

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF)
QUESTAR GAS COMPANY FOR APPROVAL) DOCKET NO. 30010-162-GA-17
OF THE VERMILLION ACQUISITION AS A) (RECORD NO. 14631)
WEXPRO II PROPERTY)

APPEARANCES

For the Applicant, Questar Gas Company (Questar or Company):
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 WILLIAM F. RUSSELL
Deputy Chair KARA BRIGHTON FORNSTROM
Commissioner ROBIN SESSIONS COOLEY

KATIE J. KOSKI, Assistant Secretary,
JOHN BURBRIDGE, Assistant Secretary
Presiding pursuant to a *Special Order* of the Commission

MEMORANDUM OPINION, FINDINGS, AND ORDER APPROVING STIPULATION
(Issued November 2, 2017)

This matter is before the Wyoming Public Service Commission (Commission) upon the Application of Questar for approval to include Wexpro Company's (Wexpro) recent acquisitions in the Trail, Whiskey Canyon, Canyon Creek¹ and Kinney units (collectively, the Vermillion Acquisition) as Wexpro II properties pursuant to the Wexpro II Agreement (Application) (Ex. 1.0), as described in the testimony and exhibits attached to the Company's Application; and the intervention of the OCA (collectively the Parties). Additionally, before the Commission is a Settlement Stipulation, identified as the *Vermillion Settlement Stipulation (Vermillion Stipulation)*, entered into by Questar, Wexpro, the Utah Division of Public Utilities, the Utah Office of Consumer Services, and the Wyoming OCA. (Ex. A).

The Commission, having reviewed the Application, attached exhibits, the Parties' prehearing filings, the *Vermillion Stipulation*, the evidence introduced at the public hearing held on March 17, 2017, its files regarding Questar, applicable Wyoming utility law, and otherwise being fully advised in the premises, FINDS and CONCLUDES:

¹ The Canyon Creek acquisition consists of an overriding royalty interest in existing and future wells and 100% interest in seven producing wells within the Wexpro I development drilling area (Participating Area), and one future well outside the Participating Area. (Ex. 2.0, p. 2).

Summary of Decision

1. The Commission approves the Vermillion Acquisition to be included as cost-of-service gas properties pursuant to the Wexpro II Agreement, approved by the Commission in Docket No. 30010-123-GA-12 (Record No. 13347). The terms and conditions of the Vermillion Acquisition as set forth in the *Vermillion Stipulation* between Questar Gas Company, Wexpro Company, the Utah Division of Public Utilities, the Utah Office of Consumer Services and the Wyoming Office of Consumer Advocate attached hereto and incorporated herein as “Attachment A” are approved. Questar is required to file with the Commission two compliance filings: (1) information regarding the first three vertical wells drilled in the Canyon Creek Unit, as fully detailed in paragraph 18 of the *Vermillion Stipulation*; and (2) update Exhibit 3.2 to the Company’s application if there are any final adjustments to the property purchase price.

Contentions of the Parties and Resulting Issues

2. Questar recommends approval of the *Vermillion Stipulation* because it believes the *Vermillion Stipulation* resolves all pending issues, is in the public interest and is just and reasonable. (Tr., pp. 27–28; Ex. A, p. 8).

3. The OCA recommends the Commission adopt the *Vermillion Stipulation* because it satisfactorily resolves whether customers are best served through Wexpro acquiring the properties versus purchasing market gas. (Tr., pp. 89–93).

4. The issue remaining before the Commission is whether the *Vermillion Stipulation* serves the public interest as an appropriate means to dispose of this matter pursuant to Wyo. Stat. § 37-1-104(a), Wyo. Stat. § 16-3-107(n) and Commission Rule Chapter 2, Section 25.

Course of Proceedings

5. On January 10, 2017, Questar filed its Application requesting an order approving the inclusion of four recently acquired properties located within the Trail Unit, Whiskey Canyon Unit, Canyon Creek Unit and Kinney Unit (collectively known as the Vermillion Acquisition) as Wexpro II properties pursuant to the Wexpro II Agreement, approved by the Commission in Docket No. 30010-123-GA-12. (Ex. 1.0). Questar included with its Application the supporting pre-filed testimony and exhibits of two witnesses: Barrie L. McKay, Questar’s Director of Customer Rates and Regulation (Exs. 2.0–2.2.1S); and Brady B. Rasmussen, Wexpro’s Vice President and General Manager (Exs. 3.0–3.8.) as well as Exhibits A, A-1, B, and Confidential Exhibits C-1, C-2, C-3, C-4, C-5, D-1, D-2, D-3, D-4, D-5, E-1, E-2, E-3.1, E-3.2, E-4, F-1, F-2, F-3.1, F3.2, F4, G-1, G-2, G-3, G-4, H-1, H-2, H-3, H-4, H-5, I, J-1, J-2, J-3, J-4, K, L-1, L-2, L-3, L-4, L-5, M, N, O, P, 2.0, 2.1, 2.2, 3.0, 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7 and 3.8.

6. In addition to its Application, Questar filed 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, 3.2, 3.3, 3.5 and 3.7*, requesting confidential treatment of certain Exhibits pursuant to Commission Rule Chapter 2, Section 30 and Wyo. Stat. § 16-4-203(d)(v).

Additionally, Questar filed a *Request for Initial Prehearing and Scheduling Conference* pursuant to Commission Rule Chapter 2, Section 26 and Section IV-3(a) of the Wexpro II Agreement.

