

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF )  
QUESTAR GAS COMPANY FOR APPROVAL ) DOCKET NO. 30010-145-GA-15  
OF THE CANYON CREEK ACQUISITION AS ) (RECORD NO. 14224)  
A WEXPRO II PROPERTY )

APPEARANCES

For the Applicant, Questar Gas Company (Questar or the Company):  
COLLEEN LARKIN BELL, Vice President and General Counsel, Salt Lake City, Utah  
JENNIFFER NELSON CLARK, Senior Corporate Counsel, Salt Lake City, Utah,

For the Office of Consumer Advocate (OCA):  
IVAN H. WILLIAMS, Counsel, Cheyenne, Wyoming.

HEARD BEFORE

Chairman ALAN B. MINIER  
Commissioner KARA BRIGHTON

LORI L. BRAND, Assistant Secretary,  
Presiding pursuant to a *Special Order* of the Commission

**MEMORANDUM OPINION, FINDINGS, AND ORDER APPROVING STIPULATION**  
(Issued February 24, 2016)

This matter is before the Wyoming Public Service Commission (Commission) upon the Application of Questar for approval of the Canyon Creek acquisition as a Wexpro II property (Application), as described in the testimony and exhibits attached to the Company's Application (Ex. 3), and the intervention of the OCA. Also before the Commission is a *Settlement Stipulation (Stipulation)*<sup>1</sup> entered into by Questar, Wexpro Company (Wexpro) (collectively the Companies) and the OCA (collectively the Parties) concerning the Application. (Ex. A).

The Commission, having reviewed the Application, attached exhibits, the Applicant Companies' and Intervenor OCA's prehearing filings, the evidence introduced at the public hearing held on November 18, 2015, its files regarding Questar, applicable Wyoming utility law, and otherwise being fully advised in the premises, FINDS and CONCLUDES:

Introduction

1. Questar is a natural gas public utility as defined by Wyo. Stat. § 37-1-101(a)(vi)(D), subject to the Commission's jurisdiction pursuant to Wyo. Stat. § 37-2-112. It is a corporation organized and existing under the laws of the state of Utah, with its principal business office located

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<sup>1</sup> The *Stipulation* is attached hereto and incorporated herein as Appendix A. Additional parties to the *Stipulation* are the Utah Division of Public Utilities (Utah DPU) and the Utah Office of Consumer Services (Utah OCS).

in Salt Lake City, Utah. The Company is engaged in the business of providing natural gas as a local distribution company. Questar currently distributes natural gas to approximately 27,000 customers in southwestern Wyoming, including the cities of Rock Springs, Green River, Kemmerer, Diamondville, and Evanston, as well as other communities and rural areas contiguous to its facilities. Additionally, Questar distributes natural gas to communities throughout the state of Utah, and in Franklin County in southeast Idaho, under the jurisdiction of the Utah Public Service Commission.<sup>2</sup>

2. On August 31, 2015, Questar filed its Application requesting an order approving the inclusion of a recently acquired property within a Wexpro I Development Drilling area known as the Canyon Creek Mesaverde Participating Area (Canyon Creek) as a Wexpro II property. (Ex. 3). Questar included with its Application the supporting prefiled testimony and exhibits of two witnesses: Barrie L. McKay, Questar Vice President of State Regulatory Affairs (Exs. 1-1.3); and Brady B. Rasmussen, Wexpro's Executive Vice President and Chief Operating Officer (Exs. 2-2.4.) as well as Exhibits 3A, 3A-1, and 3I, and Confidential Exhibits 3B, 3C, 3D, 3E, 3F, 3G, 3H, 3J, 3K, 3L, 3L-1, 3M, 3M-1, 3M-1-U, 3N, 3O, 3O-1, 3P, and 3P-1. Also included with the Application was a *Petition for Confidential Treatment of Certain Exhibits to the Application, Portions of the Testimony of Barrie L. McKay and Brady B. Rasmussen, and Exhibits 2.2 and 2.4.*

3. Under the terms of the Wexpro I Agreement (Wexpro I),<sup>3</sup> Questar is required to apply for Commission approval to include properties acquired by Wexpro, within a Wexpro I Development Drilling Area. The Wexpro II Agreement (Wexpro II)<sup>4</sup> governs the requirements for the Canyon Creek acquisition and subsequent application for approval. (Ex. 3, pp. 3-4). In the Application, Questar stated Wexpro closed on its \$52.7 million acquisition of an additional 30% interest in natural-gas producing properties in the Canyon Creek Acquisition Area located in the Vermillion Basin in southwest Wyoming, which is within the Development Drilling areas defined in Wexpro I. Wexpro currently owns a 70% interest in the Mesaverde Group of the Canyon Creek acquisition. As such, the December 19, 2014, acquisition increased its ownership interest to 100%. (Ex. 3, p. 3).

4. Questar stated Wexpro acquired the Canyon Creek property at its own risk and was selling production from these wells on the open market pending the outcome of a decision by the Commission as to whether this acquisition should be included as a Wexpro II property. (Ex. 3, p. 4). If the Canyon Creek property is approved as a Wexpro II property, then the acquisition costs would be adjusted for the value of gas sold from the time Wexpro closed on the property until Commission approval of inclusion of the property. (Id.) Questar stated that the inclusion of the acquired property was in the public interest. (Ex. 3, p. 12).

5. On September 3, 2015, the Commission issued a *Notice of Application* setting a deadline of October 2, 2015, for interested persons to file a statement, intervention petition, protest, or request for a public hearing. (Ex. 112).

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<sup>2</sup> Questar Application, Docket No. 30010-141-GT-14.

<sup>3</sup> In October 1981, the Commission approved Wexpro I in Docket No. 9192 Sub 68 as part of a general rate case.

<sup>4</sup> The Commission approved Wexpro II in April, 2013, in Docket No. 30010-123-GA-12.

6. On September 8, 2015, the OCA filed its *Notice of Intervention* pursuant to Wyo. Stat. § 37-2-402(a). (Ex. 117). The OCA is an independent division of the Commission that represents the interests of Wyoming citizens and all classes of utility customers in matters involving public utilities pursuant to Wyo. Stat. § 37-2-401.

7. On September 25, 2015, the Commission issued a *Notice Setting Scheduling Conference* for October 8, 2015. (Ex. 113).

8. On October 7, 2015, the Commission issued a *Letter Order* granting confidential treatment of certain exhibits to the Application, portions of the testimony of Barrie L. McKay and Brady B. Rasmussen, and Exhibits 2.2 and 2.4. (Ex. 114).

9. On October 8, 2015, the Commission issued a *Scheduling Order* establishing the procedural schedule and setting a public hearing. (Ex. 115). A technical conference in which the Parties and Commission Staff participated was also held on that date.

10. On October 9, 2015, the Commission issued a *Special Order Authorizing One Commissioner and/or Presiding Officer to Conduct Public Hearing*. (Ex. 116).

11. Pursuant to the *Scheduling Order*, the OCA filed the confidential direct testimony and exhibits of David E. Evans, Wexpro II Hydrocarbon Monitor/Evaluator (Exs. 201-201.2); the confidential direct testimony of Dr. Timothy J. Considine, President of Natural Resource Economics, Inc. (Ex. 202); and the confidential direct testimony of Bryce J. Freeman, OCA Administrator (Ex. 203) on October 13, 2015.

12. On October 26, 2015, the Commission issued its *Notice and Order Setting Public Hearing* which set a public hearing to commence at 9:00 a.m., on November 18, 2015, in the Commission's hearing room in Cheyenne. (Ex. 118). A public notice was published in newspapers in Questar's service territory

13. On October 26, 2015, Questar filed the Parties' *Stipulation*. (Ex. A).

14. On November 3, 2015, Questar filed Supplemental Information which included Updated Exhibit 3M-1 redacted, Updated Confidential Exhibit 3M-1 and Updated QGC Exhibit 1.3.

15. On November 5, 2015, OCA filed the Supplemental Stipulation Testimony of Bryce J. Freeman. (Ex. 204 and Ex. B).

16. On November 9, 2015, Questar filed Exhibits 4.0 and 5.0 and the Settlement Testimony of Barrie L. McKay (Ex. C); the Confidential Pre-filed Direct Testimony of Douglas D. Wheelwright (Ex. D); and the Confidential Direct Testimony of Gavin Mangelson (Ex. E).

