



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0276723

THE APPLICATION OF RILEY EXPLORATION, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE JOHN B BAGGETT LEASE, WELL NO. 7H, EAGLEVILLE (EAGLE FORD-1) FIELD, DIMMIT COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0276724

THE APPLICATION OF RILEY EXPLORATION, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE FLORES LEASE, WELL NO. 1H, EAGLEVILLE (EAGLE FORD-1) FIELD, LA SALLE COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0276725

THE APPLICATION OF RILEY EXPLORATION, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE S. DUDERSTADT LEASE, WELL NO. 1H, EAGLEVILLE (EAGLE FORD-1) FIELD, GONZALES COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
Randall Collins - Legal Examiner

DATE OF HEARING: August 30, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Dale E. Miller

Riley Exploration, LLC

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

Riley Exploration, LLC ("Riley") requests an exception to Statewide Rule 32 to flare casinghead gas from the following wells in the Eagleville (Eagle Ford-1) Field:

<u>LEASE NAME</u>	<u>WELL NO.</u>
John B Baggett	7H
Flores	1H
S. Duderstadt	1H

Notice was provided to offset operators surrounding the above referenced leases. The wells that are contained in this hearing do not currently have a permit authorizing an exception to the no flaring provision of Statewide Rule 32.

These applications are unopposed and the examiners recommend approval of the applications, as requested by Riley, from the date of the hearing through the end date noted for each well, but not to exceed a period of one year.

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 beyond 180 days shall be granted only in a final order signed by the Commission. In addition, Statewide Rule 32(i) requires that the operator, to avoid a lapse in its permit, request a hearing at least 21 days prior to the expiration of the administrative permit. In the context of the subject applications, Riley is requesting to flare casinghead gas produced from the above listed wells from the completion date through the end date noted for each well, as provided by Statewide Rule 32(h).

The subject wells in these applications are completed in the Eagleville (Eagle Ford-1) Field in Dimmit, La Salle and Gonzales Counties. These areas of the Eagleville (Eagle Ford-1) Field lack existing oil and gas infra-structure for new gas production. Riley's new producing wells are between one-half and three miles from existing gas gathering pipelines.

John B Baggett Lease, Well No. 7H (API No. 42-127-33789)

Riley submitted a copy of the Commission Form W-2 filed for its John B Baggett Lease, Well No. 7H, that was completed on April 11, 2011. The well produced 231 BOPD, 0 MCFGPD and 259 BWPD with no gas-oil ratio. Riley received administrative Permit No.

10565 to flare 250 MCFPD of casinghead gas from its John B Baggett Lease, Well No. 7H. The permit was effective July 12, 2011, and expired on November 10, 2011, after one extension, which totaled 120 days. Riley failed to submit information requested by Commission staff and was denied the final 60 day extension that would total the maximum 180 days allowed by an administrative permit.

Riley was mailed a Commission Intent to Sever letter for this lease on March 28, 2012, for violation of Statewide Rule 32 for flaring gas without a permit. Riley requested a hearing on June 4, 2012. To date, Riley has been in violation of Statewide Rule 32 for two periods from the completion date through July 11, 2011, and November 11, 2011, through the date of the hearing request. Through July 2012, Riley has flared a total of 14.5 MMCFG.

Riley has signed a gas sales contract with Enterprise South Texas Gathering LP. The gas gathering line will be approximately one-half mile in length and Riley will be required to pay a connection fee of \$86,994. Riley expects the gas gathering line to be connected in November 2012 and requests to flare 120 MCFPD of casinghead gas through November 30, 2012.

Flores Lease, Well No. 1H (API No. 42-283-32421)

Riley submitted a copy of the Commission Form W-2 filed for its Flores Lease, Well No. 1H, that was completed on April 28, 2011. The well produced 358 BOPD, 122 MCFGPD and 283 BWPD with a gas-oil ratio of 340 cubic feet per barrel. Riley received administrative Permit No. 10561 to flare 250 MCFPD of casinghead gas from its Flores Lease, Well No. 1H. The permit was effective July 12, 2011, and expired on November 10, 2011, after one extension, which totaled 120 days. Riley failed to submit information requested by Commission staff and was denied the final 60 day extension that would total the maximum 180 days allowed by an administrative permit.

Riley was not mailed a Commission Intent to Sever letter for this lease for violation of Statewide Rule 32 for flaring gas without a permit. Riley requested a hearing on June 4, 2012. To date, Riley has been in violation of Statewide Rule 32 for two periods from the completion date through July 11, 2011, and November 11, 2011, through the date of the hearing request. Through July 2012, Riley has flared a total of 94.7 MMCFG.

