



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0284543

THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO. - USA, FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES AND VARIOUS WELLS, EAGLEVILLE (EAGLE FORD-1), AND INDIO TANKS (PEARSALL) FIELDS, ATASCOSA AND MCMULLEN COUNTIES, TEXAS

OIL AND GAS DOCKET NO. 01-0285161

THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO. - USA, FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES AND VARIOUS WELLS, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA AND MCMULLEN COUNTIES, TEXAS

OIL AND GAS DOCKET NO. 01-0285977

THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO. - USA, FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE BERTA UNIT 1H AND KINSLEY UNIT 1H LEASES, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Karl Caldwell - Technical Examiner
Laura Miles-Valdez - Legal Examiner

DATE OF HEARING: February 14, 2014

APPEARANCES:

REPRESENTING:

APPLICANT:

Kelli Kenney
Bryan Williams
Sasha Ferrell
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Murphy Exploration & Production, Co. - USA

EXAMINERS' REPORT AND RECOMMENDATION**STATEMENT OF THE CASE**

Murphy Exploration & Production Co. - USA ("Murphy E&P") request exceptions to Statewide Rule 32 to flare casinghead gas from various leases and various wells in the Eagleville (Eagle Ford-1) and Indio Tanks (Pearsall) Fields, Atascosa and McMullen Counties, Texas. Notice was provided to offset operators surrounding the referenced leases and no protests were received.

The applications are unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the various leases and wells listed in Tables 1 to 3, from the date the Commission granted flare permit order expired through December 31, 2015 for the Peeler 1H and the DH Unit 1H. All other wells have since gone to gas sales during this period of time since the request for a hearing to comply with Statewide Rule 32 was received by the Commission and the hearing date of February 14, 2014. Therefore, these leases and wells only require further exceptions to Statewide Rule 32 from the date the Commission granted flare permit order expired through the date that the well went to gas sales as shown in Tables 1-3.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Specifically, Statewide Rule 32(h) provides that an exception to flare natural gas in volumes greater than 50 MCFPD per well may be granted administratively for a period up to 180 days. Beyond that, Statewide Rule 32(h) provides that exceptions shall be granted only in a final order signed by the Commission. In the context of the subject applications, Murphy E&P is requesting exceptions to flare casinghead gas produced from the various leases and wells listed in Tables 1-3, as provided by Statewide Rule 32(h).

The subject wells in these applications are completed in the Eagleville (Eagle Ford-1) and Indio Tanks (Pearsall) Fields, Atascosa and McMullen Counties, Texas. The subject wells are located in areas of the field that lack existing infrastructure for gas production. All of the wells listed in Tables 1-3 have either received previous administrative approval or Commission-granted orders to flare casinghead gas up to the daily maximum amount as listed. A Statewide Rule 32 Exception Data Sheet requesting an additional 45 days for the DH Unit 1H was submitted to the Commission on August 19, 2013 to be effective from September 20, 2013 to November 3, 2013. This would result in a total of 180 days for this well.

Murphy E&P requested a hearing for exceptions to Statewide Rule 32 on September 6, 2013 for all wells listed in Table 1, which was at least 21 days prior to the expiration date

Table 1: Flare Permit and Gas Sales Data for Wells Listed in Oil & Gas Docket # 01-0284543.

Lease	Well	API	Prior Permit Expiration	Permitted MCFPD	Gas Sales
Herbst May	1H	42-013-34494	9/30/2013	110	12/31/2013
Tom Unit	1H	42-013-34359	9/30/2013	650	12/24/2013
Nancy Edmund	1H	42-013-34487	9/30/2013	200	12/24/2013
ET Unit	1H	42-013-34488	9/30/2013	200	12/24/2013
Anthony East Unit	1H	42-013-34524	9/30/2013	280	12/24/2013
Anthony West Unit	1H	42-013-34522	9/30/2013	300	12/24/2013
Saylee South	1H	42-311-34731	10/31/2013	600	11/25/2013
Ketchbaw Unit	1H	42-311-34791	10/31/2013	780	11/28/2013
Hayes Unit	1H	42-311-34790	10/31/2013	580	11/28/2013
Baring	3H	42-311-35066	10/22/2013	345	12/24/2013
Baring	4H	42-311-35069	10/15/2013	480	12/24/2013
Montgomery Unit	1H	42-311-35132	10/25/2013	360	12/24/2013
Montgomery Unit	2H	42-311-35135	10/24/2013	410	12/24/2013
Quintanilla	1H	42-311-35129	10/15/2013	240	12/24/2013
Quintanilla	2H	42-311-35138	10/16/2013	230	12/24/2013
Quintanilla	3H	42-311-35139	10/14/2013	330	12/24/2013
Peeler	1H	42-013-34645	11/6/2013	860	N/A
DH Unit	1H	42-013-34629	11/3/2013	660	N/A

Table 2: Flare Permit and Gas Sales Data for Wells Listed in Oil & Gas Docket # 01-0285161.

