confidential
62 Exhibit K.

63 **Q. Why would this property be valuable for Dominion Energy’s customers?**

64 A. [REDACTED]
65 [REDACTED]
66 [REDACTED] Wexpro believes that these properties have great value to
67 Dominion Energy¹ customers and hopes that the Utah Public Service Commission (“Utah
68 Commission”) and the Wyoming Public Service Commission (“Wyoming Commission”)

¹ I refer to Questar Gas Company dba Dominion Energy Utah (in Utah), Dominion Energy Wyoming (in Wyoming), and Dominion Energy Idaho (in Idaho) as “Dominion Energy” throughout my testimony.

69 (together with the Utah Commission, “Commissions”) will approve their inclusion as
70 Wexpro II properties. Wexpro was willing to develop the first two wells at its own risk,
71 regardless of whether they are included as Wexpro II properties. Wexpro believes these
72 properties would be equally beneficial to shareholders if developed outside the Wexpro II
73 Agreement.

74 **Q. Who bears the risk of the property acquisition until the Commissions either approve**
75 **or reject the new properties as Wexpro II Properties?**

76 A. Wexpro bears the burden and risk of developing this property and producing the gas until
77 the Commissions decide whether or not to approve them as Wexpro II properties. The
78 Development does not include any currently producing wells so no gas is currently being
79 sold on the open market.

80 **Q. If the Horseshoe Bend Development is not included as a Wexpro II Property, does**
81 **Wexpro plan to produce this property for other potential customers?**

82 A. Yes. If the Development is not approved for inclusion as a Wexpro II Property, Wexpro
83 would still produce the natural gas from the Development for other customers.

84 **III. WEXPRO’S DRILLING PROGRAM**

85 **Q. Please explain how Wexpro determines its annual drilling program?**

86 A. Throughout the year, Wexpro reviews its inventory of potential future wells to determine
87 an efficient mix of low-cost wells, leasehold obligation wells, and wells that must be drilled
88 in accordance with Bureau of Land Management mandates governing well development.

89 **Q. How does Wexpro help ensure that development drilling properties are cost effective?**

90 A. Wexpro will only contract for a drilling rig once Wexpro has developed a drilling program,
91 the Hydrocarbon Monitor² has reviewed the program, and the wells can provide cost-of-
92 service production that is, on average, at or below the 5-Year Forward Curve. Contracting
93 for drilling and completion services typically occurs six months before drilling
94 commences.

95 **Q. Given today's volatile natural gas prices, can Wexpro continue a drilling program
96 and provide cost-of-service gas at or below the 5-Year Forward Curve?**

97 A. Yes, for a number of reasons. First, the stipulation approved in the Canyon Creek dockets³
98 resulted in lowering the return Wexpro earns from newly-drilled wells. Second, the market
99 price of gas has significantly increased in recent years, which has led to significant
100 customer savings from Wexpro production.

101 **Q. How does having an ongoing drilling program benefit Dominion Energy customers?**

102 A. Attached as Dominion Energy Exhibit 3.2 is a chart representing the typical cumulative
103 production of a well. As the chart shows, about half of the production from a typical well
104 is produced during the first five years of its 20 to 30-year life. If these volumes are not
105 replaced with volumes from new wells, then fixed costs of producing wells will be spread
106 over fewer and fewer volumes thus causing the cost per-unit to go up. A drilling program
107 helps to keep costs per-dekatherm lower. In addition, given the volatility of natural gas
108 prices during the past few years, and the increase in gas prices over the past year, an

² The Hydrocarbon Monitor is an independent evaluator retained by the Utah Division of Public Utilities to review Wexpro's drilling program, as well as any new properties proposed to be included as Wexpro II properties. See Section IV of the Wexpro II Agreement.

³ Utah Docket No. 15-057-10; Wyoming Docket No. 30010-145-GA-15.

109 ongoing drilling program as proposed in this Application will help to keep gas prices stable
110 and low for Dominion Energy customers.