7. On January 11, 2017, the OCA filed its *Notice of Intervention* pursuant to Wyo. Stat. § 37-2-402(a). (Ex. 101). 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.

8. On January 12, 2017, the Commission issued a *Notice of Application* setting a deadline of February 1, 2017, for interested persons to file a public comment, statement, intervention petition, protest or request for a public hearing. A public notice was published in newspapers in Questar's service territory. (Ex. 102).

9. On January 18, 2017, the OCA filed the Confidential Independent Hydrocarbon Monitor's Report regarding the Vermillion Acquisition as required pursuant to Section IV-4 of the Wexpro II Agreement.

10. On January 24, 2017, the Commission issued a *Notice Setting Scheduling Conference*, setting a scheduling conference at 10:00 a.m. on Wednesday, January 25, 2017, in the Commission's hearing room located at 2515 Warren Avenue, Suite 300, Cheyenne, Wyoming. (Ex. 103).

11. A duly noticed scheduling conference was held on January 25, 2017, at 10:00 a.m. Participating in person were Katie Koski, John Burbridge, Morgan Fish, Luy Luong, Meridith Bell and Randy Phetteplace, on behalf of the Commission Staff; Barrie McKay, Questar Director of Regulatory Affairs and Customer Rates; Jenniffer Nelson Clarke, Questar Senior Regulatory Counsel; Austin Summers, Questar Supervisor, Regulatory Affairs; Alex Moyes, Wexpro Manager, Geoscience and Engineering. Dee Heugly, Wexpro General Manager Business Development and Administration; and Brady Rasmussen, Wexpro General Manager and Vice President, participated by telephone. Ivan Williams, Staff Attorney, appeared by telephone while Chris Leger, Staff Attorney, appeared in person on behalf of Wyoming OCA. Following the scheduling conference, the Commission issued its *Scheduling Order* on January 25, 2017, setting the procedural schedule, a technical conference for Friday, February 3, 2017, at 10:00 a.m., and a one-day public hearing commencing on March 17, 2017, at 9:00 a.m. (Ex. 104).

12. On February 3, 2017, the Commission issued a *Special Order Authorizing One Commissioner and/or Presiding Officer to Conduct Public Hearing*. (Ex. 105).

13. On February 3, 2017, 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, 3.2, 3.3, 3.5 and 3.7. (Ex. 106).

14. A technical conference was held on February 3, 2017, with the Company, Commission Staff and the Office of Consumer Advocate in the Commission's hearing room located at 2515 Warren Avenue, Suite 300, in Cheyenne, Wyoming. Participating in person were Chris Petrie, John Burbridge, Katie Koski, Marci Norby, Morgan Fish, Luy Luong, Dave Walker

and Lori Brand on behalf of Commission Staff; Ivan Williams and Bryce Freeman on behalf of the OCA; Barrie McKay, , Brady Rasmussen, , Jenniffer Nelson Clark, Brent Greenhouse, Nicholas Tingey, and Alexander Moyes, on behalf of Questar and Wexpro. Participating by telephone were Dee Heugly, John Yen, Mike Batcher, and Austin Summers on behalf of Questar and Wexpro.

15. On February 7, 2017, Questar filed a *First Supplement to the Application* as well as Confidential Exhibits 2.2.1S, 3.2.1S, 3.7.1S, 3.7.2S, L-1.1S, L-5.1S, P1.1S, 4.0. Additionally, included with the First Supplement was a *Petition for Confidential Treatment of Information of Documents Submitted as First Supplement to the Application and Data Request Response*.

16. On February 13, 2017, the Commission issued its *Notice and Order Setting Public Hearing*, setting a public hearing to commence at 9:00 a.m. on March 17, 2017, in the Commission's hearing room in Cheyenne. (Ex. 108). A public notice was published in newspapers in Questar's service territory.

17. Pursuant to the *Scheduling Order*, the OCA filed the confidential direct testimony and exhibits of David E. Evans, Wexpro II Hydrocarbon Monitor/Evaluator (Ex. 202); and the confidential direct testimony of Bryce J. Freeman, OCA Administrator (Ex. 201) on February 21, 2017.

18. On February 24, 2017, the OCA filed the Supplement to the Confidential Independent Hydrocarbon Monitor's Report.

19. On March 2, 2017, Questar filed the Parties' *Stipulation*. (Ex. A).

20. On March 6, 2017, OCA filed the Confidential Stipulation Testimony of Bryce J. Freeman. (Joint Ex. B).

21. On March 8, 2017, Questar filed Exhibits 4.0 and 5.0 and the Confidential and Redacted Settlement Testimony of Barrie L. McKay (Joint Ex. C); and the Confidential and Redacted Settlement Testimony of Brady B. Rasmussen. (Joint Ex. D).

22. On March 16, 2017, Questar filed its *Third Petition for Confidential Treatment of Portions of the Settlement Stipulation Testimonies of Barrie L. McKay and Brady B. Rasmussen, Certain Joint Exhibits, Certain Responses to Commission Investigative Responses to Data Requests issued by the Office of Consumer Advocate*.

23. An exhibit conference was held on March 17, 2017, at 8:30 a.m. and the Commission formally received into evidence the following exhibits:

- Questar Exhibit Nos. 1 through 4.0. (Tr., p. 6).
- Joint Exhibits A through D.9. (Tr., p. 7).
- Commission Exhibit Nos. 100 through 117. (Tr., p. 7).
- OCA Exhibit Nos. 201 through 202.2. (Tr., p. 7).

