

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
Dominion Energy Utah for Approval of the)	
Horseshoe Bend Development as a)	Docket No. 24-057-03
Wexpro II Property)	
)	

DIRECT TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

March 4, 2024

REDACTED VERSION

1 **Introduction and Overall Recommendation**

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

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

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

8 A. I have a Bachelor of Science in Physics from Virginia Tech and a Master of
9 Science in Finance from the University of Utah. I have been employed by
10 the OCS for over 13 years and have testified before the Public Service
11 Commission of Utah (“PSC”) on numerous occasions. Relevant to this
12 proceeding, I have been involved since 2013 in the analysis and preparation
13 of the OCS’s comments on Dominion Energy Utah’s (“DEU”) annual
14 integrated resource plan (“IRP”) and have testified before the PSC on
15 DEU’s acquisitions of both the Trail Unit and Alkali Gulch properties under
16 the Wexpro II agreement in Docket Nos. 13-057-13 and 22-057-05.

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

18 A. I will address DEU’s request in this proceeding for the PSC to approve the
19 Horseshoe Bend Development as a new Wexpro II property. I will discuss
20 if the inclusion of Horseshoe Bend in Wexpro II can deliver benefits for
21 ratepayers and I will provide the OCS’s recommendation on whether DEU’s
22 request should be approved.

23 **Q. WHAT INFORMATION DID YOU USE IN YOUR REVIEW OF THE**
24 **HORSESHOE BEND DEVELOPMENT PROPERTY?**

25 A. I primarily focused on reviewing and analyzing the information provided in
26 DEU's sixteen (16) Application Exhibits (Exhibits A through P) and Mr.
27 Rasmussen's Exhibit 3.3. I also attended the February 21, 2024 technical
28 conference where DEU provided a very helpful overview of the potential
29 new property and answered many of my and the Division of Public Utilities'
30 questions. A copy of the confidential technical conference presentation was
31 provided to parties by DEU; and because it contained additional information
32 not found in the Application, was also useful in my review. I also reviewed
33 DEU's responses to my discovery requests regarding Horseshoe Bend
34 natural gas well capital and operating expenses.

35 **Q. WHAT IS THE OCS'S RECOMMENDATION ON DEU'S REQUEST TO**
36 **INCLUDE THE HORSESHOE BEND DEVELOPMENT AS A WEXPRO II**
37 **PROPERTY?**

38 A. Because it appears that the inclusion of the property in Wexpro II will
39 provide benefits to ratepayers, I recommend that the PSC approve DEU's
40 request.

41

42 **Discussion of Ratepayer Benefits Provided by Horseshoe Bend**

43 **Q. WHAT ARE THE POTENTIAL BENEFITS FOR RATEPAYERS IF DEU**
44 **INCLUDES THE HORSESHOE BEND DEVELOPMENT UNDER**
45 **WEXPRO II?**

- 46 A. I see the following potential ratepayer benefits of including the Horseshoe
47 Bend Development:
- 48 1. Because of the nature of the farmout agreement under which this new
49 supply of natural gas will be acquired, there are no up-front property
50 acquisition costs that ratepayers would be at risk of losing if new drilling
51 on the Horseshoe Bend Development property is halted for any reason,
52 including if drilling new wells became uneconomical due to falling market
53 prices of natural gas, i.e. new wells not being able to beat the 5-year
54 curve.
- 55 2. DEU's analysis shows that drilling in the Horseshoe Bend Development
56 will provide for ratepayers a cost-effective natural gas price hedge by
57 delivering new long term supplies of natural gas at reasonable costs
58 ranging from [REDACTED] per Dth¹.
- 59 3. Adding Horseshoe Bend to Wexpro II helps maintain a higher production
60 level of Wexpro cost of service ("COS") gas supply which serves as a
61 physical hedge against volatility in both natural gas market prices and
62 supply reliability. For example, in 2028, the additional supply from
63 Horseshoe Bend would add [REDACTED] to COS supply, keeping total COS at
64 [REDACTED] of total annual DEU gas supply and closer to the agreed upon
65 55% cap.²

¹ See Column C of DEU Confidential Exhibit 3.3.

² See DEU Confidential Exhibit M.

66 **Q. WHY IS ACQUIRING THE HORSESHOE BEND PROPERTY UNDER A**
67 **FARMOUT AGREEMENT A BENEFIT TO RATEPAYERS?**

68 A. In its application and testimony³, DEU describes the details of the farmout
69 agreement and I will not repeat that information here. However, I will point
70 out an aspect of the farmout structure that reduces risk and thus is a benefit
71 to ratepayers if the Horseshoe Bend Development becomes a Wexpro II
72 property. Unlike DEU's acquisition of the Alkali Gulch property in Docket
73 No. 22-057-05, there are no property acquisition costs. Instead, the current
74 owner retains the drilling leases in the Horseshoe Bend property, Wexpro
75 drills the wells and the costs of drilling and gas produced are shared by the
76 two parties. Not having property acquisition costs is a benefit to ratepayers.

77 **Q. WHY IS THE LACK OF ACQUISITION COSTS A BENEFIT TO**
78 **RATEPAYERS IF HORSESHOE BEND BECOMES A WEXPRO**
79 **PROPERTY?**

80 A. It is a benefit because it eliminates the risk of stranded costs if drilling new
81 wells on the property becomes uneconomical. Before new wells can be
82 drilled under the Wexpro Agreement, the projected COS price per Dth of
83 those new wells must first pass an economic test. The COS price must be
84 lower than the five-year forward curve which is based on the adjusted
85 NYMEX forward index for natural gas prices ("Rockies Basis").⁴ If the COS

³ See Confidential Direct Testimony of Kelly B. Mendenhall, lines 25 – 33, Confidential Direct Testimony of Brady B. Rasmussen lines 28 – 62 and DEU Confidential Exhibit K.

