

-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
Exhibit No. DPU 1.0 DIR

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

Direct Testimony of

Eric Orton

March 4, 2024

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TITLE.**

3 A. My name is Eric Orton. My business address is 160 East 300 South, Salt Lake City,
4 Utah 84114. I am a Technical Consultant in the Utah Division of Public Utilities
5 (Division).

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

7 A. The Division.

8 **Q. WOULD YOU SUMMARIZE YOUR RELEVANT BACKGROUND FOR THE**
9 **RECORD?**

10 A. I have been employed in utility regulation by the State of Utah for over 25 years,
11 focusing mainly on this natural gas utility and its ancillary industries.

12 **SUMMARY**

13 **Q. PLEASE SUMMARIZE THE PURPOSE OF YOUR TESTIMONY.**

14 A. My purpose is to summarize the relevant information for the Public Service
15 Commission of Utah (Commission) and provide a recommendation based on our
16 analysis of the information provided and forecasts used by Dominion Energy Utah
17 (Dominion or the Company) related to its Application for Approval of the Horseshoe
18 Bend Development (Horseshoe Bend) as a Wexpro II Property (Application).

19 **BACKGROUND**

20 **Q. PLEASE PROVIDE SOME BACKGROUND INFORMATION PERTAINING TO**
21 **THIS APPLICATION.**

22 A. The Wexpro II Agreement was approved in 2012 and was derived from, and
23 supplementary to, the Wexpro Stipulation and Agreement, which was executed in
24 1981 (Wexpro I). The parties to the Wexpro II agreement were Wexpro Company
25 (Wexpro), DEU's predecessor Questar Gas Company, the Division, and the
26 Wyoming Office of Consumer Advocate (OCA) (Parties). The Wexpro II Agreement

27 established a process by which Dominion may identify, evaluate, and seek approval
28 for additional properties to be developed and managed as Wexpro II properties.¹

29 The Commission has approved several settlements for Wexpro II properties. In
30 2014, the Commission approved a settlement stipulation between the parties, the
31 Trail Unit Stipulation, to allow the first property to be included under the Wexpro II
32 Agreement.² The next year, in 2015, the Commission approved another settlement
33 agreement between parties to include the Canyon Creek acquisition as a Wexpro II
34 property.³ In 2017, the parties again entered a settlement stipulation to include the
35 Vermillion properties under the Wexpro II agreement.⁴

36 In 2022, Dominion filed two applications with the Commission. The first, filed in
37 February, proposed to increase the ceiling of Wexpro gas as part of the gas supply
38 mix up to 65% (with plans to reduce it back to 55%). The second, filed in April,
39 sought approval to include a property called Alkali Gulch under the Wexpro II
40 agreement.⁵ Both applications were approved.

41 This brings us to the current Wexpro II application before the Commission.

42 **Q. PLEASE SUMMARIZE THE APPLICATION IN THIS DOCKET.**

43 A. On October 16, 2023, Wexpro executed a farmout agreement with the owner of
44 certain working interests (WI) in two federal leases on land located in Uintah County,
45 Utah, known as the Horseshoe Bend Development area (Farmout Agreement). In
46 order to fulfill its part of the agreement, Wexpro has to keep the WI in the leases
47 alive, which it has done by drilling two wells (which have not been completed as yet)
48 by the end of 2023. Now that those two wells are drilled, and under the terms of the

¹ Wexpro II Agreement at 1.

² *Application of Questar Gas Company for Approval to Include Property under the Wexpro II Agreement*, Docket No. 13-057-13, Order (Jan. 17, 2014).

³ *Application of Questar Gas Company for Approval of the Canyon Creek Acquisition as a Wexpro II Property*, Docket No. 15-057-10, Order Approving Stipulation (Nov. 17, 2015).

⁴ *Application of Questar Gas Company for Approval of the Vermillion Acquisition as a Wexpro II Property*, Docket No. 17-057-01, Order Memorializing Bench Ruling Approving Stipulation (Mar. 30, 2017).

⁵ *Application of Dominion Energy Utah for Approval of the Alkali Gulch Acquisition as a Wexpro II Property*, Docket No. 22-057-05, Order (June 10, 2022).