24. The public hearing was held on March 17, 2017, in Cheyenne, Wyoming, beginning at 9:00 a.m., pursuant to the Wyoming Administrative Procedure Act, Wyo. Stat. § 16-3-101, *et seq.* Barrie L. McKay and Brady B. Rasmussen testified for Questar and Wexpro, and Bryce J. Freeman testified on behalf of the OCA. (Tr., pp. 14, 62, 84). At the conclusion of the hearing, the Commission held public deliberations resulting in a unanimous decision to approve the Application consistent with the terms of the *Vermillion Stipulation* pursuant to Wyo. Stat. § 16-4-403. The Commission directed the preparation of an order consistent with its decision.

Findings of Fact

Questar Background

25. Questar is a corporation organized and existing under the laws of the state of Utah, with its principal business office located 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 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.

History

Wexpro I Agreement:

26. In 1976, in response to events and decisions pertaining to Questar's (then known as Mountain Fuel Supply) non-utility oil operations, Questar organized Wexpro as a wholly-owned subsidiary.² Questar was permitted by the Utah Public Service Commission to transfer to Wexpro the non-utility oil properties and interests of Questar as they existed on December 31, 1976.³ Additionally, Questar and Wexpro executed a joint exploration agreement, which defined how Questar and Wexpro would share exploration costs and revenues for further exploration and development of undeveloped leases.⁴ Utah's Division of Public Utilities and Utah's Committee of Consumer Services challenged the transfer of the non-utility oil operations to Wexpro, asserting it to be a transfer of valuable utility properties financed by ratepayers to an unregulated company, which would be free to use the properties to benefit shareholders at the ratepayers' expense.⁵ Accordingly, to avoid continued litigation, the Division of Public Utilities of the Utah Department of Business Regulation, the Utah Committee of Consumer Services, the Staff of the Wyoming Public Service Commission, Mountain Fuel Supply Company and Wexpro entered into a settlement and resolution of all issues in the contested litigation (Wexpro I Agreement or Wexpro I). The Wyoming Public Service Commission approved the Wexpro I Agreement on October 28, 1981

² *Department of Administrative Services v. Public Service Commission*, 658 P.2d 601, 604 (Utah 1983). Questar and Wexpro are affiliates under the common ownership of Dominion Questar. This Commission approved the merger of Questar Corporation and Dominion Resources, Inc. in Docket No. 30010-150-GA-16.

³ *Committee of Consumer Services v. Public Service Commission*, 595 P.2d 871, 877 (Utah 1979), *cert. denied*, 444 U.S. 1014, 62 L. Ed. 2d 644, 100 S. Ct. 664 (1980).

⁴ *Department of Administrative Services*, 658 P.2d at 604.

⁵ *See id.*

27. Wexpro I established a sharing mechanism where 54% of oil profits are credited to Questar customers and 46% are credited to Wexpro. Wexpro I also established a framework for production of natural gas within defined geographic areas at cost-of-service to 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 could not continue to produce at current levels indefinitely. Accordingly, Questar and Wexpro looked for ways to expand exploration and production beyond the Wexpro I properties so that customers could continue to benefit from cost-of-service gas supplies. The result of those efforts is the Wexpro II Agreement (Wexpro II or Wexpro II Agreement).⁶

Wexpro II Agreement:

28. 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. Since the Wexpro II Agreement 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.⁷

29. Wexpro II requires Questar to file applications with both the Utah and Wyoming Commissions requesting approval to include proposed properties as described in paragraphs 8 and 9 of the Application. Pursuant 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;

⁶ 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.

⁷ *Id.*

- 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
- p) Other data as requested or as may be appropriate to an evaluation of the property.

Trail Unit Settlement Stipulation:

30. On January 27, 2014, the Commission approved the Trail Unit Settlement Stipulation. The Trail Unit Settlement Stipulation provides that Wexpro will generally design its annual drilling program to provide cost-of-service gas that is, on average, at or below the current 5-year Rockies-adjusted NYMEX price (5-Year Forward Curve). Additionally, the Trail Unit Settlement Stipulation requires Questar and Wexpro to manage combined cost-of-service production from Wexpro I and Wexpro II properties at or below 65%. (Ex. 1.0, p. 3).

31. If the market price for natural gas is less than the cost-of-service gas on a per Dth basis, the amount of gas produced above the 65% of the annual demand of Questar (the annual demand is forecasted in Questar's annual Integrated Resource Plan (IRP), which runs from June 1 to May 31 of each year) will be credited back to customers through the 191 Account. The credit back to customers is calculated at the higher of market price or cost-of-service price to hold customers harmless for the percentage of Dth produced above the 65% threshold. Wexpro may sell cost-of-service production at any time during the year to manage to the 65% of forecasted demand amount recorded in the 191 Account, which will be calculated in June of each year.⁸

Canyon Creek Settlement Stipulation:

32. The Commission approved the Canyon Creek Settlement Stipulation and Agreement (Canyon Creek Stipulation) for the Canyon Creek property on February 24, 2016.⁹ The Canyon Creek Stipulation clarifies and enhances previous Wexpro II Agreements and Stipulations. Specifically, the Canyon Creek Stipulation clarifies the calculation for the 5-Year Forward Curve established in the Trail Unit Settlement Stipulation. Additionally, it provides that all post-2015 development drilling and capital investment would earn the Commission-allowed rate of return. The Canyon Creek Stipulation further provides that Questar customers and Wexpro will share dry

⁸ Docket No. 30010-134-GA-13 (Record No. 13720), *Memorandum Opinion, Findings and Order Approving the Stipulation to Include Property under the Wexpro II Agreement*, March 18, 2014.