Lease	Well	API	Prior Permit Expiration	Permitted MCFPD	Gas Sales
Montieth	1H	42-311-35146	11/3/2013	730	11/25/2013
Sunflower Unit	1H	42-311-35149	11/2/2013	715	11/25/2013
Kowalik Unit A	1H	42-013-34583	11/29/2013	260	1/22/2014
Brymer	1H	42-013-34512	12/6/2013	200	1/22/2014
Herbst-May Unit	2H	42-013-34594	12/7/2013	250	1/1/2014
Roark Unit	1H	42-311-35128	9/21/2013	730	12/11/2013

Table 3: Flare Permit and Gas Sales Data for Wells Listed in Oil & Gas Docket # 01-0285977.

Lease	Well	API	Prior Permit Expiration	Permitted MCFPD	Gas Sales
Berta Unit	1H	42-013-34615	12/15/2013	350	1/22/2014
Kinsley Unit	1H	42-013-34614	12/15/2013	380	1/22/2014

of all of the flaring permits or orders. A request for a hearing was received on October 9, 2013 for all of the wells listed in Table 2 except for the Roark Unit 1H, which was at least 21 days prior to the expiration of the permits or orders. The request for hearing for the Roark Unit 1H was received by the Commission on July 26, 2013, while the flare permit for this well expired on September 21, 2013, so this request was also in compliance. The Roark Unit 1H was originally included on an earlier docket, but the well was the subject to a clerical error and mistakenly left of the docket. This omission was not realized until the day of the hearing, at which time it was decided that the Roark Unit 1H would be heard at the next hearing for Murphy E&P, which was February 14, 2014.

A request for a hearing to consider the Berta Unit 1H and Kinsley Unit 1H (Table 3) for an exception to Statewide Rule 32 was received on November 22, 2013. The administrative permits to flare casinghead gas from both of these wells expired on December 15, 2013, so the request was made at least 21 days prior to expiration of the permits.

In the period of time since the request for hearing was submitted to the Commission, the Herbst May 1H, Herbst May 2H, Tom Unit 1H, Nancy Edmund 1H, ET Unit 1H, Anthony East Unit 1H and the Anthony West Unit 1H have all been connected to the Tom Facility, a gas gathering and processing facility and from there, to pipeline for gas sales. Gas from all of these wells went to sales on either December 24, 2013, December 31, 2013 or January 1, 2014 (Tables 1, 2). The Baring Facility was completed in early November of 2013. After third party lines and gas transfer lines were installed, all gas from wells connected to the facility went to sales on December 24, 2013. This included the Baring 3H and 4H, Montgomery Unit 1H and 2H, as well as the Quintanilla 1H, 2H, and 3H. The construction of the Ralph Edwards Gas Processing Facility was completed in late November of 2013 and gas went to sales on November 28, 2013. Both the Ketchbaw Unit 1H and Hayes Unit 1H were connected to this facility and gas went to sales on this same date. The Saylee South Facility followed a similar construction completion time line as the Ralph Edwards Facility. The Saylee South 1H, Montieth 1H, and Sunflower Unit 1H wells were all connected to Saylee South facility and gas started going to sales on November 25, 2013 for these wells. The Roark Unit 2H was tied into the Saylee South facility and gas started going to sales on December 11, 2013. Delays were encountered in obtaining right-of-way access to connect wells to the Scared Dog Facility. The Brymer 1H, Kowalik Unit A, Berta Unit 1H, and the Kinsley Unit 1H were all connect to this facility and gas went to sales on January 22, 2014 (Tables 2, 3).

The Peeler 1H and the DH Unit 1H have both been completed in the Indio Tanks (Pearsall) Field, Atascosa County. The Peeler 1H received administrative Permit No. 13684 to flare up to 860 MCFPD of casinghead gas, which was effective from May 8, 2013 and expired on November 6, 2013, after two extensions, which totaled the maximum 180 days allowed by an administrative permit. The DH Unit 1H received administrative Permit No. 750933 to flare up to 820 MCFPD of casinghead gas. The permit was effective from March 21, 2012, and expired on September 19, 2013, after two extensions, which totaled

165 days. However, during this time, less than 50 MCFPD was flared for a total of 30 days. Murphy E&P filed a Statewide Rule 32 Exception Data Sheet requesting an extension to flare up to 660 MCFPD of casinghead gas from the DH Unit 1H on August 19, 2013 for an additional 45 days that would span from September 19, 2013 to November 3, 2013. This would total the maximum 180 days allowed by an administrative permit.