17. On November 18, 2015, the exhibit conference was held and the following exhibits were received into evidence:

- Questar Exhibit Nos. 1 through 5.0. (Tr., p. 8).
- Joint Exhibits A-C, C1, and F. (Tr., p. 10).
- Commission Exhibit Nos. 100 through 122. (Tr., p. 13).
- OCA Exhibit Nos. 201 through 203. (Tr., p. 11).

18. The public hearing was held on November 18, 2015, pursuant to the Wyoming Administrative Procedure Act, Wyo. Stat. § 16-3-101, *et seq.* (the WAPA). Testifying for Questar and Wexpro were Barrie L. McKay and Brady B. Rasmussen. David E. Evans, Dr. Timothy J. Considine and Bryce J. Freeman, testified on behalf of the OCA.

19. The Commission held public deliberations on November 18 and 24, 2015, pursuant to Wyo. Stat. § 16-4-403. The Commission then directed the preparation of an order consistent with its decision.

### **Summary of Decision**

20. The Commission approved Questar's Application for inclusion of the Canyon Creek acquisition as a Wexpro II property and accepted the Parties' *Stipulation*.<sup>5</sup>

### **Contentions of the Parties and Resulting Issues**

21. Questar and OCA recommend approval of the Application as modified by the attached *Stipulation*.

22. The issue before the Commission is whether the *Stipulation* serves the public interest and is it an appropriate means of disposing of this matter pursuant to Commission Rule 119 and Wyo. Stat. § 16-3-107(n).

### **Findings of Fact**

#### **History**

23. Wexpro I was executed in 1981 to resolve an oil sharing dispute between Mountain Fuel Supply and Wexpro. It established a sharing mechanism where 54% of oil profits are credited to Mountain Fuel Supply customers and 46% are credited to Wexpro. The agreement also established a framework for production of natural gas within defined geographic areas at cost-of-service to Mountain Fuel Supply's (now Questar's) customers. Since 1981, Wexpro I has provided Questar's customers with a stable source of natural gas and served as a long-term physical hedge against price volatility. On average, the cost-of-service gas has been lower priced than market-based sources saving Wyoming customers approximately \$77 million over thirty years. Wexpro I provides between one-third and one-half of the natural gas required to supply Questar's customers. Because of improvements in exploration and drilling methods, the Wexpro I properties have produced longer and at greater levels than originally anticipated. However, because the geographic area defined in the agreement is limited, it cannot continue to produce at current levels indefinitely.

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<sup>5</sup> The *Stipulation* was approved by the Public Service Commission of Utah by Order issued November 17, 2015. (Ex. F.).

Questar and Wexpro began looking for ways to expand exploration and production beyond the Wexpro I properties so that customers can continue to benefit from cost-of-service gas supplies. The result of those efforts is Wexpro II.<sup>6</sup>

24. Wexpro II does not replace Wexpro I. Rather, it allows additional properties not eligible for inclusion under Wexpro I to be acquired as cost-of-service gas supplies pursuant to the terms of Wexpro II. But because Wexpro II is modeled after Wexpro I, Wexpro II properties are developed and produced under substantially the same terms and conditions set forth in Wexpro I. A key provision of Wexpro II is that Wexpro acquires oil and gas properties at its own risk. Any property acquired within the Wexpro I drilling areas *must* be brought before the Wyoming and Utah Commissions for the opportunity to include the property in the cost-of-service supplies. This right of first refusal alleviated concerns that Wexpro would not offer its best performing properties for cost-of-service supplies, and mitigates the risk that ratepayers will be saddled with underperforming properties. If both Commissions approve the property for inclusion as a Wexpro II property, Wexpro then develops the property for the benefit of Questar's customers as provided in Wexpro II.<sup>7</sup>

25. Wexpro II requires Questar to file applications with both the Utah and Wyoming Commissions requesting approval to include proposed properties as described in paragraph 9 of the Application. According to Wexpro II, the Company's application must include the following information:

- a) Purchase price and gas pricing assumption;
- b) Locations of current and future wells;
- c) Historical production and remaining reserves of current wells;
- d) Forecasted production/reserves for future wells;
- e) Forecasted decline curves for current and future wells;
- f) Estimated drilling (capital) costs per well;
- g) Estimated operating expenses for current and future wells;
- h) Gross working interest and net revenue interest for current and future wells;
- i) Estimated production tax per Dth for current and future wells;
- j) Estimated gathering/processing cost per Dth for current and future wells;
- k) Description of any land lease, title, and legal issues related to real property, including but not limited to a description of the terms under which the property is acquired by Wexpro and whether there are any time limits, such as option expirations, affecting the availability of the properties for inclusion as a Wexpro II property;
- l) Forecasted long-term cost-of-service analysis;
- m) Impact on Questar Gas' gas supply;
- n) Geologic data;
- o) Future development plan for the proposed properties; and

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<sup>6</sup> The history and procedures of Wexpro I and II are described in detail in the *Memorandum Opinion, Findings and Order Approving the Stipulation to Include Property Under the Wexpro II Agreement* (Docket No. 30010-134-GA-13) issued March 18, 2014, p. 3.

<sup>7</sup> *Id.*

p) Other data as requested or as may be appropriate to an evaluation of the property. (Ex. 3, pp. 4-12).

26. Questar filed its Application on August 31, 2015, requesting an order approving the inclusion of the recently acquired property within a Wexpro I Development Drilling area known as Canyon Creek as a Wexpro II property. (Ex. 3). The required information listed above is included in Questar's Application to include Canyon Creek as a Wexpro II property. (Exs. 3 and 3A-3P).

27. Wexpro completed the transaction to acquire the Canyon Creek property on December 19, 2014. (Ex. 3, p. 3). This property is located within the developmental drilling areas defined in Wexpro I. Therefore, pursuant to Wexpro II Section IV-2, Questar is required to apply to the Utah and Wyoming Commissions to include the property in the cost of service gas of Questar. (Id., p. 4). Wexpro currently owns a 70% working interest in the Canyon Creek property's 100 currently producing wells. (Ex. 2, pp. 4-5; Ex. 3, pp. 3, 5; and Ex. 3B). This transaction acquires the remaining 30% working interest in the Canyon Creek properties, including the 100 producing wells. (Id.). The 100% interest in the property allows Wexpro to solely control development in the area. (Id.).

### **Purchase Price**

28. On December 19, 2014, exercising a right of first refusal, Wexpro closed on its acquisition of the remaining 30% interest in Canyon Creek. (Tr., pp. 110-111 and Ex. 1, p. 2). By the December 2014 closing, depreciation and O&M costs reduced the purchase price to \$52.7 million. (Id.). Wexpro had been selling production from the acquisition on the open market, which reduced the investment cost substantially by the time Questar filed the instant Application. (Ex. 2, pp. 4-5 and Ex. 2.2). The Company provided updated acquisition cost estimates. (Ex. 107). The acquisition cost will be finally updated upon approval of the Canyon Creek acquisition for inclusion as a cost-of-service property. (Ex. 2, p. 5).

### **Future Development**

29. Given current data, approximately 30 planned future wells are contemplated by the Companies. (Ex. 1, p. 2; Ex. 2, p. 5 and Ex. 3, p. 5). However, according to Questar and Wexpro, without proposed changes to the Wexpro Agreement model, the properties cannot be viably developed in today's gas market conditions to provide cost-of-service gas at or below the Five-Year Forward Curve. (Ex. 1, p. 3 and Ex. 2, pp. 6-7).

### **Proposed Changes to Wexpro II Agreement Model Included in Application**

30. In light of the significant changes in the natural gas market, Questar and Wexpro proposed the following changes to the Wexpro II Agreement model:

- Reducing the rate of return on post-2015 development drilling to the Commission-Allowed Rates of Return (Wyoming and Utah) as defined in Section I-31 of Wexpro II (currently 7.64%).

- Expensing and sharing dry hole and non-commercial well costs on a 50/50 basis between Questar customers and Wexpro; and
- Sharing the differential on a 50/50 basis between Questar customers and Wexpro when the actual annual weighted average price from all cost-of-service gas is less than the current market price. (Ex. 1, p. 4 and Ex. 1.2).

31. In its Application, Questar did not propose any changes to the percentage of total gas supply portfolio management (65%), the requirement that future Wexpro Development Drilling must be generally at or below the current Five-Year Forward Curve, the allowed return on “Proven-Developed-Producing” (PDP) properties, or the return on pre-2016 development gas drilling. (Ex. 1, p. 4).