⁹ Docket No. 30010-145-GA-15 (Record No. 14224), *Memorandum Opinion, Findings, and Order Approving Stipulation*, February 24, 2016.

hole and non-commercial well costs on a 50/50 basis. Lastly, the Canyon Creek Stipulation provides that Wexpro will manage production from Wexpro I and Wexpro II wells to 55% of the IRP demand beginning in the 2020 IRP year. (Ex. 1.0, p. 4).

Description of Vermillion Acquisition

33. On April 16, 2015, Wexpro closed on the acquisition of additional interests in natural gas producing properties within the Kinney Unit. These interests are within the Development Drilling Areas as defined in the Wexpro I Agreement. (Tr., pp. 15–16; Ex. A, p. 3).

34. On December 15, 2015, Wexpro closed on an acquisition of additional interests in natural gas producing properties in the Vermillion Basin within the Trail, Whiskey Canyon, and Canyon Creek Units. The Trail Unit's interests are located within the Development Drilling Area as defined in the Wexpro I Agreement. The Canyon Creek Unit includes overriding royalty interests within the Development Drilling Area and property interests outside the Development Drilling Area. The Whiskey Canyon Unit is located outside the Development Drilling Area. (Tr., pp. 15–16; Ex. 2.0, pp. 2–3).

35. Wexpro purchased the properties in the Vermillion Acquisition at its own risk and is selling production from these wells on the open market pending the outcome of a decision by the Commission. (Ex. 1.0, p. 5).

36. With the Vermillion Acquisition, Wexpro acquired a working interest in fields it already owns. Additionally, as part of the Vermillion Acquisition, in the Canyon Creek Unit, Wexpro acquired an overriding royalty interest in the Canyon Creek Participating Area—the participating area is an area “reasonably proven productive” by a well that produces in unit paying quantities pursuant to the Canyon Creek Dome Agreement. Typically, when Wexpro acquires a working interest in a reserve, it must still pay a residual royalty to the royalty owner(s) and thus Wexpro does not acquire the right to receive all of the revenues from the field. Consequently, when Wexpro acquires a royalty interest, it is no longer obligated to make royalty payments, which reduces the cost of gas that gets passed on to customers through the Operator Service Fee. Depending on the price paid for the royalty interest, this is a benefit to customers. Conversely, if Wexpro is obligated to pay royalty payments when it acquires a working interest in a field this diminishes the value of the acquisition to customers. (Ex. 201, pp. 8–12).

37. If the Vermillion Acquisition is approved as presented in the original Application, Wexpro will have a cumulative net revenue interest in the four (4) fields ranging from approximately 61% to almost 84%. However, in the Canyon Creek field, Wexpro will own 100% working interest, with only a 78.46% net revenue interest, obligating Wexpro to pay overriding royalties to third parties on its production in the Canyon Creek field. (Ex. 201, p. 9).

38. Section IV-1 of the Wexpro II Agreement provides that “Wexpro will acquire oil and gas properties 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 [the Wexpro II] Agreement any oil and gas property that Wexpro acquires within the Wexpro I development drilling areas.” Section IV-1(b) provides that “Wexpro may also acquire additional oil and gas properties or

undeveloped leases outside the Wexpro I development drilling areas. Questar Gas may apply for Commission approval to include those properties under [the Wexpro II] Agreement.” (Ex. A, p. 3).

39. On January 9, 2017, Questar filed its Application seeking approval of all properties acquired in the Vermillion Acquisition—property and interests located inside and outside the Wexpro I Development Drilling Areas—to be included in the cost of service gas pursuant to the Wexpro II Agreement. (Ex. 1.0).

40. Questar filed its Application on January 10, 2017, requesting an order approving the inclusion of the Vermillion Acquisition as Wexpro II properties pursuant to the Wexpro II Agreement, approved by the Commission in Docket No. 30010-123-GA-12. (Ex. 1.0).

41. The Wexpro II Agreement, Trail Unit Settlement Stipulation and Canyon Creek Stipulation govern the Vermillion Acquisition with respect to the inclusion of certain gas reserves acquired by Wexpro in its cost-of-service gas portfolio. (Ex. A, p. 3).

Hydrocarbon Monitor Report

42. Wexpro II, Section IV-4 states that “the independent Hydrocarbon Monitor will evaluate new properties and within seven business days following the filing of Questar’s application, will file an independent review . . .” The parties to the Wexpro II Agreement agreed that the purpose of the independent Hydrocarbon Monitor was to evaluate the proposed properties and “review the assumptions, data and analysis” provided by the Company in its application for property approval. It is not the Hydrocarbon Monitor’s responsibility to recommend whether or not a property should be included as a Wexpro II property. The Hydrocarbon Monitor’s independent evaluation recognizes that the Utah Division and OCA may not keep or have available the expertise necessary to evaluate whether the “assumptions, data and analysis” regarding proposed properties are reasonable.¹⁰ (Ex. 201, pp. 6–7). The Cost of the Hydrocarbon Monitor independent evaluation is included in the Operator Service Fee charged to Questar customers. (*See generally* Ex. 201, p. 8) (indicating that the cost of gas passed through to customers in the “operator service fee”).

