



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0279367

THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO.-USA FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE RYCHLIK UNIT, WELL NO. 1H, WHITE TAIL UNIT, WELL NO. 1H, RAFTER UNIT, WELL NO. 1H, AND LEWIS UNIT, NO. 1H IN THE EAGLEVILLE (EAGLEFORD-1) FIELD, ATASCOSA COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E. - Technical Examiner
Michael Crnich - Legal Examiner

HEARING DATE: February 7, 2013

APPEARANCES:

REPRESENTING:

APPLICANT:

Kelli Kenney
John McBeath

Murphy Exploration & Production Co.-USA

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Murphy Exploration & Production Co.-USA ("Murphy") requests a permanent exception to Statewide Rule 32 to flare gas from the following wells:

<u>LEASE NAME</u>	<u>WELL NO.</u>	<u>FIELD NAME</u>
Rychlik Unit	1H (013-34453)	Eagleville (Eagleford-1)
White Tail Unit	1H (013-34498)	Eagleville (Eagleford-1)
Rafter Unit	1H (013-34455)	Eagleville (Eagleford-1)
Lewis Unit	1H (013-34454)	Eagleville (Eagleford-1)

Offset operators in the subject leases were notified of the hearing, there were no objections filed, and no protestant appeared at the hearing.

The application is unprotested and the examiners recommend approval of the exceptions to Statewide Rule 32 to flare gas for the subject wells, for a period of one year from the date of the order. Murphy does not consider the one year limitation adverse.

DISCUSSION OF THE EVIDENCE

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 context of the subject applications, Murphy is requesting to flare gas produced by the subject wells, as provided in Statewide Rule 32(h).

The Rychlik Unit, Well No. 1H in this application was completed in the Eagleville (Eagle Ford-1) Field in May 2012, located in Atascosa County, Texas. The well had an initial potential test of 155 BO, 50 MCF of gas and 240 BWPD. The well currently produces a higher volume of casinghead gas of 74 MCFGPD. The well is located approximately 6 miles southwest of the town of Jourdanton, Texas, in an area that lacks nearby oil and gas infrastructure.

The White Tail Unit, Well No. 1H in this application was completed in the Eagleville (Eagle Ford-1) Field in June 2012, located in Atascosa County, Texas. The well had an initial potential test of 187 BO, 55 MCF of gas and 284 BWPD. The well currently produces a higher volume of casinghead gas of 66 MCFGPD. The well is located approximately 5.5 miles southeast of the town of Charlotte, Texas, in an area that lacks nearby oil and gas infrastructure.

The Rafter Unit, Well No. 1H in this application was completed in the Eagleville (Eagle Ford-1) Field in July 2012, located in Atascosa County, Texas. The well had an initial potential test of 98 BO, 45 MCF of gas and 284 BWPD. The well currently produces a higher volume of casinghead gas of 68 MCFGPD. The well is located approximately 6.7 miles southwest of the town of Jourdanton, Texas, in an area that lacks nearby oil and gas infrastructure.

The Lewis Unit, Well No. 1H in this application was completed in the Eagleville (Eagle Ford-1) Field in February and May 2012, located in Atascosa County, Texas. The well had an initial potential test of 186 BO, 76 MCF of gas and 199 BWPD. The well currently produces a lower volume of casinghead gas of 45 MCFGPD. The well is located approximately 7 miles southwest of the town of Jourdanton, Texas, in an area that lacks nearby oil and gas infrastructure.

Murphy testified that the cost to build and operate a gas pipeline to nearby existing sales pipelines will far exceed the revenue derived from the estimated gas produced from each well; therefore, Murphy is requesting permanent authority to flare the gas. Decline curve analysis shows the Rychlik Unit, Well No. 1H has remaining reserves of 87.2 MMCF. Total cost to install the sales pipeline will be \$1.26 million. Additionally, the Rychlik Unit, Well No. 1H will need rental compression costs estimated to be \$1,300 monthly. Net revenue from the sales of gas less lease and compression expenses will generate a loss of \$1.23 million over a 13-year period.

Similarly, for the other wells in this application, the cost to build and operate a gas pipeline to nearby existing sales pipelines will far exceed the revenue derived from the estimated gas produced from each well. Connecting the White Tail Unit, Well No. 1H to a sales line is expected to generate a loss of \$0.59 million after the costs to construct and operate the pipeline are deducted over a 13-year period. Connecting the Rafter Unit, Well No. 1H to a sales line is expected to generate a loss of \$1.58 million after the costs to construct and operate the pipeline are deducted over a 9-year period. Connecting the Lewis Unit, Well No. 1H to a sales line is expected to generate a loss of \$0.94 million after the costs to construct and operate the pipeline are deducted over a 11-year period.