### **Stipulation Terms**

32. The Parties agreed to certain modifications to the Application and the Wexpro Agreements. Those changes are generally summarized as a chart in Joint Exhibit C.1. They further expressly agreed Wexpro I, Wexpro II, the Trail Unit Stipulation and the instant *Stipulation* must be read collectively as the Wexpro Agreement. The Parties agreed none of the provisions of the aforementioned documents are severable from the collective Wexpro Agreement. (Ex. A, pp. 9-10).

#### ***Rate of Return:***

33. The Parties agreed the rate of return on pre-2016 natural gas and oil development wells and facilities will continue to be governed over their remaining lives of those assets as set forth in Wexpro I and Wexpro II. (Ex. A, p. 5). However, the rate of return on *post-2015* Wexpro I and II Development Drilling, or any other capital investment, and associated AFUDC, for both natural gas and oil wells, will be the Commission-Allowed Rate of Return as defined in Section I-31 of Wexpro II. (Id., pp. 5-6). Wexpro II provides:

Section I-31. Commission-Allowed Rate of Return. The weighted average of the then current Utah and Wyoming Commission-allowed rates of return will be determined each year as of July 31, using the previous calendar year’s volumetric sales.<sup>8</sup>

#### ***Five-Year Forward Curve:***

34. Wexpro will continue to design its drilling program to, at the time it incurs an obligation in connection with the drilling program, provide, on average, cost-of-service production that is at or below the Five-Year Forward Curve price that was agreed to in the Trail Settlement Stipulation. (Ex. A, p. 4). The average cost is defined as the cost-of-service for the first five years of production divided by the production volumes for the first five years. (Id., pp. 4-5).

35. The Parties designated and defined the “Five-Year Forward Curve” that will be the point of comparison for determining when the market price exceeds the cost-of-service, thereby

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<sup>8</sup> Docket No. 30010-123-GA-12.

allowing new wells to be drilled. The Parties agreed that to reduce volatility, the most recent 20 trading days of the 60-month average of the “Rockies-Adjusted Price” will be used to determine whether the drilling program meets the requirements of the *Stipulation*. (Ex. A, p. 5).

36.

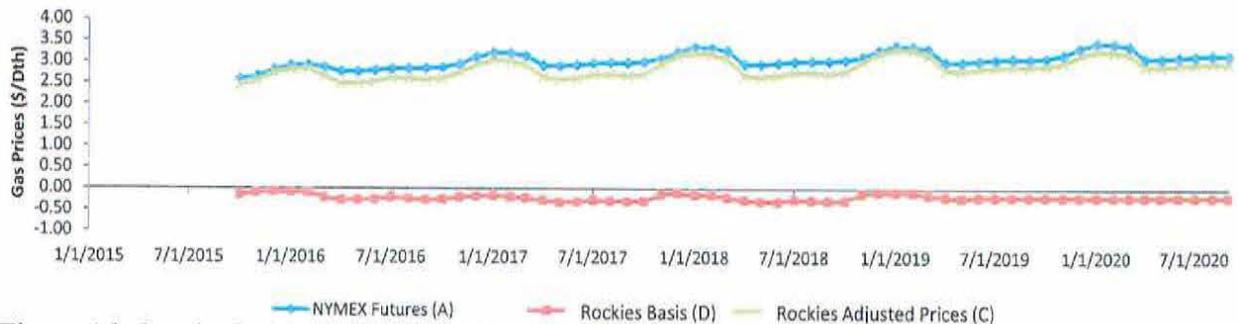
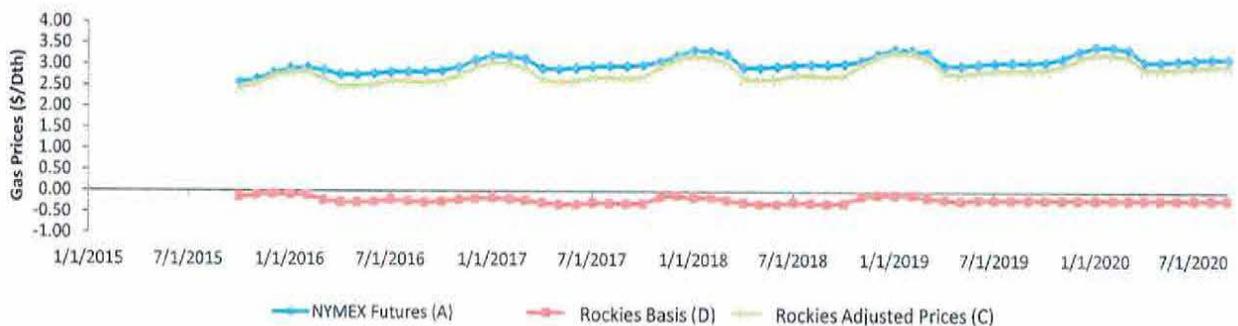


Figure 1 below includes the NYMEX Five-Year Forward Curve and the Rockies basis differential. Adding those two curves together is the “Rockies Adjusted Price.” (Ex. A and *Stipulation* Ex. 1).

Figure 1: Excerpt from Canyon Creek Settlement Stipulation, Exhibit 1



37. Figure 2 below is the smoothed Five-Year Forward Curve (E) and is the “Five Year Forward Curve” definition used in the *Stipulation*. (Ex. A and *Stipulation* Ex. 1). The point on line E, on the date Wexpro incurs an obligation in connection with a drilling program, will be compared to the incremental cost-of-service of the drilling program to determine whether the drilling program is, on average, at or below the Five-Year-Forward Curve price. (Ex. A, pp. 4-5 and *Stipulation* Ex. 1).

Figure 2: Excerpt from Canyon Creek Settlement Stipulation, Exhibit 1



38. Bryce Freeman testified for the OCA that without the lower return on new development drilling proposed by Questar, drilling will continue to be above the Five-Year Forward Curve price of market purchases, which eliminates the possibility of new development drilling. With the reduced rate of return, the overall cost-of-service gas will be reduced. (Ex. B, pp. 3-4).

***Sharing Dry Hole and Non-Commercial Well Costs 50/50:***

39. In the Wexpro I, Wexpro II and Trail Unit Agreements, Wexpro bears 100% of the cost of any dry holes or noncommercial wells. In the *Stipulation*, the Parties agreed, for post-2015 development drilling, the expenses associated with dry holes and the revenues and related expenses from non-commercial wells would be shared 50/50 between Questar customers and Wexpro, up to a cap of 4.5% of Wexpro's annual development drilling program. Any costs greater than the 4.5% cap will be the sole responsibility of Wexpro. (Ex. A, p. 6, and *Stipulation* Ex. 2, l. 18). Wexpro's historical dry hole average has been approximately 3%. (Tr., p. 45, ll. 1-4).

40. In Wexpro I, a "Dry Hole" is defined as:

A development well that (i) upon completion is clearly uneconomical to produce and is plugged and abandoned while the drilling rig is in place, or (ii) is otherwise not determined to be a commercial well under the procedures set forth in section I-20. If a commercial well is completed in a productive reservoir above the total depth drilled, that portion of the well below the lowest productive reservoir to total well depth will be considered a dry hole. (Wexpro I, Section I-19.)<sup>9</sup>

41. In the *Stipulation*, the Parties agreed that a non-commercial well's costs will also be shared. A well may be determined to be a "Commercial Well" if the economic evaluation of the well shows that production from the well, when valued at market prices, will pay the expenses of operating the well, including royalties and taxes, plus 50% of the drilling cost to completion to the wellhead. (Wexpro I, Section I-20.)<sup>10</sup>

***Sharing of Cost Savings 50/50:***

42. The Parties agreed that when the actual annual cost-of-service price per Dth for Questar's Integrated Resource Plan (IRP) year is less than the market price per Dth for the IRP year, savings will be shared 50/50 between Questar customers and Wexpro. The amount of the shared savings will be calculated on all new, post-2015 *development wells*, which excludes the Canyon Creek wells that are already producing. The *Stipulation*, in Paragraph 18 and Exhibit 2, provides the details of how the calculations will be performed. (Ex. A, pp. 6-8 and *Stipulation* Ex. 2).

43. The Parties agreed the sharing of savings shall not result in the rate of return on post-2015 development wells exceeding the Wexpro Base Rate of Return + 8% (presently 19.76%) that applies to pre-2016 development gas drilling. The *Stipulation* states this constraint shall be

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<sup>9</sup> Docket No. 9192 Sub 68.