43. On January 18, 2017, David E. Evans, Wexpro II Hydrocarbon Monitor/Evaluator, completed his review regarding the five (5) sets of properties acquired by Wexpro. (Ex. 202; Ex. 202.1).¹¹ Mr. Evans supplemented his report on February 24, 2017, at the request of Wexpro, based on the Parties agreement to drill six (6) vertical wells in the Canyon Creek Unit instead of one horizontal well. (Ex. 202.2).

44. Mr. Evans report concludes “that Wexpro has done extensive geologic, net pay, drainage and performance analyses of the subject properties and that they are reasonable.” Further, Mr. Evans concluded “that the reserves and associated economic information presented by Wexpro are reasonable.” (Ex. 202, p. 3).

¹⁰ Docket No. 30010-123-GA-12 (Record No. 13347), Response to Commission Investigative Request (CIR) 3.33.

¹¹ The report is dated January 18, 2016; however, a correction on page 3 of Mr. Evans’ pre-filed testimony indicated the report is dated January 18, 2017.

Stipulation Terms

45. On March 2, 2017, Bryce J. Freeman, Administrator of the OCA, submitted his direct testimony discussing recommendations concerning the Vermillion Acquisition and whether to include the acquired properties in cost-of-service gas. Initially, the OCA recommended denying inclusion of the Canyon Creek and Kinney acquisitions, but the Commission accepted the Trail and Whiskey Canyon Creek acquisitions as cost-of-service gas pursuant to Wexpro II. (Ex. 201, pp. 29–30). Specifically, the OCA determined under the original Application the Canyon Creek and Kinney properties are not cost effective gas supplies for customers due to the low cost of market gas compared to producing company-owned reserves. (Tr., pp. 90–91; Ex. 201, pp. 29–30).

46. On February 23, 2017, the Parties and the Hydrocarbon Monitor met to discuss possible resolution and settlement of the issues raised by the Parties in their direct testimonies. (Ex. A, p. 5). To address any pending issues and concerns, on March 2, 2017, the Parties entered into the Vermillion Stipulation, resolving all issues. (Tr., pp. 15–17; Ex. A.). The Parties agree that the Vermillion Stipulation is in the public interest and that the results are just and reasonable. (Ex. A, p. 8). The main terms in the Stipulation are summarized as follows:

Whiskey Canyon and Trail Unit properties:

47. The Parties agree that the Trail and Whiskey Canyon properties should be approved by the Commission as Wexpro II properties and included in the cost-of-service gas. (Tr., pp. 17; Ex. A, p. 6). The OCA testified that acquisition of the Whiskey Canyon and Trail Unit properties would produce reserves benefiting customers due to the low cost-of-service gas as compared to buying market-priced gas. (Tr., pp. 89–90).

Canyon Creek Unit with Overriding Royalty Interests:

48. The Parties agree that the Canyon Creek Unit, including the overriding royalty interests, should be approved by the Commission as Wexpro II properties and included in the cost-of-service gas, provided that Wexpro develops the Canyon Creek property but not as originally proposed in the Application—replacing the originally proposed horizontal well with a vertical drilling program. (Tr., p. 17; Ex. A, p. 6).

49. Initially, Wexpro proposed drilling a horizontal well with its five-year drilling plan, which provided forecasted production costs that would be more costly to customers as compared to market purchases. (Tr., pp. 17–18 & 90; Ex. B, pp. 5–6; Ex. 201, p. 13). Accordingly, the OCA and Wexpro determined that if the Company instead proposed a vertical drilling program, it would produce cost-of-service gas for less than current market price forecasts. (Tr., pp. 90–91). Therefore, the Parties agreed that in the Canyon Creek Unit outside the Canyon Creek participating area, Wexpro will implement a vertical drilling program. (Ex. A, p. 6). Additionally, the Hydrocarbon Monitor states the working and net interest reserves for the new vertical drilling program and associated economic information presented by Wexpro are reasonable. (Ex. 202.2, p. 2; Ex. B, p. 13).

50. Wexpro will initially drill three vertical wells and provide the Parties with the capital costs, the actual and projected volumes, and the actual and projected costs of service associated with the three wells. Wexpro agrees not to conduct any further drilling until the Hydrocarbon Monitor reviews the drilling plan and deems it reasonable, and the drilling is appropriate under the terms and conditions of the existing provisions of the Wexpro II Agreement, Trail Settlement Stipulation and Canyon Creek Stipulation. Additionally, any drilling within the Canyon Creek Unit will remain subject to the terms and conditions of the Wexpro II Agreement, Trail Settlement Stipulation and Canyon Creek Stipulation. (Ex. A, p. 6; Ex. B, p. 13).

Kinney Unit:

51. The OCA determined that no matter what kind of drilling is completed, the Kinney Unit would not present a net present value more beneficial to customers than the net present value of acquiring an equivalent amount of natural gas at projected market prices. Accordingly, the Parties agreed that Wexpro can complete development drilling and prove up the reserves in Kinney, and be allowed to request inclusion as a Wexpro II property at a future date. (Tr., pp. 90–92).

52. For purposes of the Vermillion Stipulation, Questar withdraws the Kinney Unit from consideration. Wexpro is going to continue to own and operate its current 58.81% working interest under the current Wexpro Agreement, and Wexpro Development Company will retain the 15.00% working interest presented in this application. If Wexpro Development Company determines with future drilling or recompletions that the field economically produces cost-of-service gas that is less expensive than the 5-year forward price curve, Questar is required within three (3) months of that determination to file a new application seeking inclusion of the 15.00% as a Wexpro II property. (Ex. A, p. 7).

