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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF ENBRIDGE GAS UTAH FOR APPROVAL OF WEXPRO HORIZONTAL DRILLING PILOT PROGRAM	Docket No. 26-057-03 VERIFIED APPLICATION
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Pursuant to Utah Code Ann. § 54-4-1 and Utah Admin. Code R746-1-101 *et seq.*, Questar Gas Company dba Enbridge Gas Utah (“Enbridge” or the “Company”) respectfully submits this Verified Application (“Application”) for an order approving the implementation of a Wexpro horizontal drilling pilot program (the “Horizontal Drilling Program”) as set forth in this Application. This Application is supported by the pre-filed Direct Testimony of Austin C. Summers (Enbridge Gas Exhibit 2.0) and the pre-filed Direct Testimony of Brady Rasmussen (Enbridge Gas Exhibit 3.0), both of which are incorporated by this reference.

BACKGROUND

A. Wexpro I

1. In 1976, the Company (then Mountain Fuel Supply) organized Wexpro as a wholly owned subsidiary and transferred certain property rights to Wexpro for the purpose of exploring and developing natural resources on those properties. The Company and Wexpro entered into a Joint Exploration Agreement (“JEA”), which defined the properties that would be explored and developed, and set forth how costs and revenues would be shared. That approach was challenged by the Utah Division of Public Utilities (“Division”) and the predecessor entity to the Utah Office of Consumer Services (“Office”).

2. Stakeholders ultimately negotiated the Wexpro Stipulation and Agreement, executed October 14, 1981 (“Wexpro I Agreement”), which the Commission approved on December 31, 1981.¹ The Commission’s decision was affirmed by the Supreme Court of Utah in *Utah Department of Administrative Services v. Public Service Commission*.² For decades thereafter, the Company acquired a significant portion of its gas supply from Wexpro under the terms of that agreement.

3. The terms of the Wexpro I Agreement applied differently depending on the type of property at issue, including Productive Oil Reservoirs (“oil properties”) and Productive Gas Reservoirs (“gas properties”). Under the Wexpro I Agreement, Wexpro owned and operated oil properties and developed them at its own expense and risk.³ Wexpro sold all natural gas produced from oil properties to the Company at Wexpro’s cost of service. The cost-of-service charge for gas

¹ Report and Order on Stipulation and Agreement, *In the Matter of the Petition of the Division of Public Utilities to Consider the Proposed Transfer of Certain Wells, Leases, Lands and Related Facilities and Interests of Mountain Fuel Supply Company to Wexpro Company on Remand from the Utah Supreme Court*, Docket No. 76-057-14 (Dec. 31, 1981).

² 658 P.2d 601 (Utah 1983).

³ See Wexpro I, Art. II and Ex. A.

produced from oil properties is defined in Exhibit A of the Wexpro I Agreement. It included Wexpro's reasonable and necessary operating expenses, depreciation, taxes, and a return on investment. Wexpro also deducted certain expenses, royalties, and a return on investment from the proceeds of the sale of oil and natural gas liquids (from existing and future wells).⁴ The Company then received 54% of the net revenues from sales of oil and natural gas liquids, and Wexpro retained 46% of those revenues.⁵ If a development well was unsuccessful ("dry hole"), all of those costs were borne by Wexpro.⁶

4. As with gas properties, the Wexpro I Agreement specified that the Company retained ownership of producing gas wells and related facilities that had been included in its rate base.⁷ Natural gas, natural gas liquids, and oil produced from those properties was also owned by the Company, and the leaseholds and operating rights were transferred to Wexpro. Wexpro operated the wells and facilities on a service contract basis.⁸ As with oil properties, if a gas property development resulted in a dry hole, the associated costs were borne by Wexpro.⁹ If the well was successful, however, the development cost was capitalized and included in rate base, and the service contract cost paid to Wexpro included a base rate of return, plus an additional risk premium of 8% for investment in commercial development wells.¹⁰ The proceeds from oil and natural gas sales from wells defined in the Wexpro I Agreement as "prior company wells" were owned by the Company. The proceeds from the sale of oil from commercial wells completed after July 31, 1981

⁴ See Wexpro I, Art. II.

