



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0283649

THE APPLICATION OF MURPHY EXPL. & PROD. CO. - USA FOR EXCEPTIONS TO STATEWIDE RULE 32 FOR VARIOUS WELLS IN THE BRISCOE RANCH (EAGLEFORD) AND EAGLEVILLE (EAGLE FORD-1) FIELDS, ATASCOSA, DIMMIT AND MCMULLEN COUNTIES, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Gene Montes – Legal Examiner

HEARING DATE: October 25, 2013

APPEARANCES: REPRESENTING:

APPLICANT:

Kelli Kenney
Bryan Williams
Morgan David
Sasha Ferrell
Nicole Holloway

Murphy Expl. & Prod. Co. - USA

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Murphy Expl. & Prod. Co. - USA (Murphy) requests exceptions to Statewide Rule 32 to flare gas from 21 wells in the Eagleville (Eagle Ford-1) and Briscoe Ranch (Eagle Ford) Fields in Atascosa, Dimmit and McMullen Counties, Texas. All offset operators in the subject fields were notified of the hearing. There were no objections filed, and no protestants appeared at the hearing. The examiners recommend approval of the exceptions to Statewide Rule 32 to flare gas for the subject wells, as requested by Murphy.

DISCUSSION OF THE EVIDENCE

The subject wells in this application are completed in active Eagle Ford Formation fields in South Texas, in areas that lack existing oil and gas infrastructure for new

production facilities, in particular gas gathering, processing, and transmission facilities. Statewide Rule 32 governs the utilization of gas well gas and casinghead gas produced by oil and gas wells under the jurisdiction of the Railroad Commission. In the subject applications, Murphy is requesting to flare gas produced by the subject wells, as provided in Statewide Rule 32(h), for a limited time until appropriate gas facilities and connections can be completed. In certain situations, Murphy will experience contractual delays in site access for facilities construction due to the hunting season.

Murphy's general plan of action with regard to facilities construction has been to install temporary gas processing plants as an interim measure while larger permanent facilities are built, minimizing the need to flare. Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a particular well for 60 days. Such permit may be granted for a total of 180 days. Murphy applied for and received administrative permits to flare casinghead gas from the subject wells for a total of 180 days each. Murphy presented the information on the 21 wells organized into groups based on lease and geographic location. There were seven (7) groups of two (2) to five (5) wells each.

Group I: Craig 1H, Jeffrey 1H, Roxana 1H, Walnut 1H, and Walnut 2H

The Group I wells are located from 1.3 to 3.6 miles northeast from the town of Campbellton in Atascosa County. The wells were completed in the Eagleville (Eagle Ford-1) Field in April and June of 2012. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days. Murphy requested a hearing for further extensions. The hearings were held on December 14, 2012 and the Commission issued Final Orders on January 15, 2013, which are summarized below:

Docket No. & Well No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
01-0278865 - Roxana Unit Lease Well No. 1H	230	11/09/2012	07/31/2013
01-0278867 - Walnut Lease Well No. 1H	300	11/07/2012	07/31/2013
- Walnut Lease Well No. 2H	300	11/09/2012	07/31/2013
01-0279366 - Craig Lease, Well No. 1H	170	12/20/2012	07/31/2013
- Jeffrey Lease, Well No. 1H	300	12/24/2012	07/31/2013

On July 9, 2013, Murphy requested a hearing to further extend the flaring authority for these wells. This is the subject hearing held on October 25, 2013. Currently Murphy

is completing construction of the southern gathering system for its Tom processing facility. The temporary Tom facility is expected to be online in mid-December 2013, and will be an interim solution to bring gas to sales until a permanent facility can be built. Murphy is requesting continued authority to flare at the same volumes through March 31, 2014 to allow for possible construction delays and delays caused by hunting season lease restrictions and other landowner concerns.