Other Issues Reserved for Future Agreement:

53. For purposes of the settlement, the Parties agreed they would meet and confer in good faith to establish mutually agreeable terms and conditions regarding issues outside the Vermillion Acquisition. (Ex. A, p. 7). The parties in Utah originally raised these issues. (Tr., p. 92).

54. The Parties agree that within forty-five (45) days of the Utah Commission's and Wyoming Commission's approval of the Vermillion Stipulation, the parties will meet and confer in good faith to establish mutually agreeable terms and provisions regarding:

- (a) mitigation of risk associated with any Participating Area expansion;
- (b) the process for evaluating and implementing any future sale or exchange of an existing Wexpro I or Wexpro II property; and
- (c) the time within which Questar Gas will bring any future property for approval pursuant to Section IV-1(a) of the Wexpro II Agreement, after Wexpro Development Company has purchased such property at its own risk.

(Ex. A., p. 7).

Utah Public Service Commission

54. Wexpro II requires Questar to apply to the Utah and Wyoming Commissions for approval to include oil and gas property Wexpro acquires within the Wexpro I development drilling areas.¹² Questar filed its Application with the Utah Public Service Commission on January 9, 2017. The Parties filed the *Vermillion Stipulation* with the Utah Commission on March 2, 2017, and a hearing was held on March 9, 2017, to consider the *Vermillion Stipulation*. At the Utah hearing, Questar, the Utah Division of Public Utilities and Utah Office of Consumer Services offered testimony supporting the *Vermillion Stipulation* as in the public interest. No party opposed the *Vermillion Stipulation*.¹³

55. The Utah Commission found: (i) approval of the Stipulation is in the public interest; and (ii) evidence contained in the record supports the finding that the Stipulation is just and reasonable in result.¹⁴

Principles of Law

56. The Commission has the “general and exclusive power to regulate and supervise every public utility within [Wyoming] in accordance with the provisions of [the Wyoming Public Utilities Act].” Wyo. Stat. § 37-2-112.

57. The Commission’s basic and overriding standard in this matter is the public interest and the desires of the utility are secondary. In *PacifiCorp v. Public Service Commission of Wyoming*, 2004 WY 164, ¶ 13, 103 P.3d 862, 868 (Wyo. 2004), the Wyoming Supreme Court found:

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.]

58. Wyo. Stat. § 37-1-104(a) and Wyo. Stat. § 37-2-120 require the Commission to afford due process in its cases. *See also*, Wyo. Stat. § 16-3-107(a) (“In any contested case, all parties shall be afforded an opportunity for hearing after reasonable notice.”); Wyo. Stat. § 16-3-101(b)(ii) (“Contested case” means a proceeding including but not restricted to ratemaking, price fixing and licensing, in which legal rights, duties or privileges of a party are required by law to be determined by an agency after an opportunity for hearing.”). Accordingly, Wyo. Stat. § 37-2-120 states, in part:

No order, however, shall be made by the commission which requires the

¹² Section IV-1(a), Wexpro II Agreement.

¹³ Utah Public Service Commission, Docket No. 17-057-01, *Order Memorializing Bench Ruling Approving Stipulation*, p. 3, issued March 30, 2017.

¹⁴ *Id.* at p. 7.

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. The Wyoming Administrative Procedure Act (WAPA) at Wyo. Stat. §16-3-107 sets parameters for due process in Commission cases, including the requirement to give reasonable notice. Additionally, the Wyoming Public Utilities Act sets forth the parameters for the time and place of a public hearing, notice, and the burden of proof. Wyo. Stat. §§37-2-201, 37-2-202, 37-3-106 and Commission Rule §§ 106 and 115.

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) outlines the responsibilities of 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 terms "rate" and "service regulation" are defined pursuant to Wyo. Stat. § 37-1-102, as follows:

- (a) The term "rate" . . . shall mean and include, in the plural number, as well as in the singular, every individual or joint rate, classification, fare, toll, charge or other compensation for service rendered or to be rendered by any public utility, and every rule, regulation, practice, act, requirement or privilege in any way relating to such rate, fare, toll, charge or other compensation, and any schedule or tariff or part of a schedule or tariff thereof.

- (b) The term “service regulation” shall mean and include every rule, regulation, practice, act or requirement in any way relating to the service or facilities of a public utility.

63. The Wyoming Supreme Court has construed Wyo. Stat. § 37-3-101, which requires rates to be just and reasonable, to allow the PSC to develop a methodology for rates, so long as the results are fair, reasonable, uniform and not unduly discriminatory. *Mountain Fuel Supply Co. v. Pub. Serv. Comm’n of Wyo.*, 662 P.2d 878, 883–85 (Wyo. 1983). *See also, Union Tel. Co., Inc. v. Wyo. Pub. Serv. Comm’n*, 821 P.2d 550, 563 (Wyo. 1991) (citing *Mountain Fuel Supply Co.*, 662 P.2d 878 (Wyo. 1983) (“discretion is vested in the PSC in establishing rate-making methodology so long as the result reached is reasonable.”)).

64. 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. * * *

65. 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

* * *

66. 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.

67. 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 Chapter 2, Section 25 and Wyo. Stat. § 16-3-107(n).

Conclusions of Law

68. 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.

69. "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*, 731 P.2d 1181, 1184 (Wyo. 1987).

70. 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.