⁵ See *id.* at 4(e), (f), and (g) (defining the "54-46 formula").

⁶ See *id.* at 4(a).

⁷ See *id.*, Art. III.

⁸ See *id.*

⁹ See *id.*, Ex. E.

¹⁰ *Id.*, Art. III.5.

on gas properties were allocated to the Company and Wexpro according to the 54-46 formula.¹¹ Finally, a hydrocarbon monitor was retained to assess and review Wexpro's drilling activities.

5. Wexpro was able to produce from Wexpro I properties for over 30 years, a period that was longer than was originally anticipated. Because Wexpro's cost of service under the Wexpro I Agreement was, on average, lower than natural gas supplies available in the market, the production under Wexpro I provided the Company's customers with a significant and stable source of gas, as well as a long-term hedge against gas price volatility.

B. Wexpro II

6. Due to the benefits provided by the Wexpro I Agreement and the fact that production from vertical drilling operations on Wexpro I properties was being exhausted, the Company and Wexpro identified additional properties that could be vertically drilled to continue producing cost-of-service natural gas supply for the Company's customers. However, because that expansion would go beyond the authorization provided in Wexpro I, the Company, Wexpro, the Division, the Office, and the Wyoming Office of Consumer Advocate ("OCA") began meeting and discussing a potential expansion of drilling operations on prospective drilling properties pursuant to a new agreement, the Wexpro II Agreement.

7. On September 12, 2012, the Company, Wexpro, the Division, and the OCA reached an agreement to allow the Company and Wexpro to develop new properties that would be acquired under the terms of the Wexpro II Agreement. That agreement was submitted to the Commission for approval on September 18, 2012 in Docket No. 12-057-13.

8. The Wexpro II Agreement did not set forth a specified set of properties that would be developed, as was the case under the Wexpro I Agreement. Rather, it provided a process and

¹¹ See *id.*, Art. II-4(e), (f), and (g) (defining the "54-46 formula").

terms pursuant to which properties or property rights could be acquired and developed subject to the Wexpro II Agreement. Under that agreement, Wexpro would acquire oil and gas properties or leases at its own cost, and the Commission or the Wyoming Public Service Commission would have a right of first refusal with respect to such properties or property rights within Wexpro I areas. The Company could also seek approval under Wexpro II for oil or gas properties outside of the Wexpro I development area. As with the Wexpro I Agreement, under the Wexpro II Agreement, a hydrocarbon monitor assessed and reviewed Wexpro's activities.

9. The Wexpro II Agreement had many of the same terms and conditions as the Wexpro I Agreement. For example, Wexpro bore the risk of dry holes and recovered its cost of service as defined in the Wexpro II Agreement.¹² Commercial development drilling wells also earned the same rates of return as specified in the Wexpro I Agreement. Wexpro's acquisition costs, however, earned a lower return calculated using the returns approved by the Utah and Wyoming Commissions.¹³

10. Once a property was approved under the Wexpro II Agreement, Wexpro would develop the property and all gas produced by Wexpro would be sold to the Company at Wexpro's cost of service, as defined in the Wexpro II Agreement.¹⁴ However, with regard to oil and natural gas liquids, the Wexpro II Agreement provided that those liquids were owned by Wexpro and sold by Wexpro, with the proceeds first being used to offset any holding and operating costs and the return on the portion of properties allocated to oil and natural gas liquids production, with the remaining proceeds being allocated 54% to the Company and 46% to Wexpro.

11. On March 28, 2013, the Commission approved the Wexpro II Agreement.¹⁵

¹² See *id.*, Exs. A and E; see also Wexpro II, Ex. A and Ex. D at ¶ 1.

¹³ See Wexpro II, Sec. IV-6.

¹⁴ See *Id.*, Sec. III-3.

¹⁵ See Report and Order, *In the Matter of the Application of Questar Gas Company for Approval of the Wexpro II Agreement*, Docket No. 12-057-13 (March 28, 2013).

12. Since that time, Wexpro has acquired developmental properties, and the Company has applied to the Commission for approval of those properties to be developed under the terms of the Wexpro II Agreement. The Commission has approved those applications, and Wexpro has developed and drilled those properties and continued to provide natural gas to the Company's customers at Wexpro's cost of service as defined in the Wexpro II Agreement.¹⁶ This has continued to save customers money.