<sup>10</sup> Id.

ensured with an adjustment to the Company's Commodity Balancing Account (CBA). The Parties acknowledged the CBA adjustment may effectively increase customers' share of savings (e.g. from 50% to 60%) or decrease customers' share of dry hole and non-commercial well expenses (e.g. from 50% to 40%). (Ex. A, p. 8 and Ex. 2, ll. 26-29).

44. Bryce Freeman observed that Wexpro is unlikely to have the opportunity to share any savings in the near to medium-term future. He testified the OCA is satisfied the provisions in *Stipulation* Paragraphs 18 and 19 adequately limit customer risk and price exposure while providing Wexpro an incentive to minimize the cost of producing Company-owned gas reserves. (Tr., pp. 151, l. 12 through 152, l. 15; Ex. B, pp. 4-5; and Ex. A, pp. 6-7).

45. The *Stipulation* provides in Paragraph 18(d) that calculations and entries are subject to review and audit by the Utah Division and the Wyoming OCA, and any dispute regarding related prices and calculations will be resolved in pass-on proceedings in Utah and Wyoming. (Ex. A, p. 7). The Parties clarified at hearing that it was contemplated that the Wyoming Commission retained all its rights to review and audit the prices and calculations generally conducted through pass-on proceedings. (Tr., p. 50, ll. 10-22).

#### ***Management of Gas Portfolio to 55%:***

46. In the *Stipulation*, beginning with the 2020 IRP year and for each subsequent IRP year, Questar and Wexpro will manage the combined Wexpro I and Wexpro II cost-of-service production to:

- 55% of Questar's annual forecasted demand identified in the IRP; or
- 55% of the Minimum Threshold, as defined in the Trail Unit Stipulation, if the annual forecasted demand is less than the Minimum Threshold. (Ex. A, p. 9).

47. Freeman explained the parties in the Trail Unit Stipulation negotiated the 65% limit in recognition of low gas market prices and expected additional gas volumes associated with the Trail Field acquisition. (Ex. B, p. 6). Wexpro's proportion of cost-of-service gas has declined since the Trail Field acquisition and is projected to decline further absent additional reserve acquisitions. He stated the Parties believe it is prudent for Questar and Wexpro to manage to the lower, 55%, proportion of cost-of-service gas in the current low market price environment. (Id.).

#### ***Questar's Online Maintenance of All Relevant Documents:***

48. In an effort to increase transparency, the Parties agreed Questar will maintain, on its website, a current copy of all relevant documents governing the cost-of-service arrangement between Questar and Wexpro, including:

- The 1981 Wexpro Stipulation and Agreement and the Utah and Wyoming Commission Orders approving it;
- The Wexpro II Agreement and the Utah and Wyoming Commission Orders approving it;

- The Trail Unit Stipulation and the Utah and Wyoming Commission Orders approving it;
- The Canyon Creek Settlement Stipulation and the Utah and Wyoming Commission Orders approving it; and
- All Guideline Letters. (Ex. A, p. 9).

### **Public Interest and Benefits of the Canyon Creek Acquisition**

49. The Parties claim the addition of the Canyon Creek property under Wexpro II is in the public interest because:

- The Canyon Creek property is included in the Wexpro I development drilling area where Wexpro has drilled over the last 60 years; (Ex. 1.0, p. 2).
- Wexpro has experience in the geology, engineering and production levels in the area; (Tr., pp. 112-113; Ex. 1.0, p. 2 and Ex. 2.0, p. 9).
- The Canyon Creek property is Wexpro's "best performing property" in the Wexpro I development-drilling areas; (Tr., pp. 112-113 and Ex. 2.0, p. 9).
- The properties will provide the customers an approximate 20 to 30 year supply of gas from current and future wells; (Ex. 1.0, p. 3).
- An ongoing drilling program helps lower the per-unit cost per Dth of cost-of-service production and preserves Wexpro's expertise and efficiencies in developing these properties. (Ex. 1, p. 3 and Ex. 2, pp. 7-9).
- Wexpro will gain a 100% working interest in the Canyon Creek through this acquisition, which will ensure Questar customer long term access to natural gas; (Tr., p. 113 and Ex. 201, p. 5).
- The 55% gas portfolio management objective will protect ratepayers, relative to the market price of gas; (Tr., pp. 36-37 and Ex. B, p. 6).
- Historically, Questar customer access to Wexpro cost-of-service production has been beneficial to customers; (Ex. 1, p. 7).
- The possibility exists that Canyon Creek gas will be competitive with market purchases and cost. (Ex. 203, pp. 12, 14-15).

50. Currently, the price of gas is expected to remain low for the next four to five years. The recent increased production from major shale plays in the United States and associated gas from oil wells has significantly changed the market outlook for natural gas supplies. (Tr., pp. 139-140). Without finding a way to reduce the price of cost-of-service production, Wexpro will not be able to continue a drilling program in the near future. (Ex. 2, p. 6). Because approximately half of the production from a well is produced during the first five years of its 20 to 30 year life, if those volumes are not replaced with volumes from new wells, fixed costs of producing wells will be spread over fewer and fewer volumes causing the cost to increase. However, a continuous drilling program mitigates this phenomenon. (Ex. 2, p. 7). Additionally, a continuous drilling program ensures Wexpro can continue to provide cost efficient operations for customers. With the proposed changes to the Wexpro Agreement model set forth in the *Stipulation*, Wexpro will help retain an ongoing drilling program in the low price gas environment and provide Questar customers with low-priced long term reserves. (Id.).

51. The independent Wexpro II Hydrocarbon Monitor/Evaluator, David E. Evans, concluded in his Report that the gas reserves and production estimates, based upon the geology of the field, are reasonable and consistent with standard industry practices. He further concluded that the projected cost of producing the undeveloped reserves in the field are also reasonable. (Ex. 201, p. 2 and Ex. 201.2).

52. Accordingly, even though the price of the cost-of-service gas has been above the market purchase price of gas, the long-term view in the record is that the inclusion of the Canyon Creek property in Wexpro II under the terms contained in the *Stipulation* is in the public interest as it will provide benefits to Questar customers over the life of the field. The property's inclusion and new development under the new reduced rate of return will have the effect of reducing the overall cost of the cost-of-service gas program. (Tr., pp. 159-161; Ex. 1, p. 7; Ex. 202, pp. 17-18 and Ex. B, pp. 6-7).

53. Any paragraph set forth in the Conclusions of Law below which includes a finding of fact may also be considered a finding of fact and, therefore, incorporated herein by reference.

### **Principles of Law**

54. Our basic and overriding standard in this case is the public interest and the desires of the utility are secondary to it. In *PacifiCorp v. Public Service Commission of Wyoming*, 2004 WY 164, 103 P.3d 862 (2004), the Wyoming Supreme Court, 2004 WY 164 at ¶13, quoted with favor *Sinclair Oil Corp. v. Wyoming Public Service Comm'n*, 2003 WY 22, at ¶9, 63 P.3d at 887 (Wyo. 2003):

Speaking specifically of PSC, we have said that PSC is required to give paramount consideration to the public interest in exercising its statutory powers to regulate and supervise public utilities. The desires of the utility are secondary. [Citation omitted.]

Construing Wyo. Stat. § 37-3-101, which requires rates to be reasonable, the Court in *Mountain Fuel*, *supra*, at 883, commented that:

This court cannot usurp the legislative functions delegated to the PSC in setting appropriate rates, but will defer to the agency discretion so long as the results are fair, reasonable, uniform and not unduly discriminatory.

Later, 662 P.2d at 885, the Court in *Mountain Fuel* observed that:

We agree that if the end result complies with the 'just and reasonable' standard announced in the statute, the methodology used by the PSC is not a concern of this court, but is a matter encompassed within the prerogatives of the PSC.

In accord are *Great Western Sugar Co. v. Wyo. Public Service Comm'n and MDU*, 624 P.2d 1184 (Wyo. 1981); and *Union Tel Co. v. Public Service Comm'n*, 821 P.2d 550 (Wyo. 1991), wherein the Supreme Court stated, 821 P.2d at 563, that it "... has recognized that discretion is vested in the PSC in establishing rate-making methodology so long as the result reached is reasonable."

Read *in pari materia*, these statutes articulate the basic mechanism of the public interest standard which the Commission is to follow in its decisions.