71. 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.¹⁵ In the instant case, however, the Parties discussed in detail how the *Stipulation* resolves the issues it presents.

72. 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.

¹⁵ See, e.g., *Montana Dakota Utilities Co.*, Docket No. 20004-81-ER-09, Order of May 26, 2010.

73. 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 *Vermillion Stipulation* testimony credible and persuasive.

74. The *Vermillion 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 *Vermillion Stipulation* may be considered as a limitation on the jurisdiction of the Commission in this or any other cases.

75. The *Vermillion Stipulation* serves the public interest and is an appropriate means of disposing of this matter pursuant to Commission Rule Chapter 2, Section 25 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.

IT IS THEREFORE ORDERED

1. Pursuant to the Commission's deliberations held on March 17, 2017, the Application of Questar Gas Company (Questar) for approval of the Vermillion acquisition as a Wexpro II property is approved consistent with the terms of this *Order* and of the *Vermillion Stipulation* with its attachments, in the form appended hereto and incorporated herein by reference as Appendix A.

2. Questar is required to file with the Commission the information regarding the first three vertical wells drilled in the Canyon Creek Unit, as detailed in paragraph 18 of the *Vermillion Stipulation*.

3. Questar is further required to update Exhibit 3.2 to the Company's Application if there are any final adjustments to the property purchase price.

4. This *Order* is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming, on November 2, 2017.

PUBLIC SERVICE COMMISSION OF WYOMING



WILLIAM F. RUSSELL, Chairman



KARA BRIGHTON FORNSTROM, Deputy Chair



ROBIN SESSIONS COOLEY, Commissioner



Attest:



KATIE J. KOSKI, Assistant Secretary

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BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE
APPLICATION OF QUESTAR GAS
COMPANY FOR APPROVAL OF THE
VERMILLION ACQUISITION AS A
WEXPRO II PROPERTY

Docket No. 30010-162-GA-17
**VERMILLION SETTLEMENT
STIPULATION**

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 Chapter 2, Section 25 of the Wyoming Public Service Commission Rules, 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).

BACKGROUND

1. On October 14, 1981, Questar's predecessor, Mountain Fuel Supply Company, Wexpro Company, the Utah Division of Public Utilities, the Utah Committee of Consumer Services, and the Staff of the Wyoming Public Service Commission entered into the Wexpro Agreement. The Wexpro Agreement was approved by the Wyoming Public Service Commission on October 28, 1981 and by the Utah Public Service Commission on December 31, 1981 (Wexpro Agreement).

2. 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.

3. 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.

4. On November 17, 2015, the Utah Commission issued its Report and Order approving the Canyon Creek Settlement Stipulation. On February 24, 2016, the Wyoming Commission issued its Memorandum Opinion, Findings and Order approving the Canyon Creek Settlement Stipulation.

5. The Wexpro II Agreement, the Trail Unit Settlement Stipulation and the Canyon Creek Settlement Stipulation govern Wexpro and Questar Gas with respect to the inclusion of the recently-acquired Vermillion properties as Wexpro II properties. 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.” Section IV-1(b) provides that “Wexpro may also acquire additional oil and gas properties or undeveloped leases outside the Wexpro I development drilling areas. Questar Gas may apply for Commission approval to include these properties under this Agreement.”

6. On April 16, 2015, Wexpro Company closed on the acquisition of additional interests in the natural gas producing properties within the Kinney Unit. These interests are within the Development Drilling Area defined in the Wexpro Agreement.

7. On December 15, 2015, Wexpro Development Company (WDC) closed on an acquisition of additional interests in natural-gas producing properties in the Vermillion Basin in the Trail, Whiskey Canyon, and Canyon Creek Units. The Trail Unit interests are located within the Development Drilling Area as defined in the Wexpro Agreement. The Canyon Creek Unit included overriding royalty interests within the Development Drilling Area, as well as property interests adjacent to the Development Drilling Area. The Whiskey Canyon Unit is adjacent to the Development Drilling Area. These properties, including the Canyon Creek Unit overriding royalty interests, together with the Kinney Unit, are referred to herein as the “Vermillion Acquisition.”

QUESTAR GAS' APPLICATIONS
REGARDING THE VERMILLION ACQUISITION

8. On January 9, 2017, Questar Gas filed its Applications seeking approval of the Vermillion Acquisition as a Wexpro II property before the Utah and Wyoming Commissions. As noted above, the Trail Unit interests, the Canyon Creek overriding royalty interests, and the Kinney Unit are located within the Development Drilling Area and under the terms of the Wexpro II Agreement, Questar Gas is required to bring those properties before both the Utah and Wyoming Commissions for approval. In addition, Questar Gas opted to bring the remainder of the Vermillion Acquisition before both Commissions for approval. The Applications were accompanied by Exhibits A through P and the direct testimonies of Mr. Barrie L. McKay and Mr. Brady B. Rasmussen.

9. Questar Gas submitted data in support of the 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 Parties. Additionally, the Hydrocarbon Monitor's Report regarding the Vermillion Acquisition was filed January 18, 2017 and February 21, 2017 in Wyoming and Utah, respectively.

10. On January 20, 2017, the Utah Commission issued its Scheduling Order, Notice of Technical Conference, and Notice of Hearing, setting dates for filing testimony, technical conferences, and hearings. On January 25, 2017, the Wyoming Commission

issued its Scheduling Order setting dates for filing testimony, technical conferences, and hearings.