C. Current Status and the Need for the Proposed Pilot Program

13. As with Wexpro I properties previously, the production from vertical wells on Wexpro II properties is being exhausted. Technological developments provide Wexpro with another opportunity to drill on those properties for economic natural gas reserves using a different approach. Wexpro properties contain formations that have not been developed. Some of these formations are not economic if drilled vertically but are prospective for horizontal development.

14. Horizontal wells tend to produce hydrocarbons more efficiently than vertical wells. They cost more to drill, but they yield a greater increase in production, resulting in higher efficiency. Horizontal drilling, however, has a larger distribution of results and presents a higher commercial risk for Wexpro on individual wells. That said, the efficiency of horizontal drilling is likely to benefit customers if the parties can properly balance the relevant risks and rewards. Accordingly, the Company proposes the Horizontal Drilling Pilot Program to drill a limited number of horizontal wells on existing Wexpro properties.

¹⁶ See Report and Order, *In the Matter of the Application of Questar Gas Company for Approval to Include Property Under the Wexpro II Agreement*, Docket No. 13-057-13 (Jan. 17, 2014); Order Approving Stipulation, *In the Matter of the Application of Questar Gas Company for Approval of the Canyon Creek Acquisition as a Wexpro II Property*, Docket No. 15-057-10 (Nov. 17, 2015); Order Memorializing Bench Ruling Approving Stipulation, *In the Matter of the Application of Questar Gas Company for Approval of the Vermillion Acquisition as a Wexpro II Property*, Docket No. 17-057-01 (March 30, 2017); Order, *Application of Dominion Energy Utah for Approval of the Alkali Gulch Acquisition as a Wexpro II Property*, Docket No. 22-057-05 (June 10, 2022); Order, *Application of Dominion Energy Utah for Approval of the Horseshoe Bend Development as a Wexpro II Property*, Docket No. 24-057-03 (April 18, 2024); Order, *Application of Enbridge Gas Utah for Approval of the Piceance Development as a Wexpro II Property*, Docket No. 25-057-03 (March 27, 2025).

THE HORIZONTAL DRILLING PILOT PROGRAM

15. Through this Application, the Company seeks approval of a five-year horizontal-drilling pilot program, pursuant to which the Company would conduct horizontal drilling operations on areas of existing Wexpro properties that have already been subject to vertical drilling under the Wexpro I and Wexpro II Agreements. The pilot program would consist of the following components:

i. Capital Investment Cap

16. Capital investment under the program would be capped at \$150 million, and this amount could not be exceeded or increased without prior Commission approval. The investment would be used for one well during the first year of the program. The remaining investment could be spread out over the remainder of the pilot program. In all, the Company and Wexpro anticipate that Wexpro could drill between eight and 12 horizontal wells under the program.

17. The properties that would be drilled under the program are located within the areas that have already been subject to vertical drilling operations under the Wexpro I and Wexpro II agreements.

18. The Commission could modify, discontinue, or extend the program at any time, but any investment placed in the investment base as of the date of any change or discontinuance of the program would continue to be recovered on the terms of the program notwithstanding any such change or discontinuance.

ii. Drilling Operations

19. Drilling decisions under the pilot program would not be based on a commercial well test, as is the case under Wexpro II. Instead, the hydrocarbon monitor would review proposed wells under the program, and the Company and Wexpro would not be authorized to drill a horizontal well unless the hydrocarbon monitor had first issued a written determination that he

does not disapprove of the proposed well. If the hydrocarbon monitor disapproved a well, Wexpro would not be permitted to proceed with any drilling activities associated with that well.

20. All natural gas produced from program wells would be sold by Wexpro for customer use at Wexpro's cost of service, as defined in the Wexpro II Agreement.

21. All revenues from the sale of oil or natural gas liquids produced from program wells would be credited to customers, with no portion of those revenues being received by or benefiting Wexpro.