Murphy received administrative Permit No. 11400 to flare 100 MCFPD of casinghead gas from its Rychlik Unit, Well No. 1H, that went into effect June 5, 2012, and expired on December 5, 2012, after two extensions totaling the maximum 180 days.

Murphy received administrative Permit No. 11716 to flare 80 MCFPD of casinghead gas from its White Tail Unit, Well No. 1H, that went into effect July 21, 2012, and expired on January 4, 2013, after two extensions totaling the maximum 180 days.

Murphy received administrative Permit No. 12200 to flare 100 MCFPD of casinghead gas from its Rafter Unit, Well No. 1H, that went into effect October 20, 2012, and expired on April 20, 2013, after two extensions totaling the maximum 180 days.

Murphy received administrative Permit No. 11540 to flare 100 MCFPD of casinghead gas from its Lewis Unit, Well No. 1H, that went into effect June 23, 2012, and expired on December 22, 2012, after two extensions totaling the maximum 180 days.

Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days. As previously mentioned, Murphy applied for and received an administrative permit to flare casinghead gas from the subject wells for a total of 180 days. Murphy testified that because it is uneconomic to construct gas pipelines to nearby existing sales pipelines, it is requesting a permanent exception to Statewide Rule 32 to flare the current volume of gas being produced. The Examiners will only grant the exception for a period of one year from the date of the order. The one year exception will allow Murphy to reevaluate market conditions and pipeline availability in the area in order to prevent the unnecessary flaring of casinghead gas. Murphy does not consider this recommendation adverse. For wells that produce below 50 MCFPD, Murphy can apply for administrative approval to flare the casinghead gas on a permanent basis.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators of each lease at least ten days prior to the date of hearing. There were no protests to the application.

2. The wells in this application are completed in the Eagleville (Eagle Ford-1) Field, located in Atascosa County, Texas.
 - a. The Rychlik Unit, Well No. 1H currently produces 74 MCFPD of casinghead gas and has reserves of 87.2 MMCF of remaining recoverable casinghead gas.
 - b. The White Tail Unit, Well No. 1H currently produces 66 MCFPD of casinghead gas and has reserves of 62.9 MMCF of remaining recoverable casinghead gas.
 - c. The Rafter Unit, Well No. 1H currently produces 68 MCFPD of casinghead gas and has reserves of 75.1 MMCF of remaining recoverable casinghead gas.
 - d. The Lewis Unit, Well No. 1H currently produces 45 MCFPD of casinghead gas and has reserves of 44.1 MMCF of remaining recoverable casinghead gas.
 - e. The wells are located approximately .3 miles and 5 miles from existing gas pipelines.
3. The cost to construct gas pipelines and operate compressors will exceed the value of casinghead gas produced for all wells and tank battery sites.
 - a. Connecting the Rychlik Unit, Well No. 1H to a sales line is expected to generate a loss of \$1.23 million after the costs to construct and operate the pipeline are deducted over a 13-year period.
 - b. Connecting the White Tail Unit, Well No. 1H to a sales line is expected to generate a loss of \$0.59 million after the costs to construct and operate the pipeline are deducted over a 13-year period.
 - c. Connecting the Lewis Unit, Well No. 1H to a sales line is expected to generate a loss of \$1.58 million after the costs to construct and operate the pipeline are deducted over a 9-year period.
 - d. Connecting the Lewis Unit, Well No. 1H to a sales line is expected to generate a loss of \$0.94 million after the costs to construct and operate the pipeline are deducted over a 11-year period.
4. Murphy received an administrative permit to flare casinghead gas from each well for the maximum 180 days.
 - a. Permit No. 11400 to flare 100 MCFPD of casinghead gas from its Rychlik Unit, Well No. 1H, went into effect June 5, 2012, and expired on December 5, 2012.

- b. Permit No. 11716 to flare 80 MCFPD of casinghead gas White Tail Unit, Well No. 1H, went into effect July 21, 2012, and expired on January 4, 2013.
 - c. Permit No. 12200 to flare 100 MCFPD of casinghead gas from its Rafter Unit, Well No. 1H, went into effect October 20, 2012, and expired on April 20, 2013.
 - d. Permit No. 11540 to flare 100 MCFPD of casinghead gas from Lewis Unit, Well No. 1H, went into effect June 23, 2012, and expired on December 22, 2012.
5. Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days.
 6. A one year exception to Statewide Rule 32 to flare casinghead gas at the 100 MCFPD rate for the wells in this application is appropriate.
 7. For wells that produce below 50 MCFPD, Murphy can apply for an administrative approval to flare the casinghead gas on a permanent basis.


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 a one-year exception to Statewide Rule 32 to flare gas for the subject wells 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 grant a one year exception to Statewide Rule 32 for the subject wells.

Respectfully submitted,


Andres J. Trevino, P.E.
Technical Examiner


Michael Crnich
Legal Examiner