111 **Q. Are there other benefits of having an ongoing drilling program?**

112 A. Yes, having a continuous drilling program ensures Wexpro can continue to provide
113 customers cost-efficient operations. Starting and stopping a drilling program by erratically
114 adding and removing drilling and completions personnel can be very costly and inefficient.
115 Also, in times of industry growth, Wexpro struggles to find and retain qualified personnel,
116 which it has experienced many times over the decades. Consistently adding wells to the
117 portfolio keeps costs lower and avoids the “boom and bust” approach that is often
118 associated with this industry. The key is being able to add wells at or below the current 5-
119 Year Forward Curve.

120 **Q. If the Commissions approve the Horseshoe Bend properties to be included as Wexpro
121 II properties, will it reduce the overall cost of service?**

122 A. Yes. Column B of Dominion Energy Confidential Exhibit 3.3 shows forecasted cost of
123 service prices without the Horseshoe Bend Development. Column C shows the anticipated
124 cost of service from the Horseshoe Bend Development by itself. Column D shows a
125 forecast of the overall Wexpro II cost of service if the Commissions agree to include the
126 Horseshoe Bend properties’ production in Wexpro II. As is clear from the exhibit, adding
127 the Horseshoe Bend Development as a Wexpro II property will further reduce the cost of
128 service.

129 **IV. MANAGEMENT OF HORSESHOE BEND PROPERTY PRODUCTION**

130 **Q. How will Wexpro manage the Horseshoe Bend properties if the Commissions approve**
131 **the request to include those properties as Wexpro II properties?**

132 A. Wexpro and Dominion Energy will continue to coordinate to manage cost-of-service
133 production to ensure that customers have a long-term reliable supply of low-cost gas now
134 and in the future. Wexpro understands the dynamics surrounding Dominion Energy's
135 current gas supply.

136 **Q. Can Wexpro continue to comply with the 55% supply limitation if the Commissions**
137 **approve the inclusion of the Horseshoe Bend properties as Wexpro II properties?**

138 A. Yes. Dominion Energy Application Exhibit M shows that the addition of the Horseshoe
139 Bend Development as a Wexpro II property will not cause Wexpro to produce volumes
140 over the 55% supply limit. It will, however, increase the benefit of allocating fixed costs
141 over the greater number of volumes, thus helping to reduce the cost of service as discussed
142 above.

143 **Q. If the Horseshoe Bend Development is approved as a Wexpro II property, are there**
144 **Guideline Letters that will apply to the property?**

145 A. Yes. The Horseshoe Bend Development property is subject to the guideline letters that can
146 be found on Dominion Energy's website⁴.

⁴ <https://www.dominionenergy.com/our-company/delivering-energy/dominion-energy-wexpro>

147 **Q. In summary, what are your recommendations regarding the Horseshoe Bend**
148 **Properties?**

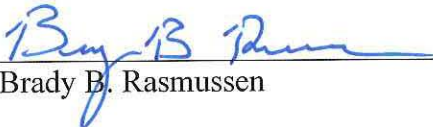
149 A. The Horseshoe Bend Development is a low-risk opportunity for Wexpro to produce
150 additional volumes at cost of service prices for Dominion Energy customers because [REDACTED]
151 [REDACTED] Additionally, the projected
152 properties will produce at prices below the five-year curve. The future wells will still need
153 to beat the 5-Year Forward Curve and pass the economic test after they are drilled to be
154 included into the investment base. This protects the customers from uneconomic
155 investment.

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

157 A. Yes.

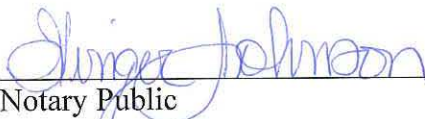
STATE OF UTAH)
) ss.
COUNTY OF SALT LAKE)

I, Brady B. Rasmussen, 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. 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.



Brady B. Rasmussen

SUBSCRIBED AND SWORN TO this 1st day of February, 2024.



Notary Public