49 Farmout Agreement, Wexpro will have the rights to drill additional wells. The current
50 leaseholder will then share in the potential benefits of the production. In other words,
51 in exchange for a share of the production and its associated revenue, the current
52 leaseholder of this acreage will allow Wexpro to drill and produce the hydrocarbons
53 in Horseshoe Bend. These types of agreements are generally called farmout
54 agreements. The Horseshoe Bend area is outside of the geographical area
55 designated in the Wexpro I Agreement, and this application is requesting approval to
56 include Horseshoe Bend as a Wexpro II property.

57 **Q. PLEASE SUMMARIZE THE FARMOUT AGREEMENT IN THIS APPLICATION.**

58 A. The Farmout Agreement required Wexpro to drill two wells in 2023 in which it will
59 have 100% WI until it has recovered its costs. Wexpro will then be allowed to drill
60 more wells in the same area, but the production from these future wells would be at
61 a smaller WI. Wexpro's right to drill and produce from these locations is in exchange
62 for developing the leasehold, which is expected to benefit both the current
63 leaseholder and Wexpro, as explained below. All Wexpro property and production
64 that is either in the Wexpro I or Wexpro II agreements are owned and controlled by
65 this gas utility on behalf of its customers.

66 **Q. WHERE IS THE PROPERTY IN QUESTION?**

67 A. Horseshoe Bend is in northeast Utah near current hydrocarbon producing acreage
68 but approximately 20 miles from the nearest Wexpro producing wells.

69 **Q. PLEASE SUMMARIZE THE INVESTIGATION YOU PERFORMED IN THIS**
70 **MATTER.**

71 A. I reviewed the Application, the testimony of the witnesses, and the exhibits, attended
72 the technical conference, submitted data requests and reviewed responses to these
73 data requests as well as the requests and responses of the Office of Consumer
74 Services (Office). I also met with representatives from Dominion and Wexpro to
75 discuss some of the particulars with them. I also reviewed prior Wexpro II dockets in
76 which the Commission has approved similar requests. I've also closely consulted

77 with the Division's Wexpro Hydrocarbon Monitor who was intensely involved in
78 providing his expertise, which has been a great benefit in assisting the Division in
79 making its determination. The Hydrocarbon Monitor has reviewed the production
80 projections, reservoir qualities, drilling costs, operating expenses, and decline rates
81 and has concluded that the Company's projections are in line with forecasts currently
82 used in the area and with existing nearby Wexpro-managed wells.

83 **Q. PLEASE SUMMARIZE THE DIVISION'S RECOMMENDATION THAT**
84 **RESULTED FROM THIS ANALYSIS.**

85 A. For the reasons set forth below, the Division recommends that the Horseshoe Bend
86 property be included as a Wexpro II property as outlined in the Application.

87 **HORSESHOE BEND DEVELOPMENT**

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

90 A. No. Horseshoe Bend is outside the existing Wexpro I Development Drilling Area.
91 Under the terms of the Wexpro II Agreement, the Company is required to obtain
92 approval from the Commission before it is allowed to include properties within the
93 Wexpro I Development Drilling Area that are acquired by Wexpro and applied for as
94 a Wexpro II property. None of the Horseshoe Bend area is in the Wexpro I
95 Development Drilling Area, and as such is unique as a potential Wexpro II property.

96 **Q. AS SUCH, WHAT ARE THE PROVISIONS RELATED TO INCLUDING THE**
97 **HORSESHOE DEVELOPMENT AS A WEXPRO II PROPERTY?**

98 A. Because the Horseshoe Development is outside of the Development Drilling Area,
99 the provisions are different than when a property is within the Development Drilling
100 Area. Section IV-1 in the Wexpro II Agreement outlines the standards Wexpro is
101 required to meet when it wants to add a property it acquires outside the
102 Development Drilling Area. Specifically, Section IV-1(b) provides that Dominion "may
103 apply for Commission approval to include these (properties outside the development
104 drilling areas) properties under this agreement." This "may apply" is the main

105 differentiation from the “required to apply” statement in the section that applies to
106 acquisitions within the Wexpro I Development Drilling Area.