55. The Wyoming Administrative Procedure Act, at Wyo. Stat. § 16-3-107, establishes general procedures in Commission cases, including the giving of reasonable notice. In accord are Wyo. Stat. §§ 37-2-201, 37-2-202, and 37-3-106. (*See also*, Commission Rule §§ 106 and 115.)

56. Wyo. Stat. § 37-3-101 states:

All rates shall be just and reasonable, and all unjust and unreasonable rates are prohibited. A rate shall not be considered unjust or unreasonable on the basis that it is innovative in form or in substance, that it takes into consideration competitive marketplace elements or that it provides for incentives to a public utility. \* \* \* The commission may determine that rates for the same service may vary depending on cost, the competitive marketplace, the need for universally available and affordable service, the need for contribution to the joint and common costs of the public utility, volume and other discounts, and other reasonable business practices. \* \* \*

57. The Commission has broad powers to inquire into the facts surrounding the determination of rates. They include Wyo. Stat. § 37-2-119, which articulates the “used and useful” test and allows wide latitude in the Commission’s investigation of rate-related matters. It states, in part:

In conducting any investigation pursuant to the provisions of this act the commission may investigate, consider and determine such matters as the cost or value, or both, of the property and business of any public utility, used and useful for the convenience of the public, and all matters affecting or influencing such cost or value, the operating statistics for any public utility both as to revenues and expenses and as to the physical features of operation . . . .

58. Wyo. Stat. § 37-2-120 requires the Commission to afford due process in its cases, stating, in part:

No order, however, shall be made by the commission which requires the change of any rate or service, facility or service regulation except as otherwise specifically provided, unless or until all parties are afforded an opportunity for a hearing in accordance with the Wyoming Administrative Procedure Act.

59. Wyo. Stat. § 37-2-121 authorizes public utilities to initiate proceedings to employ innovative ratemaking methods:

. . . Any public utility may apply to the commission for its consent to use innovative, incentive or nontraditional rate making methods. In conducting any investigation and holding any hearing in response thereto, the commission may consider and approve proposals which include any rate, service regulation, rate setting concept, economic development rate, service concept, nondiscriminatory revenue sharing or profit-sharing

form of regulation and policy, including policies for the encouragement of the development of public utility infrastructure, services, facilities or plant within the state, which can be shown by substantial evidence to support and be consistent with the public interest.

60. Wyo. Stat. § 37-2-122(a) reinforces the Commission's ability to exercise its sound informed discretion in rate making cases. It states:

In determining what are just and reasonable rates the commission may take into consideration availability or reliability of service, depreciation of plant, technological obsolescence of equipment, expense of operation, physical and other values of the plant, system, business and properties of the public utility whose rates are under consideration.

61. Wyo. Stat. § 37-2-122(b) gives similar necessary latitude to the Commission regarding utility services, stating:

If, upon hearing and investigation, any service or service regulation of any public utility shall be found by the commission to be unjustly discriminatory or unduly preferential, or any service or facility shall be found to be inadequate or unsafe, or any service regulation shall be found to be unjust or unreasonable, or any service, facility or service regulation shall be found otherwise in any respect to be in violation of any provisions of this act, the commission may prescribe and order substituted therefor such service, facility or service regulation, as it shall determine to be adequate and safe, or just and reasonable, as the case may be and otherwise in compliance with the provisions of this act, including any provisions concerning the availability or reliability of service. It shall be the duty of the public utility to comply with and conform to such determination and order of the commission.

62. The Commission may approve a stipulation or agreed upon settlement as a means of disposing of any matter coming before it at hearing pursuant to Commission Rule 119, and Wyo. Stat. § 16-3-107(n).

### **Conclusions of Law**

63. "At any hearing . . . involving an increase in rates or charges sought by a public utility, the burden of proof to show that the increased rate or charge is just and reasonable shall be upon the utility." Wyo. Stat. § 37-3-106(a). Where, as in the referenced statute, the evidentiary standard is not specifically stated, that burden can be met by the "preponderance of the evidence" standard customarily used in civil cases. *Willadsen v. Christopulos*, 1987 WY 5 at ¶13, 731 P.2d 1181, 1184 (Wyo. 1987).

64. When the parties to a contested case proceeding reach a settlement, the Commission holds a public hearing to determine whether the settlement is in the public interest. In such proceedings, we seek to understand the terms of the settlement, thereby assuring ourselves that the settlement includes all the necessary determinations of fact that may be required for subsequent enforcement proceedings. We inquire into the motivations of the parties to assure that some aspect

of the settlement has not, by inattention or design, done a disservice to all or a subset of the utility's ratepayers. We conduct such other examination as the public interest may require.

65. The Commission strongly disfavors "black box" settlements which, because of their opacity, prevent the Commission from determining how the parties went about reaching their settlement. In such situations, the results are not documented in a way that establishes a useable context within which to view subsequent applications. This causes the Commission great difficulty in fulfilling its responsibility to determine that the public interest has been served. At the same time, transparency alone does not satisfy the public interest. The Commission can and does reject proposed settlements when it concludes they do not serve the public interest.<sup>11</sup> In the instant case, however, the Parties discussed in detail how the *Stipulation* resolves the issues it presents.

66. Broadly speaking, the settlement discussions in this case followed a pattern familiar to us. The utility lays a factual baseline with its pre-filed testimony; intervenors define or highlight issues that are the subject of contention with their responsive pre-filed testimony; and the utility narrows the issues further with its rebuttal testimony by accepting (or further explaining its opposition to) points raised by the intervenors.

67. Full pre-hearing disclosure by the parties materially aids us in gathering the requisite evidence and reaching a decision in the public interest. Here, the Parties have made a reasonable effort to document the details of their settlement and to explain the process by which the settlement was reached. We find all of the *Stipulation* testimony credible and persuasive.

68. The *Stipulation* is a fundamentally sound resolution of the issues presented in this case, it serves the public interest and should be approved. However, nothing in the *Stipulation* may be considered as a limitation on the jurisdiction of the Commission in this or any other cases.

69. The Commission finds that the Parties have supported the *Stipulation* and request to include modifications to the Wexpro model contained in Wexpro I and II, in particular, the significantly lowered rate of return for the Companies and the capped sharing of dry hole and non-commercial well costs by ratepayers. The Commission is somewhat reluctant to approve the imposition of costs for Exploration and Production (E&P) on the utility's ratepayers. However, the limits placed on the sharing of dry hole risks by ratepayers as included in the Parties' *Stipulation* ¶ 17, along with Wexpro's low historical dry hole average, protects ratepayers from undue risks associated with development activities. The record adequately demonstrates that including these Wexpro properties will be beneficial to customers and will ultimately lower costs for ratepayers over the long-term for the program.

70. The *Stipulation* serves the public interest and is an appropriate means of disposing this matter pursuant to Commission Rule 119 and Wyo. Stat. § 16-3-107(n). This determination is premised on the particular facts of this case, including the length of time the program has been in effect with an effective and experienced operator arrangement in which the inclusion of the Canyon Creek properties will provide overall lowered costs to ratepayers as a result of the current lower cost natural gas environment.

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<sup>11</sup> See, e.g., *Montana Dakota Utilities Co.*, Docket No. 20004-81-ER-09, Order of May 26, 2010.

IT IS THEREFORE ORDERED

1. Pursuant to the Commission's deliberations held on November 18 and 24, 2015, the Application of Questar Gas Company for approval of the Canyon Creek acquisition as a Wexpro II property is approved consistent with the terms of this *Order* and of the *Stipulation* with its attachments, in the form appended hereto and incorporated herein by reference as Appendix A.
2. Questar is directed to provide to the Commission on an annual basis:
  - A. The calculations addressed in Paragraph 14 of the *Stipulation*; and
  - B. The calculations addressed in Paragraph 18(d) of the *Stipulation*.
3. This *Order* is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming, on February 24, 2016.