11. On February 2, 2017, a technical conference was held in Utah to discuss and provide information to the Division, the Utah OCS, and the Staff of the Utah Commission relating to the Vermillion Acquisition. On February 3, 2017, a technical conference was held in Wyoming to discuss and provide information to the Wyoming OCA and the Staff of the Wyoming Commission relating to the Vermillion Acquisition.

12. Since the 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.

13. On February 21, 2017, the Division, the Utah OCS, and the Wyoming OCA filed direct testimony in their respective dockets.

14. On February 23, 2017, and subsequently thereafter, the Parties and the Hydrocarbon Monitor met and discussed possible resolution and settlement of the issues raised by the Parties in their direct testimonies. As part of this process, Questar Gas, Wexpro and the Hydrocarbon Monitor provided the Parties with additional information.

15. On February 24, 2017, the Hydrocarbon Monitor provided a supplement to his initial report. On February 24, 2017 and February 27, 2017, that supplemental report was filed with the Wyoming and Utah Commissions, respectively.

16. The following terms and conditions represent the resolution and settlement of the issues presented in Questar Gas' Vermillion Acquisition Applications pending before the Utah and Wyoming Commissions, and the testimonies that have been filed in each respective jurisdiction.

TERMS AND CONDITIONS

17. The Parties agree for purposes of settlement that the Whiskey Canyon and Trail Unit properties, as identified in the Vermillion Applications, shall be approved as Wexpro II properties.

18. The Parties agree for purposes of settlement, that the Canyon Creek Unit, including the overriding royalty interests, as identified in the Vermillion Applications, shall be approved as a Wexpro II property, based upon Wexpro's agreement to develop the Canyon Creek properties outside the Canyon Creek Participating Area, as described in this paragraph. Wexpro will initially replace the proposed horizontal well with a vertical-drilling program. After the first three vertical wells have been drilled and before any further drilling occurs, Wexpro will provide the Parties with the capital costs, the actual and projected volumes, and the actual and projected cost of service associated with the three wells. Wexpro will not conduct any further drilling unless and until such drilling is appropriate under the terms and conditions of the existing provisions of the Wexpro II Agreement, the Trail Settlement Stipulation and the Canyon Creek Settlement Stipulation, and the Hydrocarbon Monitor has reviewed the drilling plan and deemed it reasonable. Any drilling in this area, including the first three vertical wells, is and will continue to be subject to the terms and conditions of the Wexpro II Agreement, the Trail Settlement Stipulation, and the Canyon Creek Settlement Stipulation. The provisions of this paragraph 18 shall apply only to the Canyon Creek Unit described in the Applications.

19. The Parties agree for purposes of settlement that Questar Gas will withdraw the Kinney Unit property from consideration at this time. Wexpro will continue to own and operate its current 58.81% working interest under the current Wexpro Agreement and Wexpro Development Company will retain its 15.00% working interest in this property. If future drilling or recompletions in this field show that the development of the field can economically produce cost-of-service gas that is less expensive than the 5-year forward price curve, as defined in the Trail Unit Settlement Stipulation and the Canyon Creek Settlement Stipulation, Questar Gas shall submit, within three (3) months of making that determination, a new application seeking inclusion of the additional 15.00% ownership interest as a Wexpro II property. The provisions of this paragraph 19 shall apply only to the Kinney Unit described in the Applications.

20. The Parties agree for purposes of settlement that, within 45 days of the Commissions' approval of this Settlement Stipulation, they will meet and confer in good faith to establish mutually agreeable terms and provisions regarding, among other things, the following issues:

- (a) mitigation of risk associated with any Participating Area expansion,
- (b) the process for evaluating and implementing any future sale or exchange of an existing Wexpro I or Wexpro II property, and
- (c) the time within which Questar Gas will bring any future property for approval pursuant to Section IV-1(a) of the Wexpro II Agreement, after Wexpro Development Company has purchased such property at its own risk.

21. 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

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

23. 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.

24. 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.

25. 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.

26. Except with regard to the obligations of the Parties under paragraphs 23, 24, and 25 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.

27. 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

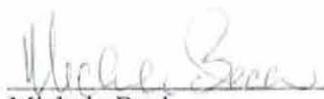
Based on the foregoing, the Parties request that the Commission issue an order approving this Settlement Stipulation and adopting its terms and conditions.

RESPECTFULLY SUBMITTED: March 2, 2017.



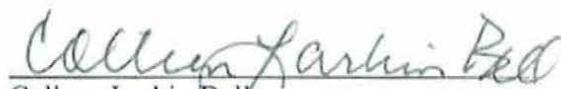
Chris Parker
Director

Utah Division of Public Utilities



Michele Beck
Director

Office of Consumer Services

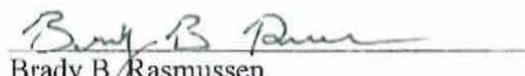


Colleen Larkin Bell
Vice President & General Manager

Questar Gas Company

Bryce Freeman
Administrator

Wyoming Office of Consumer Advocate



Brady B. Rasmussen
Vice President & General Manager

Wexpro Company

RESPECTFULLY SUBMITTED: March 2, 2017.

Chris Parker
Director

Utah Division of Public Utilities

Colleen Larkin Bell
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Questar Gas Company

Brady B. Rasmussen
Vice President & General Manager

Wexpro Company

Michele Beck
Director

Office of Consumer Services


Bryce Freeman
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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the Vermillion Settlement Stipulation was served upon the following persons by email on March 2nd, 2017:

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