



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 02-0283391

THE APPLICATION OF SABINE OIL & GAS LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE OLISOVSKY LEASE, WELL NO. 1H, EAGLEVILLE (EAGLE FORD-2) FIELD, LAVACA COUNTY, TEXAS

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

DATE OF HEARING: August 14, 2013

APPEARANCES: **REPRESENTING:**

APPLICANT:

Dale E. Miller

Sabine Oil & Gas LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Sabine Oil & Gas LLC ("Sabine") requests a permanent exception to Statewide Rule 32 to flare casinghead gas from the Olsovsky Lease, Well No. 1H, Eagleville (Eagle Ford-2) Field, Lavaca County, Texas. Notice was provided to offset operators surrounding the above referenced lease.

This application is unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the subject well from the date the administratively granted flare permit expired through December 31, 2014. Sabine did not consider this recommendation to be adverse.

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 MCFGPD 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 application, Sabine is requesting a permanent

exception to flare casinghead gas produced from the subject well, as provided by Statewide Rule 32(h).

The Olsovsky Lease, Well No. 1H, is completed in the Eagleville (Eagle Ford-2) Field, in northern Lavaca County and is located approximately 5 miles northeast of the town of Moulton, Texas. This area of the Eagleville (Eagle Ford-2) Field lacks existing oil and gas infra-structure for new gas production. Due to the explosive rapid rate of drilling by Sabine and numerous other operators, there is a severe shortage of equipment, supplies, manpower and services available to construct and complete gas gathering pipelines.

Sabine submitted a copy of the Commission Form W-2 filed for the Olsovsky Lease, Well No. 1H, that was completed in March 2013. The well produced 260 BOPD, 410 MCFGPD and 407 BWPD with a gas-oil ratio of 1,576 cubic feet per barrel. Sabine received administrative Permit No. 12936 to flare 250 MCFPD of casinghead gas from the well. The permit was effective March 13, 2013, and expired on September 11, 2013, after three extensions, which totaled the maximum 180 days allowed by an administratively granted flare permit. 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 the administratively granted flare permit. Sabine has requested a hearing for the subject well before the well's administratively granted flare permit expired.

The closest gas gathering pipeline in this area of Lavaca County is owned by Energy Transfer Company. Sabine estimated that a gas gathering line would be 22,504 feet in length and cost \$64 per foot for a total cost of \$1,440,000. The net gas revenue was calculated to be \$845,000, which would result in an operating loss of approximately \$600,000. Since the gas gathering line is uneconomic, Sabine requests a permanent exception to flare a maximum of 250 MCFPD of casinghead gas.

The examiners noted, however, that there was ongoing development drilling to the Eagle Ford formation in this area of Lavaca County and the gas gathering infra-structure was continually being updated and expanded. As a result, the examiners recommend approval of an exception to Statewide Rule 32 to flare casinghead gas from the subject well from the expiration of the administratively granted flare permit through December 31, 2014. Sabine did not consider this recommendation to be adverse.

FINDINGS OF FACT

1. Proper notice of this hearing was given at least ten (10) days prior to the date of hearing and no protests to the application were received.
2. The Olsovsky Lease, Well No. 1H, is completed in the Eagleville (Eagle Ford-2) Field, in northern Lavaca County, Texas.

- a. This area of the Eagleville (Eagle Ford-2) Field lacks existing oil and gas infra-structure for new gas production.
 - b. The Olsovsky Lease, Well No. 1H, was completed in March 2013 and produced 260 BOPD, 410 MCFGPD and 407 BWPD with a gas-oil ratio of 1,576 cubic feet per barrel.
3. Statewide Rule 32(h) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days.
 4. Sabine Oil & Gas LLC ("Sabine") received administrative Permit No. 12936 to flare 250 MCFPD of casinghead gas from the subject well. The permit was effective March 13, 2013, and expired on September 11, 2013, after three extensions, which totaled the maximum 180 days allowed by an administratively granted flare permit.
 5. 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 the administratively granted flare permit.
 6. Sabine has requested a hearing for the subject well before the administratively granted flare permit expired.
 7. There is ongoing development drilling to the Eagle Ford formation in this area of Lavaca County and the gas gathering infra-structure is continually being updated and expanded.
 8. An exception to Statewide Rule 32 from the date the administratively granted flare permit expired through December 31, 2014, for the subject well to flare casinghead gas is appropriate.
 9. For the Olsovsky Lease, Well No. 1H, Sabine requests to flare a maximum of 250 MCFPD of casinghead gas.

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 grant an exception to Statewide Rule 32 from the date the administratively granted flare permit expired through December 31, 2014, for the subject well, as requested by Sabine Oil & Gas LLC with the examiners modification.

Respectfully submitted,



Richard D. Atkins, P.E.
Technical Examiner



Laura Miles-Valdez
Legal Examiner