There are currently two gas lines in the vicinity of the Peeler 1H and DH Unit 1H wells, a Regency Pipeline, and an Energy Transfer Company Pipeline. Murphy E&P have identified the closest sales point and determined the economics required to connect these wells. In the economic analysis, the most optimistic scenarios for each well were used, which would be a straight line distance to connect the wells to the pipeline. The current gas production for the Peeler 1H well is 230 MCFPD. Cumulative production to date has been 120.3 MMCFG, and Murphy E&P estimates that the remaining gas to be recovered from the well is 177.1 MMCFG, with a remaining recovery period of 7 years. They are estimating it will take approximately 54 months to reach 50 MCFPD. The cumulative oil production to date is estimated to be 18.55 MBO, with 22.13 MBO remaining to be recovered. Murphy E&P estimates that it would require a total capital investment of \$2.1 million to construct approximately 3.44 miles of pipe line to connect the Peeler 1H to a gas pipeline in the area. In addition, a centralized gas compression facility would cost an estimated additional \$2,000 per month. Assuming an average gas sales price of \$5.00 per MCF and a lifting gas cost assumption of \$0.15/MCF, the remaining gas to be recovered from this well would result in \$729,900 in revenue. Compared to the estimated \$2.1 million pipeline cost and an additional \$213,700 for incremental operating expenditures and taxes, this scenario would result in a loss of approximately \$1.6 million.

Current gas production from the DH Unit 1H is 145 MCFPD and cumulative gas production to date is 44.0 MMCFG, with an estimated 80.5 MMCFG remaining to be recovered. Estimated oil production to date is 16.69 MBO, with an estimated 16.1 MBO to be recovered. Murphy E&P is estimating the recovery time to be 5 years, with the daily gas production rate reaching 50 MCFPD in approximately 18 months. The estimated cost to run 0.5 miles of line to connect the DH Unit 1H to the nearest gas pipeline is \$500,000. A centralized gas compression facility would require an additional cost of \$1000 per month as the gas would be gathered with the Rafter 1H well. The lifting gas cost is estimated to be \$0.15 per MCF. Using an average gas price of \$5.00 per MCF for the remaining 80.5 MMCFG to be recovered over the next 5 years, this would result in an estimated revenue of \$325,000. However, the capital investment of \$500,000 for 0.5 miles of pipe line and an additional \$126,700 for incremental operating expenses and taxes, would result in a net loss of \$400,000 over the remaining 5 year period of gas production. As a result, the economics are not favorable at this time.

An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if the operator has requested a hearing prior to the expiration of a Commission-granted flare permit order. Murphy E&P has requested a hearing for each of the subject wells before each wells' flare gas permits or previously granted orders expired (Tables 1-3).

Murphy E&P requests an exception to Statewide Rule 32 to flare casinghead gas produced from the various leases and various wells from the date the permits or orders expire through the date that gas went to sales for all wells listed in Tables 1-3, with the exception of the Peeler 1H and the DH Unit 1H. For these two wells, Murphy E&P are requesting an exception to Statewide 32 to flare casinghead gas produced from the date the permits expire through December 31, 2015.

FINDINGS OF FACT

1. Proper notice of this hearing was given 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 the Eagleville (Eagle Ford-1) Field, in Atascosa and McMullen Counties, Texas.
3. Murphy E&P received either an administrative permit or Commission-granted orders to flare casinghead gas from all of the wells listed in Tables 1-3. The date the prior permit or order expired, the maximum allowable amount of gas to be flared per day, and the date that gas went to sales are listed for all wells, with the exception of the Peeler 1H and the DH Unit 1H, which are yet to be connected to a gas pipeline.
4. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of a Commission granted flare permit order.
5. Murphy E&P has requested a hearing for all of the subject wells before the Commission granted flare permit orders expired.
6.
 - a) An exception to Statewide Rule 32 from the date the Commission-granted flare permit orders expire through the date that gas went to sales for all wells in the amounts as listed in Tables 1-3, excluding the Peeler 1H and the DH Unit 1H is appropriate.
 - b) Regarding the Peeler 1H and the DH Unit 1H, an exception to Statewide Rule 32 from the date the Commission-granted flare permit orders expire through December 31, 2015 is appropriate. (Table 1).
7. For the Peeler 1H, Murphy E&P requests to flare a maximum of 330 MCFPD of casinghead gas and requests to flare a maximum of 200 MCFPD for the DH Unit 1H.

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 authority pursuant to Statewide Rule 32 will prevent waste, will not harm correlative rights and will promote development of the field.

EXAMINERS' RECOMMENDATION

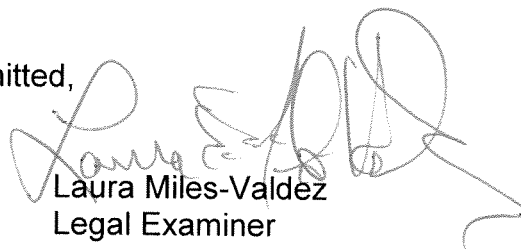
Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve exceptions to Statewide Rule 32 from the date the Commission-granted flare permit order expires through the date that gas went to sales for all wells listed in Tables 1-3 with the exception of the Peeler 1H and the DH Unit 1H.

For the Peeler 1H and the DH Unit 1H, the examiners recommend that the Commission approve exceptions to Statewide Rule 32 from the date the Commission-granted flare permit order expires through December 31, 2015, as requested by Murphy Exploration & Production Co. - USA .

Respectfully submitted,



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Laura Miles-Valdez
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