PUBLIC SERVICE COMMISSION OF WYOMING



ALAN B. MINIER, Chairman



KARA BRIGHTON, Commissioner



Attest:



LORI L. BRAND, Assistant Secretary

Colleen Larkin Bell (5253)  
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*Attorneys for Questar Gas Company*

**BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING**

<p>IN THE MATTER OF THE APPLICATION OF QUESTAR GAS COMPANY FOR APPROVAL OF THE CANYON CREEK ACQUISITION AS A WEXPRO II PROPERTY</p>	<p>Docket No. 30010-145-GA-15 <b>CANYON CREEK SETTLEMENT STIPULATION</b></p>
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Pursuant to Utah Code Ann. § 54-7-1 and Utah Admin. Code R746-100-10.F.5, and pursuant to Wyoming Statute 37-2-101 et. seq. and Wyoming Procedural Rules and Special Regulations Section 119, Questar Gas Company (Questar Gas or Company); Wexpro Company (Wexpro); the Utah Division of Public Utilities (Division); the Utah Office of Consumer Services (the Utah OCS); and the Wyoming Office of Consumer Advocate (the Wyoming OCA) (collectively Parties or singly Party) submit this Settlement Stipulation. This Settlement Stipulation shall be effective upon the entry of a final order of approval by the Public Service Commission of Utah (Utah Commission) and the Wyoming Public Service Commission (Wyoming Commission) (together Commissions) as provided in the Wexpro II Agreement, Article IV-5 and Article IV-9(c).

## PROCEDURAL HISTORY

1. On March 28, 2013, the Utah Commission issued its Report and Order approving the Wexpro II Agreement. On April 11, 2013, the Wyoming Commission held a hearing in the matter of the application of Questar Gas Company for approval of the Wexpro II Agreement and issued a bench ruling approving the Wexpro II Agreement. On October 16, 2013, the Wyoming Commission issued its Memorandum Opinion, Findings and Order approving the Wexpro II Agreement.

2. On January 17, 2014, the Utah Commission issued its Report and Order approving the Trail Unit Settlement Stipulation. On March 18, 2014 the Wyoming Commission issued its Memorandum Opinion, Findings and Order approving the Trail Unit Settlement Stipulation.

3. The Wexpro II Agreement and the Trail Unit Settlement Stipulation govern the requirements for Wexpro and Questar Gas relating to the Canyon Creek Acquisition. Section IV-1 of the Wexpro II Agreement provides that “Wexpro will acquire oil and gas properties or undeveloped leases at its own risk.” Section IV-1(a) provides that “Questar Gas shall apply to the Utah and Wyoming Commissions for approval to include under this Agreement any oil and gas property that Wexpro acquires within the Wexpro I development drilling areas.”

4. On December 19, 2014, Wexpro closed on its \$52.7 million acquisition of an additional 30% interest in natural-gas producing properties in the Canyon Creek Acquisition Area located in the Vermillion Basin in southwest Wyoming. These properties are located within the Development Drilling Areas defined in the Wexpro Stipulation and Agreement executed October 14, 1981 and approved October 28, 1981 by the Wyoming Commission and December 31, 1981 by the Utah Commission (hereinafter Wexpro I

Agreement). Wexpro already owns a 70% interest in the properties being acquired. This acquisition increases Wexpro's ownership interest to 100%.

5. On August 31, 2015, Questar Gas filed its Confidential Applications seeking approval of the Canyon Creek Acquisition as a Wexpro II property before the Utah and Wyoming Commissions. The Canyon Creek Acquisition is an acquisition within a Wexpro I Development Drilling Area and under the terms of the Wexpro II Agreement Questar Gas is required to bring this property before both the Utah and Wyoming Commissions for approval. The Confidential Applications were accompanied by Exhibits A through P and the direct testimony of Mr. Barrie L. McKay and Mr. Brady B. Rasmussen.

6. Questar Gas Company has submitted data in support of the Confidential Applications, including gas pricing assumptions, market data, historical production and remaining reserves of current wells, forecasted production/reserves for future wells, forecasted decline curves for current and future wells, drilling costs, operating expenses, ownership interests, taxes, gathering and processing costs, forecasted long-term cost-of-service analysis, impact on Questar Gas' gas supply, geologic data, future development plans, applicable guideline letters, and other data as requested by the respective agencies through numerous data requests. Additionally, the Hydrocarbon Monitor's Report regarding the Canyon Creek Acquisition was filed September 10, 2015 and September 14, 2015 in Wyoming and Utah, respectively.

7. On September 9, 2015, the Utah Commission issued its Scheduling Order setting dates for filing testimony, technical conferences, and hearings and on October 8, 2015, the Wyoming Commission issued its Scheduling Order setting dates for filing testimony and hearings.

8. On September 17, 2015, a technical conference was held in Utah to discuss and provide information to the Division, Utah OCS, and Staff of the Utah Commission on the Company's Canyon Creek Acquisition and its proposed changes to key criteria of the Wexpro Agreements.

9. On October 8, 2015, a technical conference was held in Wyoming to discuss and provide information to the Wyoming OCA and the Staff of the Wyoming Commission on the Company's Canyon Creek Acquisition and its proposed changes to key criteria of the Wexpro Agreements.

10. Since the Confidential Applications were filed, the Division, Utah OCS, Wyoming OCA, Utah Commission Staff, and Wyoming Commission Staff have asked and Questar Gas has responded to more than 50 data requests and inquiries.

11. On October 8, 2015, the Division and the Utah OCS filed direct testimony and on October 13, 2015, the Wyoming OCA filed direct testimony in their respective dockets.

#### TERMS AND CONDITIONS

12. The Parties agree for purposes of settlement that the Canyon Creek Acquisition, as identified in the Canyon Creek Application, shall be approved as a Wexpro II property.

13. The Parties agree for purposes of settlement that Wexpro will design its annual drilling program or drilling programs that are more frequent than the annual cycle to provide cost-of-service production that is, at the time Wexpro incurs an obligation in connection with a drilling program, on average<sup>1</sup>, at or below the 5-Year Forward Curve price that was agreed to in the Trail Settlement Stipulation.

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<sup>1</sup> For purposes of this provision, average is defined as the cost-of-service for the first five years of production divided by the production volumes for the first five years.

14. The Parties agree for purposes of settlement that the 5-Year Forward Curve agreed to in the Trail Settlement Stipulation and used by Wexpro to determine its future drilling plans will be calculated as shown below and as illustrated in the attached Settlement Stipulation Exhibit 1.

Each day, a 60 month forward curve will be calculated as follows:

A = NYMEX price (—◆— on graph)

B = Northwest Pipeline Rockies Basis (—■— on graph)

C = (A+B) = Rockies-Adjusted Price (— on graph)

$D = \frac{(C_1 + C_2 + C_3 + \dots + C_{60})}{60 \text{ months}} = 60\text{-month average Rockies-Adjusted Price (---- on graph)}$

Each point on line D represents the daily calculation of the 60-month average of the Rockies-Adjusted Price. To reduce volatility in the curve, the most recent 20 trading days of line D will be used. Details of the 20-trading-day average calculation are as follows:

$E = \frac{(D_{-1} + D_{-2} + D_{-3} + \dots + D_{-20})}{20 \text{ days}} = 5\text{-Year Forward Curve (— on graph)}$

Each point on line E represents the average of the most recent 20 trading days of the 60-month average Rockies Adjusted Price (5-year Forward Curve). The point on line E on the date that Wexpro incurs an obligation in connection with a drilling program will be compared to the incremental cost-of-service of the drilling program to determine whether the drilling program meets the requirements established in paragraph 13 above.

15. The Parties agree for purposes of settlement that the rate of return on pre-2016 natural gas and oil Developmental Wells and Appurtenant Facilities will be governed over their remaining life as set forth in the Wexpro I and Wexpro II Agreements.

16. The Parties agree for purposes of settlement that the rate of return on post-2015 Wexpro I and Wexpro II Development Drilling or any other capital investment, and any

associated AFUDC, for both natural gas and oil wells, will be the Commission-Allowed Rate of Return as defined in Section I-31 of the Wexpro II Agreement.

17. The Parties agree for purposes of settlement that for post-2015 Development Drilling, the Dry Hole and non-commercial costs, as defined in the Wexpro I and Wexpro II Agreements, will be charged and shared on a 50/50 basis between Quester Gas customers and Wexpro, subject to the limitations contained in paragraph 19 of this Settlement Stipulation. Any revenue and related expenses from non-commercial wells will be shared on a 50/50 basis, subject to the limitations contained in paragraph 19 of this Settlement Stipulation. The Parties further agree that the customers' share of the 50/50 sharing of Dry Hole and non-commercial well costs will be limited to 4.5% of Wexpro's annual development drilling program. Any Dry Hole or non-commercial well costs above 4.5% will be the sole responsibility of Wexpro.