⁴ See DEU Exhibit A.

86 price for a new well were to remain above the five-year Rockies Basis for
87 an extended period, no new wells would be drilled and any unamortized
88 acquisition costs could become a sunk cost for ratepayers, which would
89 increase the COS price for existing producing Horseshoe Bend wells.

90 **Q. WEXPRO HAS ALREADY DRILLED TWO WELLS IN THE HORSESHOE**
91 **BEND DEVELOPMENT. WOULD THESE TWO WELLS PROVIDE**
92 **RATEPAYER BENEFITS?**

93 A. As explained in DEU's testimony, the farmout agreement required Wexpro
94 to drill two initial wells⁵ ([REDACTED] [REDACTED]⁶). These two wells
95 have been drilled [REDACTED].⁷
96 Column C of DEU Confidential Exhibit 3.3 shows that the cost of Horseshoe
97 Bend gas in 2024 is expected to be [REDACTED] per Dth. When compared to
98 Figure 1 below of recent Henry Hub natural gas prices, Horsebend's cost in
99 2024 [REDACTED]
100 [REDACTED]. With the market volatility seen in Figure 1, I believe that
101 locking in COS gas at [REDACTED] from these two wells is a benefit
102 to ratepayers. Due to the price volatility seen in 2021 and 2022, DEU sought
103 additional price hedges and acquired additional gas under fixed priced
104 contracts for the heating seasons of 2022/2023 and 2023/2024 which were

⁵ Direct Testimony of Brady B. Rasmussen, lines 48 and 60.

⁶ Confidential Direct Testimony of Kelly B. Mendenhall, lines 32 to 33.

⁷ DEU confirmed this verbally at the February 21, 2024 technical conference.

105 priced well above the projected cost for this Horseshoe Bend gas.⁸
 106 Therefore, I see that these two initial Horseshoe Bend wells will provide
 107 hedging benefits for ratepayers.

108

109

Figure 1 - CME Globex Henry Hub Natural Gas Futures - \$/MMBtu



source: tradingeconomics.com

110

111

112 **Q. YOU STATED EARLIER THAT HORSESHOE BEND WILL HELP**
 113 **WEXPRO STAY CLOSER TO ITS 55% CAP FOR COS GAS**
 114 **PRODUCTION. WHY IS THIS A BENEFIT FOR RATEPAYERS?**

⁸ See DEU IRP Technical Conference presentations from April 25, 2023 pages 24 to 25 (Docket No. 23-057-02) showing fixed pricing at \$8.00 per Dth and February 15, 2024 (Docket No. 24-057-04) page 13 showing fixed pricing at approximately \$7.50 per Dth.

115 A. We have seen recently how valuable Wexpro COS gas can be as a hedge
116 against natural gas market price volatility, especially here in the West.
117 Recent events such as those in February 2021 (Winter Storm Uri affecting
118 Texas and neighboring states) and December 2022/January 2023 (West
119 Coast supply constraints coupled with increased natural gas demand)
120 caused extreme spikes in natural gas prices. The full extent of the price
121 volatility from these events is not shown in Figure 1 above. In February
122 2021, DEU saw prices here in the West for its market purchases of natural
123 gas rise above \$160 per Dth, while in December 2022 prices rose above
124 \$50 per Dth.⁹ The price spike in December 2022 was especially painful for
125 ratepayers because DEU's first of month ("FOM") priced contracts were set
126 at those high prices and ratepayers were forced to pay those high prices for
127 an entire month during the coldest part of the winter. Wexpro gas
128 production is a hedge against these pricing events and production from
129 Horseshoe Bend will provide ratepayer benefits by helping Wexpro's
130 production stay closer to its 55% cap, maintaining the hedging value of its
131 COS gas supply. As highlighted earlier in my testimony, in 2028 the
132 additional supply from Horseshoe Bend would add ██████ to Wexpro's COS
133 supply, keeping total COS at an annual percentage of ██████ instead of
134 falling to ██████ without Horseshoe Bend.

⁹ See April 28, 2021 DEU IRP Technical Conference Presentation, page 11 (Docket No. 21-057-01) and April 25, 2023 DEU IRP Technical Conference Presentation, page 37 (Docket No. 23-057-02).

135 **Q. IN ADDITION TO THE PRICE HEDGING BENEFITS, ARE THERE**
136 **OTHER BENEFITS FOR RATEPAYERS FROM DEU'S ACQUISITION OF**
137 **THE HORSESHOE BEND DEVELOPMENT?**

138 A. Yes. Cost of service natural gas from Horseshoe Bend could also provide
139 for increased supply reliability in the event of a supply disruption. As
140 discussed above, the \$50 per Dth prices seen in December 2022 were
141 partly caused by an outage on a Texas natural gas pipeline (El Paso Natural
142 Gas) that constrained gas from flowing to the West.¹⁰ Additional COS gas
143 supply can act like an insurance policy when supply disruptions occur that
144 affect DEU's market-sourced gas purchases.

145

146 **Recommendation**

147 **Q. DOES THE OCS RECOMMEND THAT THE PSC APPROVE DEU'S**
148 **REQUEST TO INCLUDE THE HORSESHOE BEND DEVELOPMENT AS**
149 **A WEXPRO II PROPERTY?**

150 A. Yes. As I describe above, it is my opinion that Horseshoe Bend will provide
151 benefits to ratepayers and the OCS recommends that the PSC approve
152 DEU's request.

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

154 A. Yes it does.

¹⁰ See <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/011323-us-west-gas-prices-whiplash-again-contributing-to-historic-shifts-in-regional-flows>