22. Dry hole risk under the program would be borne by customers. However, that risk would be offset by Wexpro receiving a Commission-allowed rate of return—rather than a development rate of return similar to the return provided in the Wexpro I Agreement—and by customers receiving one hundred percent of all revenues from oil and natural gas liquids produced from program wells, and by all program financial results being excluded from the cost savings calculation under Section 18 of the Canyon Creek Stipulation for the Wexpro I and Wexpro II programs. Under Wexpro I and II, the Company would have otherwise received 54% of the net revenues from sales of oil and natural gas liquids from certain properties, and Wexpro would have retained 46% of those net revenues. Moreover, drilling results would otherwise have been included in the cost savings calculation under Section 18 of the Canyon Creek Stipulation.

iii. Investment Base, Rate of Return, and Cost Recovery

23. All capital investment for drilled wells under the program would be tracked and included in a new investment category that would be segregated from capital investment under the Wexpro I or Wexpro II programs.

24. As with the Wexpro II program, the rate of return on all program wells would be equal to the approved utility rate of return on the monthly net investment base, which would be net of deferred taxes.

25. Except as set forth in paragraphs 21, 22, and 26 above, Wexpro's cost of service would be calculated in the same manner as provided in the Wexpro II Agreement.

26. The financial results from all program wells would be excluded from the calculation of cost savings under Section 18 of the Canyon Creek Stipulation for the Wexpro I and Wexpro II programs.

27. If the hydrocarbon monitor¹⁷ disapproves a well, Wexpro would be responsible for any permit costs accrued before the disapproval.

iv. Hydrocarbon Monitor Oversight and Reporting

28. Under the proposed pilot program, Wexpro's operations would continue to be monitored, reviewed, and overseen by a hydrocarbon monitor.

29. For the duration of the program, the Company and Wexpro would provide quarterly drilling reports to the hydrocarbon monitor, Commission staff, Wyoming Commission staff, the Division, the Office, and the Wyoming OCA. Those reports would show the drilling results for each well drilled under the program, including quarterly and cumulative cost-of-service rates, actual volumes versus estimated volumes, actual drilling days versus estimated drilling days by well and area, and any other data requested.

30. Under the program, the Company would provide to the Commission a report, at least annually, summarizing the drilling results for all wells drilled under the program as well as any feedback on those results provided by the hydrocarbon monitor.

SUPPORTING INFORMATION

31. The Application is supported by the sworn direct testimonies of Austin C. Summers (Enbridge Gas Exhibit 2.0) and Brady B. Rasmussen (Enbridge Gas Exhibit 3.0). As set forth in

¹⁷ 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.

that testimony, approval of the proposed pilot program would provide an opportunity for Enbridge Gas's customers to continue benefiting from cost-of-service gas that is estimated to provide lower-cost gas for many years.

32. Mr. Summers' and Mr. Rasmussen's testimonies and their attachments are incorporated herein by this reference.

PRAYER FOR RELIEF

Based on the foregoing, and supporting testimony, Enbridge respectfully requests that the Commission approve the proposed Horizontal Drilling Pilot Program. As noted in Mr. Rasmussen's testimony, in order to commence drilling in 2026, the Company respectfully requests that the Commission issue an Order in this matter by May 1, 2026. The Company also respectfully requests that the Commission set a scheduling conference for this matter.

DATED this 27th day of February, 2026.

Respectfully submitted,

ENBRIDGE GAS UTAH

/s/ Cameron L. Sabin

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VERIFICATION

STATE OF UTAH)

COUNTY OF SALT LAKE)

Austin Summers, being first duly sworn upon oath, deposes and states: he is the Director of Regulatory and Pricing for Enbridge Gas Utah, Idaho, and Wyoming; he has direct personal knowledge of the matters addressed herein; he has read the foregoing Application; and the statements made in the Application are true and correct to the best of his knowledge, information and belief. The documents attached hereto are true and correct copies of the documents they purport to be.

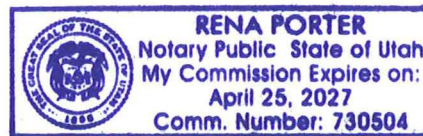


Austin Summers
Director of Regulatory and Pricing

Subscribed and sworn to before me this 27th day of February, 2026.



Notary Public



CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Verified Application was served upon the following persons by e-mail on February 27th, 2026:

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