107 **Q. GIVEN THAT THE PROPERTY IN THIS APPLICATION IS FOR AN**
108 **UNPROVEN LEASEHOLD AND THEREFORE DIFFERENT FROM PAST**
109 **WEXPRO II APPLICATIONS, SHOULD THE COMPANY PROVIDE**
110 **DIFFERENT INFORMATION?**

111 A. No. The same information would be required for either circumstance. Section IV-2 of
112 the Wexpro II Agreement specifies that when Dominion files an application
113 requesting approval to include properties under the Wexpro II Agreement, either
114 within or outside the Development Drilling Area, it must include certain information.
115 This information provides most of the evidentiary basis for the Division’s
116 recommendation to the Commission and is the same type of information Dominion
117 would be required to provide if this acquisition was within the Wexpro Development
118 Drilling Area.

119 **Q. DID THE APPLICANT PROVIDE THE REQUIRED INFORMATION?**

120 A. Yes. It provided the requisite information in its Application and attached Exhibits.
121 Other relevant information was included in the direct redacted and confidential
122 testimony of Kelly Mendenhall and of Brady Rasmussen and their respective
123 attached exhibits. Without revealing any confidential information, Exhibits A-P can be
124 summarized as follows:

125 Exhibit A: Identifies the purchase price and gas pricing assumptions used in deciding
126 to purchase and develop the Farmout Agreement.

127 Exhibit B: Provides the locations of the current and future wells.

128 Exhibit C: Clarifies that there are no operating wells within the property and, as such,
129 that there is no current or historical production or identified remaining reserves from
130 existing wells.

131 Exhibit D: Provides the forecasted production and reserves for the wells it plans to
132 drill.

133 Exhibit E: Provides the forecasted decline curves for these wells.

134 Exhibit F: Provides the estimated capital drilling cost per well.

135 Exhibit G: Provides the estimated operating expenses.

136 Exhibit H: Provides the gross working interest and net revenue interest for the
137 proposed wells.

138 Exhibit I: Provides the estimated production tax per Decatherm (Dth).

139 Exhibit J: Provides the estimated gathering and processing costs per Dth.

140 Exhibit K: Provides a copy of the confidential Farmout Agreement.

141 Exhibit L: Provides the forecasted annual and cumulative cost-of-service (COS)
142 analysis over a 25- and 30-year period.

143 Exhibit M: Provides the estimated impact that the additional production from this
144 area might have on the utility's gas supply for the next five (5) years.

145 Exhibit N: Provides the geologic data of the proposed development area.

146 Exhibit O: Provides a summary of the wells that Wexpro plans to drill from 2024
147 through 2029.

148 Exhibit P: Includes the economic model used to make the determinations for
149 acquiring and developing the property.

150 **Q. DO THESE EXHIBITS AND TESTIMONY PROVIDE WHAT THE DIVISION**
151 **REQUIRES IN ORDER FOR IT TO MAKE ITS RECOMMENDATION FOR**
152 **COMMISSION APPROVAL?**

153 A. Yes. To the Division, the Application, its exhibits, and testimony, when supplemented
154 by information contained in the technical conference, through other meetings with
155 the Company and Wexpro as well as responses to the Division's and the Office's
156 data requests, are sufficient for the Division to provide its recommendation that the
157 Commission approve the Application.

158 **Q. IS THE AVERAGE COST OF SERVICE FAVORABLE FOR THIS**
159 **ACQUISITION OVER THE NEXT 5 YEARS?**

160 A. Yes. Assuming that the forecasts provided in the Application, Exhibits and testimony
161 are reasonably accurate, the overall cost of service (COS) for gas produced from the
162 Wexpro II properties will be lower than if the property is not approved for inclusion.
163 Of course, forecasts are always different than the reality that will occur. But based on
164 the best available information, the acquisition's inclusion in the Wexpro II portfolio
165 will benefit customers. Additionally, the Horseshoe Bend COS itself is projected to
166 decrease over time as more wells are brought on, thus making it even more
167 favorable to the ratepayers if the Application is approved.