18. The Parties agree for purposes of settlement that when the actual annual cost-of-service price per decatherm (COS Price) for Questar Gas' Integrated Resource Plan (IRP) year is less than the market price per decatherm for the IRP year (defined below), then savings will be shared 50% to Questar Gas customers and 50% to Wexpro using into-the-interstate-pipeline volumes from post-2015 Development Wells.

- a. For purposes of this calculation, cost-of-service volumes (COS Volumes) are defined as the actual decatherms supplied into the interstate pipeline under both Wexpro I and Wexpro II.
- b. The market price for an IRP year will be calculated as follows: The Northwest Pipeline first-of-month price for each month is multiplied by the actual COS Volumes for each month. These 12 months of costs are totaled and then divided by the 12-month total of into-the-interstate-

pipeline volumes. The resulting price per decatherm is the Average Market Price for the previous IRP year.

- c. The COS Price for the IRP year will include all pre-2016 Wexpro I and Wexpro II costs and volumes and all post-2015 Wexpro I and Wexpro II costs and volumes. These costs and volumes will include the customers' portion of any Dry-Hole cost incurred during the IRP year.
- d. Each year in June, the Average Market Price and COS Price will be calculated for the previous IRP year to determine if savings per decatherm have occurred. If savings have occurred, Wexpro will calculate the shared savings and separately identify the amount being returned to Wexpro on the July Operator Service Fee (OSF) invoice to Questar Gas. Questar Gas will separately identify the portion of the shared savings returned to Wexpro in the Company's 191 Account. These calculations and entries are subject to review and audit by the Utah Division and the Wyoming OCA. Any dispute regarding related prices and calculations will be resolved in the Company's 191 Account proceedings in Utah and Wyoming.
- e. The calculation of shared savings is illustrated in the attached Settlement Stipulation Exhibit 2. Column A lines 1 – 12 show how the first-of-month price for Northwest Pipeline will be multiplied by the COS Volumes for each month shown in Column B, lines 1 – 12. Column C, lines 1 – 12 show the comparable market purchase cost by month. The 12-month total comparable market purchase cost, shown in Column C, line 13 is divided

by the 12-month total COS Volumes, shown in Column B, line 13, to arrive at the Average Market Price, line 14. The COS Price for the IRP year will be the Wexpro I and Wexpro II costs for pre-2016, post-2015 proved producing, and post-2015 Development Wells (Col D, line 17) divided by the volumes in Wexpro I and Wexpro II for pre-2016, post-2015 proved producing, and post-2015 Development Wells (Col D, line 21). This calculation is illustrated on line 25. Line 18 notes that any Dry-Hole cost assigned to the customer that year must be included in that year's calculation of the total COS Price. Savings per decatherm, shown on line 27, are calculated by taking the difference between the Average Market Price and the total COS Price. If this number is positive, then as shown on line 28, 50% of this savings (\$/dth) is multiplied by the post-2015 Development Wells into-the-interstate-pipeline volumes (Col C, line 21) to arrive at the shared savings amount that will be included in the July entry in the 191 account.

19. The Parties agree for purposes of settlement that in no event shall this shared savings amount result in Wexpro earning a rate of return on post-2015 Development Wells greater than the Base Rate of Return (Base ROR) + 8% (Settlement Stipulation Exhibit 2, line 28). This shall be ensured with an adjustment to the Company's 191 Account. The Parties acknowledge the effect of this adjustment may effectively increase Questar Gas' customers' share of savings or increase Wexpro's proportionate share of Dry Hole or non-commercial well costs, set forth in paragraph 17 above.

20. The Parties agree for purposes of settlement that starting with the 2020 IRP year, and for each IRP year thereafter, Questar Gas and Wexpro will manage the combined cost-of-service production from Wexpro I and Wexpro II properties to: (a) 55% of Questar Gas' annual forecasted demand identified in the IRP; or (b) 55% of the Minimum Threshold as defined in the Trail Settlement Stipulation, Section 12.c, if annual forecasted demand is below the Minimum Threshold.

21. The Parties agree for purposes of settlement that Questar Gas will maintain on its questargas.com web site a current copy of all relevant documents governing the cost-of-service arrangement between Wexpro and Questar Gas. This shall include, but is not limited to:

- The 1981 Wexpro Stipulation and Agreement, commonly referred to as the Wexpro I Agreement
- Utah and Wyoming Commission Orders approving the Wexpro I Agreement
- Wexpro II Agreement
- Utah and Wyoming Orders approving the Wexpro II Agreement
- Trail Settlement Stipulation
- Utah and Wyoming Orders approving the Trail Settlement Stipulation
- Canyon Creek Settlement Stipulation
- Utah and Wyoming Orders approving the Canyon Creek Settlement Stipulation
- All Guideline Letters

22. The Parties agree for purposes of settlement that all terms and conditions of the Wexpro I and Wexpro II Agreements and the Trail Settlement Stipulation apply unless otherwise clarified or addressed by this Settlement Stipulation. The Parties further agree that the Wexpro I Agreement, the Wexpro II Agreement, the Trail Settlement Stipulation, and this Settlement Stipulation, known as the Canyon Creek Settlement Stipulation, must be read collectively as the

Wexpro Agreement. Under no circumstances will a Party to the collective Wexpro Agreement assert that any provision of the Wexpro I Agreement, the Wexpro II Agreement, the Trail Settlement Stipulation, or the Canyon Creek Settlement Stipulation is severable from the collective Wexpro Agreement.

23. The Parties agree for purposes of settlement that under no circumstance will any Party claim that this Settlement Stipulation invokes Section 11.2 of the 1981 Utah Stipulation; Section 11.2 of the Wyoming 1981 Stipulation; or Wexpro I Agreement, Article IV-6(c). The Parties further agree that nothing in this Settlement Stipulation may be interpreted or claimed by any Party under any term or combination of terms of the 1981 Utah Stipulation and the 1981 Wyoming Stipulation to allow Wexpro to either revoke any Wexpro I or Wexpro II properties, release Wexpro or the Company from their obligations under either the Wexpro I or Wexpro II Agreements, or subject Wexpro to the jurisdiction of either the Utah or Wyoming Commissions.

#### **GENERAL**

24. The Parties agree that settlement of those issues identified above is in the public interest and that the results are just and reasonable.

25. The Parties agree that no part of this Settlement Stipulation or the formulae or methods used in developing the same, or a Commission order approving the same shall in any manner be argued or considered as precedential in any future case. All negotiations related to this Settlement Stipulation are privileged and confidential, and no Party shall be bound by any position asserted in negotiations. Neither the execution of this Settlement Stipulation nor the order adopting it shall be deemed to constitute an admission or acknowledgment by any Party of the validity or invalidity of any principle or practice of ratemaking; nor shall they be construed to constitute the basis of an estoppel or waiver by any Party; nor shall they be introduced or used as

evidence for any other purpose in a future proceeding by any Party except in a proceeding to enforce this Settlement Stipulation.

26. Questar Gas, Wexpro, the Division, the Utah OCS and the Wyoming OCA each will make one or more witnesses available to explain and support this Settlement Stipulation to their respective Commissions. Such witnesses will be available for examination. As applied to the Division, the Utah OCS, and the Wyoming OCA, the explanation and support shall be consistent with their statutory authorities and responsibilities. So that the records in these dockets are complete, all Parties' filed testimony, exhibits, and the Confidential Applications and their exhibits shall be submitted as evidence.

27. The Parties agree that if any person challenges the approval of this Settlement Stipulation or requests rehearing or reconsideration of any order of the Commissions approving this Settlement Stipulation, each Party will use its best efforts to support the terms and conditions of the Settlement Stipulation. As applied to the Utah Division, the Utah OCS, and the Wyoming OCA, the phrase "use its best efforts" means that they shall do so in a manner consistent with their statutory authorities and responsibilities. In the event any person seeks judicial review of a Commission order approving this Settlement Stipulation, no Party shall take a position in that judicial review opposed to the Settlement Stipulation.