Group II: King Unit A 1H and 2H, King Unit B 1H and 2H

The Group II wells are located 6.7 miles southeast from the town of Asherton in Dimmit County. The wells were completed in the Briscoe Ranch (Eagleford) Field in January 2013. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days and are summarized below:

Well	Permit No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
King Unit A, Well 1H	12907	430	02/03/2013	08/05/2013
King Unit A, Well 2H	12908	260	02/03/2013	08/05/2013
King Unit B, Well 1H	12909	345	02/14/2013	08/24/2013
King Unit B, Well 2H	12910	300	02/03/2013	08/10/2013

On July 12, 2013, Murphy requested a hearing to extend the flaring authority for three of the wells; the fourth well, the King Unit B, Well 1H was requested on July 26, 2013. Murphy is currently completing work on the gathering system that will bring gas from the wellheads to the KBS temporary processing facility. The temporary facility is complete, and Murphy expects connection in mid-November, 2013. A permanent facility will be built on this site as well.

To allow for unforeseen delays (including recent flooding), Murphy is requesting continued flaring authority until March 31, 2014. Due to fluctuation in gas production rates, Murphy is also requesting that the flare volumes be adjusted as follows:

- King Unit A, Well 1H: Increase flare volume to 450 MCF/D
- King Unit A, Well 2H: Increase flare volume to 400 MCF/D
- King Unit B, Well 1H: Increase flare volume to 550 MCF/D
- King Unit B, Well 2H: Increase flare volume to 350 MCF/D

Group III: D. L. Ranch 1H, 2H, 3H, and 4H

The Group III wells are located 4 miles northeast from the town of Tilden in McMullen County. The wells were completed in the Eagleville (Eagle Ford-1) Field in March 2013. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days and are summarized below:

Well	Permit No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
D. L. Ranch 1H	13208	900	04/04/2013	10/04/2013
D. L. Ranch 2H	13207	550	04/04/2013	10/05/2013
D. L. Ranch 3H	13232	610	04/07/2013	10/08/2013
D. L. Ranch 4H	13233	515	04/07/2013	10/07/2013

On July 26, 2013, Murphy requested a hearing to extend the flaring authority for the wells. Landowner approval for the gas facilities was given on September 18, 2013. Murphy immediately began design work on the facilities. The gathering system and temporary processing facility are expected to be operational in February 2014. Murphy is requesting continued flaring authority until June 30, 2014, at the current flare volumes.

Group IV: Baring 1H and 2H

The Group IV wells are located 10.2 miles northwest from the town of Tilden in McMullen County. The wells were completed in the Eagleville (Eagle Ford-1) Field in February 2013. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days and are summarized below:

Well	Permit No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
Baring 1H	12970	360	03/02/2013	09/29/2013
Baring 2H	12967	400	03/02/2013	10/05/2013

On July 26, 2013, Murphy requested a hearing to extend the flaring authority for the wells. A temporary facility and gathering system are being built, both of which should be complete by early November 2013. DCP, the third-party gas purchaser, is completing its sales line connection to the temporary facility. Murphy is requesting continued flaring authority until December 31, 2013, at the current flare volumes.

Group V: Kuykendall 1H and 2H

The Group V wells are located 10.3 miles north from the town of Tilden in McMullen County. The wells were completed in the Eagleville (Eagle Ford-1) Field in January and February, 2013. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days and are summarized below:

Well	Permit No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
Kuykendall 1H	13397	275	02/07/2013	08/19/2013
Kuykendall 2H	13395	100	02/07/2013	08/19/2013

On July 12, 2013, Murphy requested a hearing to extend the flaring authority for the wells. Murphy is still attempting to acquire right-of-way access for the gathering and temporary/permanent processing facilities. The proposed Williams processing facility is about 3.5 miles northeast of the Kuykendall wells. The relatively low gas volumes from the Kuykendall wells will limit the economic viability of constructing a gathering system. Therefore, it is requesting the maximum time available for a flare permit, which the examiner indicated was two years from the expiration date of the administrative permits (which would be August 19, 2015). This will allow Murphy time to evaluate options for disposition of the gas from these wells. Murphy is not requesting a change to the flare volume.

Group VI: Franklin 1H and Thier 1H

The Group VI wells are located 4.1 miles northwest from the town of Tilden in McMullen County. The wells were completed in the Eagleville (Eagle Ford-1) Field in March, 2013. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days and are summarized below:

Well	Permit No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
Franklin 1H	13082	1,170	03/21/2013	09/19/2013
Thier 1H	13394	1,580	03/28/2013	09/26/2013

On July 26, 2013, Murphy requested a hearing to extend the flaring authority for the wells. Murphy is currently building a gathering system and temporary processing facility (Ralph Edwards Facility). DCP is the gas purchaser, and the facilities should all be complete by late November. Therefore, Murphy is requesting flaring authority until March

31, 2014 to allow for unforeseen delays. Murphy is requesting a change to the flare volumes as follows:

- Franklin 1H: Decrease flare volume to 600 MCF/D
- Thier 2H: No change.