168 **Q. PAST WEXPRO II PROPERTIES CONSIDERED THE CURRENT**
169 **PRODUCTION AS PART OF THE DECISION TO ACQUIRE THE PROPERTY.**
170 **IS THAT THE CASE WITH THIS PURCHASE AS WELL?**

171 A. No. There is no existing well production included in this acquisition. The acquisition
172 of this property can only be based on the potential for future development drilling.
173 Also, the proposed drilling acreage is not a direct offset to existing Wexpro
174 production (defined as within a mile), and therefore even the future drilling locations
175 cannot be classified as Proved Undeveloped (PUD). In other words, these properties
176 are outside of the Development Drilling Areas defined in the Wexpro Agreements
177 and as such, provide a greater risk of a non-successful drilling program.

178 **Q. DOES THAT MEAN THAT THIS IS A RISKY, WILDCAT VENTURE?**

179 A. Not necessarily. The Division considers wildcatting a form of high-risk exploratory
180 drilling in unproven areas that have no concrete historic production records. Given

181 that definition, it does not appear to the Division that Wexpro is operating as a
182 wildcat driller using ratepayer money. On the contrary, the Company's approach is
183 reasoned given that the PUD classification can improve once a few initial locations
184 have been tested and the estimated ultimate recovery (EUR) has been determined
185 by analogy with offsetting wells in the nearby producing fields. The target geologic
186 formations are still at intervals that have been producing formations for Dominion for
187 several years. Nearby operators have successful experience in wells like the ones
188 Wexpro drilled suggesting that these are likely to be productive properties.
189 Additionally, the drilling timetable Dominion provided indicates a reasoned step-by-
190 step approach showing that all drilling will be completed in an orderly manner over a
191 period of five years. Finally, Wexpro personnel who will be managing the
192 development of this new area already have decades of experience managing similar
193 producing properties.

194 **Q. IF THE ASSUMPTIONS ARE CORRECT (OR EVEN CLOSE), WILL THIS**
195 **PROPERTY BE A COST-EFFECTIVE SUPPLY FOR DOMINION**
196 **CUSTOMERS?**

197 A. Yes. The Net Present Value is positive. The comparison of the cost of this gas to the
198 market is favorable. The drilling costs are reasonable. The potential recoverable gas
199 is significant. Additionally, Wexpro is required to use the forward five-year price
200 curve to determine if these types of purchases are equitable for Dominion's
201 customers, which it has done and provided. However, since there is no current
202 production upon which to base this comparison, there remains a greater risk that the
203 forecasted production volumes provided could be less accurate than they could be
204 otherwise.

205 **DIVISION'S CONCLUSION**

206 **Q. DOES THE EVIDENCE PROVIDED BY THE APPLICANT SHOW THAT THIS**
207 **PURCHASE IS LIKELY TO BE BENEFICIAL TO RATEPAYERS?**

208 A. Yes. Based on our analysis of the information in the Application, testimonies and
209 exhibits, tech conference and its written presentation, data request responses,

210 meetings etc. the price that Dominion's customers would pay for Wexpro gas will be
211 less with this acquisition than it would be otherwise.

212 **DIVISION'S POSITION**

213 **Q. WHAT IS THE DIVISION'S POSITION?**

214 A. The Division recommends the Commission approve the Application and include the
215 Horseshoe Bend Development as set forth in the Application as a Wexpro II
216 property. The additional drilling locations appear to be in line with past production
217 and expectations from other producers in the surrounding area. Even with
218 minor adjustments or forecasting errors, the acquisition should lower the overall
219 COS for the utility's customers and increase the gas volumes available while
220 keeping their total production below the allowed cap of 55% of the Integrated
221 Resource Plan (IRP) forecast threshold as required in the Wexpro II agreement.

222 **CONCLUSIONS AND RECOMMENDATIONS**

223 **Q. WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS?**

224 A. The Division concludes that the economics for this project, as presented, are
225 adequate to show that, given the projected costs, the reserve forecasts are expected
226 to help offset a declining supply of customer-owned natural gas. The drilling project
227 should lower the overall COS per Dth for customers while keeping Wexpro-managed
228 gas below the allowed 55% IRP threshold. The Division recommends that the
229 Commission approve the Application as filed.

230 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

231 A. Yes, it does.