28. Except with regard to the obligations of the Parties under paragraphs 25, 26, and 27, of this Settlement Stipulation, this Settlement Stipulation shall not be final and binding on the Parties until it has been approved without material change or condition by the Commissions. This Settlement Stipulation is an integrated whole, and any Party may withdraw from it if it is not approved without material change or condition by the Commissions or if the Commissions' approval is rejected or materially conditioned by a reviewing court. If the Commissions reject

any part of this Settlement Stipulation or impose any material change or condition on approval of this Settlement Stipulation, or if the Commissions' approval of this Settlement Stipulation is rejected or materially conditioned by a reviewing court, the Parties agree to meet and discuss the applicable Commission or court order within five business days of its issuance and to attempt in good faith to determine if they are willing to modify the Settlement Stipulation consistent with the order. No Party shall withdraw from the Settlement Stipulation prior to complying with the foregoing sentence. If any Party withdraws from the Settlement Stipulation, any Party retains the right to seek additional procedures before the Commission, including presentation of testimony and cross-examination of witnesses, with respect to issues resolved by the Settlement Stipulation, and no Party shall be bound or prejudiced by the terms and conditions of the Settlement Stipulation.

29. This Settlement Stipulation may be executed by individual Parties through two or more separate, conformed copies, the aggregate of which will be considered as an integrated instrument.

**RELIEF REQUESTED**

Based on the foregoing, the Parties request that the Commission issue an order approving this Settlement Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: October 26, 2015.



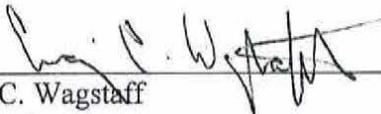
Chris Parker  
Director

*Utah Division of Public Utilities*



Michele Beck  
Director

*Office of Consumer Services*



Craig C. Wagstaff  
President

*Questar Gas Company*



Bryce Freeman  
Administrator

*Wyoming Office of Consumer Advocate*



Brady B. Rasmussen  
Executive Vice President &  
Chief Operating Officer

*Wexpro Company*

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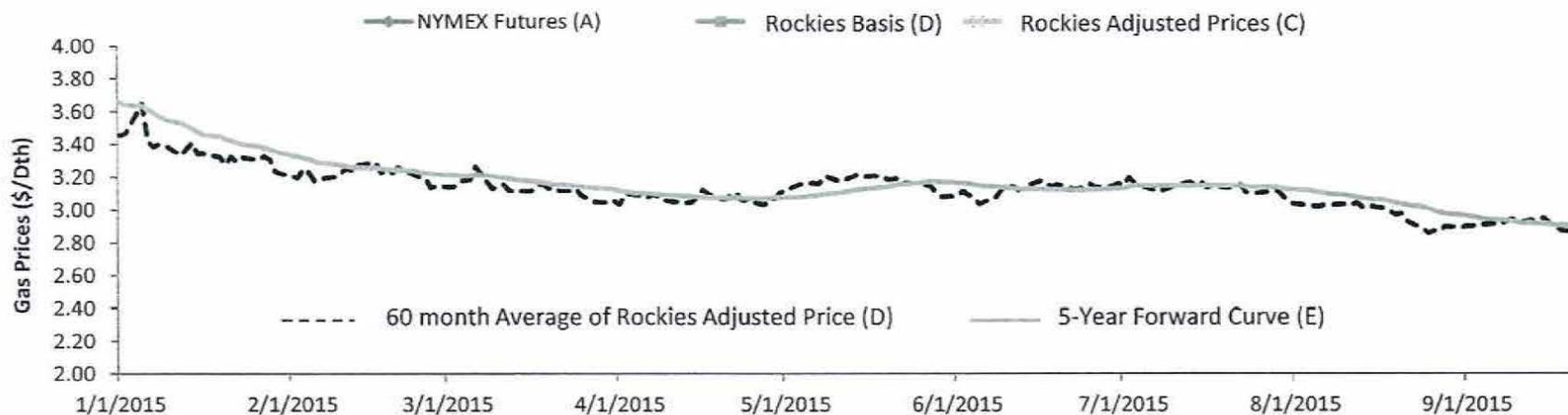
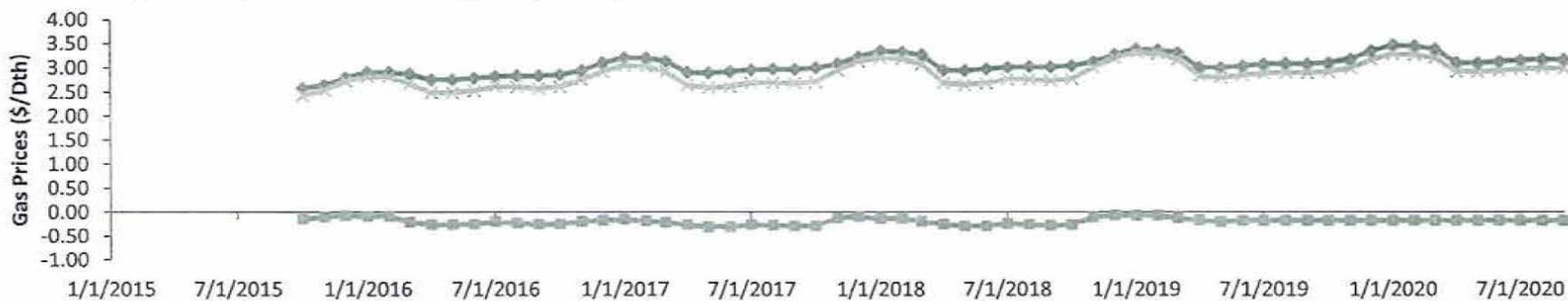
Bryce Freeman  
Administrator

*Wyoming Office of Consumer Advocate*

## Calculation of 5-Year Forward Curve

### Gas Prices Utilized

- (A) NYMEX Monthly Price (60 Months) (1)
- (B) Northwest Pipeline Rockies Basis (2)
- (C) Rockies-Adjusted Prices (A+B)
- (D) 60 month average Rockies-Adjusted Price (C)
- (E) Average of 20 trailing days of (D) = 5-Year Forward Curve



These prices can currently be found at:

- (1) [www.ino.com](http://www.ino.com)
- (2) [www.cmegroup.com/trading/energy/natural-gas/northwest-pipeline-rockies-natural-gas-basis-swap-futures-platts-iferc\\_quotes\\_settlements\\_futures.html](http://www.cmegroup.com/trading/energy/natural-gas/northwest-pipeline-rockies-natural-gas-basis-swap-futures-platts-iferc_quotes_settlements_futures.html)

**Calculation of Shared Savings**

		A	X	B	=	C	D	
<b>Average Market Price</b>								
	Month	Northwest Pipeline First-of-Month Price (\$)		COS Volumes (Into-the-Pipe dth)		Comparable Market Purchase Cost (\$)		
1	Jun							
2	Jul							
3	Aug							
4	Sep							
5	Oct							
6	Nov							
7	Dec							
8	Jan							
9	Feb							
10	Mar							
11	Apr							
12	May							
13	Total			COS Volumes		Comparable Market Purchase Cost (\$)		
14	<b>Total Comparable Market Purchase Cost / Total COS Volumes = Average Market Price (\$/dth)</b>							

**Cost-of-Service Price (for previous IRP year)**

<i>Cost-of-Service (Cost)</i>					
		Pre-2016	Post-2015 Proved Producing	Post-2015 Development Wells*	TOTAL
15	Wexpro I				
16	Wexpro II				
17	TOTAL				
18	*Includes 50% Dry Hole cost for the year, not to exceed 4.5% of Wexpro's annual Development Drilling Investment				

<i>Cost-of-Service (Volume)</i>					
		Pre-2016	Post-2015 Proved Producing	Post-2015 Development Wells	TOTAL**
19	Wexpro I				
20	Wexpro II				
21	TOTAL				
22	** Total Volume in Column D, line 21 must equal the total volume in Column B, line 13.				

<i>Cost-of-Service (Cost / Volumes = Price)</i>					
		Pre-2016	Post-2015 Proved Producing	Post-2015 Development Wells	
23	Wexpro I				
24	Wexpro II				
25	<b>Total COS Cost (Col D, line 17) / Total COS Volumes (Col D, line 21) = COS Price (\$/dth)</b>				

**Shared Savings**

26 *If COS Price < Average Market Price then savings will be shared using into-the-pipe volumes from post-2015 wells:*

27 **Average Market Price (\$/dth) - Total COS Price (\$/dth) = Savings (\$/dth)**

28 **50% X Savings (\$/dth) X Post-2015 Development Well Volumes = 191 Entry\*\*\***

29 \*\*\*In no event shall this amount result in Wexpro earning a rate of return on post-2015 Development Drilling investment greater than the Base Rate of Return + 8%.