Group VII: Kowalik B 1H and Herbst B 1H

The Kowalik B 1H well is located 8 miles northeast from the town of Campbellton in Atascosa County and was completed in January 2013. The Herbst B 1H well is located about 14 miles northeast from the town of Christine, also in Atascosa County, and was completed in November 2012. Both wells were completed in the Eagleville (Eagle Ford-1) Field. Murphy obtained administrative flare permits for these wells, which were extended for the maximum 180 days and are summarized below:

Well	Permit No.	Flare Volume (MCF/D)	Effective Date	Expiration Date
Kowalik B 1H	12710	160	01/30/2013	09/08/2013
Herbst B 1H	See below*	80	02/02/2013	09/12/2013

On July 26, 2013, Murphy requested a hearing to extend the flaring authority for the wells. Murphy is currently building a gathering system and a permanent processing facility (Scared Dog Facility). The target facility completion date is January 2014. Murphy is requesting flaring authority until June 30, 2014 to allow for unforeseen delays in the completion of the permanent facilities. Murphy is requesting a change to the flare volumes as follows:

- Kowalik B 1H: No change.
- Herbst B 1H: Increase flare volume to 100 MCF/D.

* Commission staff have been unable to find a record of an administrative permit (or permit ID No.) issued for the Herbst B 1H well. Murphy did place into evidence three application forms for the maximum allowed 180 days. In addition, at the request of the examiners, Murphy submitted a credit card statement used to pay the Rule 32 exception filing fee. This credit card statement included a description for item no. 12, "Flare Permit - Herbst Unit B 1H," dated March 12, 2013. While the date was approximately five weeks after the initial permit effective date, the credit card statement indicated a number of flare permits for other wells on this matter were also processed in a batch on the same date. Commission staff indicated that Murphy was typically very prompt and accurate with regard to filing administrative permits applications and fees. Staff has no reason to believe a

permit for this well was not issued as documented by Murphy's applications. The examiners conclude, based on the evidence of payment submitted by Murphy, that it is reasonable to conclude that the administrative permit was applied for properly.

FINDINGS OF FACT

1. Proper notice of this hearing was given. For each well all offset operators in the appropriate field were notified at least ten days prior to the date of hearing. There were no protests to the application.
2. The subject wells in this application are completed in various Eagle Ford Formation fields, which are experiencing very rapid development and a lack of infrastructure, particularly for gas gathering, processing and transmission.
3. Murphy is actively working to make available appropriate facilities for the gathering, processing and transmission of casinghead gas produced from the subject wells.
4. Murphy's general approach is to construct temporary gas facilities as an interim means of processing gas until permanent facilities are in place.
5. In some cases, surface hunting rights may restrict access for the construction of surface gas gathering, processing and transmission facilities.
6. Murphy applied for and was granted administrative approval to flare gas from each of the 21 wells.
7. For the Herbst Unit B 1H well, Murphy provided documentary evidence of payment demonstrating its application for the flare permit for this well.
8. The administrative flaring approval for each well was for the maximum 180 days.
9. Five of the wells received additional flaring authority under Commission Final Orders.
10. For each well, Murphy requested a hearing more than 21 days before the expiration of the administrative permit.
11. For 19 of the 21 wells, Murphy has established schedules (that provide some flexibility) and should allow it to eliminate the need to flare all casinghead gas from these 19 wells by June 30, 2014.

12. For the Kuykendall 1H and 2H wells, Murphy is requesting a two-year extension to its flaring authority due to lack of right-of-way, relative isolation, and low gas production.


CONCLUSIONS OF LAW


1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Approval of the requested exception to Statewide Rule 32 to flare gas for the subject wells will not harm correlative rights, and will promote development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission grant an exception to Statewide Rule 32 for the subject wells, as requested by Murphy Expl. & Prod. Co. - USA.

Respectfully submitted,


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Technical Examiner


Gene Montes
Legal Examiner