Riley has not signed a gas sales contract with any casinghead gas gather in the area. The gathering line would be approximately two miles in length and Riley estimated a construction cost of \$600,000. Riley submitted an economic analysis showing that the monthly operating costs along with the pipeline cost would project a net loss of \$1.7 million to produce and sell all of the remaining gas reserves. Riley requests to flare 150 MCFPD on a permanent basis. Since this is an area of active development and gas gathering system infrastructure is continuing to expand, the examiners recommend only a one year exception.

S. Duderstadt Lease, Well No. 1H (API No. 42-177-32135)

Riley submitted a copy of the Commission Form W-2 filed for its S. Duderstadt Lease, Well No. 1H, that was completed on March 8, 2011. The well produced 927 BOPD, 1,200 MCFGPD and 435 BWPD with a gas-oil ratio of 1,294 cubic feet per barrel. Riley received administrative Permit No. 10563 to flare 400 MCFPD of casinghead gas from its S. Duderstadt Lease, Well No. 2. The permit was effective July 12, 2011, and expired on November 10, 2011, after one extension, which totaled 120 days. Riley failed to submit information requested by Commission staff and was denied the final 60 extension that would total the maximum 180 days allowed by an administrative permit.

Riley was not mailed a Commission Intent to Sever letter for this lease for violation of Statewide Rule 32 for flaring gas without a permit. Riley requested a hearing on June 4, 2012. To date, Riley has been in violation of Statewide Rule 32 for two periods from the completion date through July 11, 2011, and November 11, 2011, through the date of the hearing request. Through July 2012, Riley has flared a total of 144.2 MMCFG.

Riley has signed a gas sales contract with Houston Pipe Line Company LP. Riley is constructing a gas gathering line that will be approximately three miles in length and will gather casinghead gas from all of Riley's wells in the area. Riley expects the gas gathering line to be connected in February 2013 and requests to flare 120 MCFPD of casinghead gas through February 28, 2013.

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 Dimmit, La Salle and Gonzales Counties.
 - a. These areas of the Eagleville (Eagle Ford-1) Field lack existing oil and gas infra-structure for new gas production.
 - b. Riley's new producing wells are between one-half and three miles from existing gas gathering pipelines.
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. The John B Baggett Lease, Well No. 7H, was completed on April 11, 2011, and produced 231 BOPD, 0 MCFGPD and 259 BWPD with no gas-oil ratio.

- a. Riley Exploration, LLC ("Riley") received administrative Permit No. 10565 to flare 250 MCFPD of casinghead gas from its John B Baggett Lease, Well No. 7H. The permit was effective July 12, 2011, and expired on November 10, 2011, after one extension, which totaled 120 days.
 - b. Riley failed to submit information requested by Commission staff and was denied the final 60 day extension that would total the maximum 180 days allowed by an administrative permit.
 - c. Riley was mailed a Commission Intent to Sever letter on March 28, 2012, for violation of Statewide Rule 32 for flaring gas without a permit. Riley requested a hearing on June 4, 2012.
 - d. Riley has been in violation of Statewide Rule 32 for two periods from the completion date through July 11, 2011, and November 11, 2011, through the date of the hearing request. Through July 2012, Riley has flared a total of 14.5 MMCFG.
 - e. Riley has signed a gas sales contract with Enterprise South Texas Gathering LP. The gas gathering line will be approximately one-half mile in length and Riley will be required to pay a connection fee of \$86,994.
5. The Flores Lease, Well No. 1H, was completed on April 28, 2011 and produced 358 BOPD, 122 MCFGPD and 283 BWPD with a gas-oil ratio of 340 cubic feet per barrel.
 - a. Riley received administrative Permit No. 10561 to flare 250 MCFPD of casinghead gas from its Flores Lease, Well No. 1H. The permit was effective July 12, 2011, and expired on November 10, 2011, after one extension, which totaled 120 days.
 - b. Riley failed to submit information requested by Commission staff and was denied the final 60 day extension that would total the maximum 180 days allowed by an administrative permit.
 - c. Riley was not mailed a Commission Intent to Sever letter for violation of Statewide Rule 32 for flaring gas without a permit. Riley requested a hearing on June 4, 2012.
 - d. Riley has been in violation of Statewide Rule 32 two periods from the completion date through July 11, 2011, and November 11, 2011, through the date of the hearing request. Through July 2012, Riley has flared a total of 94.7 MMCFG.

- e. Riley has not signed a gas sales contract with any casinghead gas gather in the area.
 - f. An economic analysis shows that the monthly operating costs along with the pipeline cost would project a net loss of \$1.7 million to produce and sell all of the remaining gas reserves.
6. The S. Duderstadt Lease, Well No. 1H, was completed on March 8, 2011, and produced 927 BOPD, 1,200 MCFGPD and 435 BWPD with a gas-oil ratio of 1,294 cubic feet per barrel.
- a. Riley received administrative Permit No. 10563 to flare 400 MCFPD of casinghead gas from its S. Duderstadt Lease, Well No. 2. The permit was effective July 12, 2011, and expired on November 10, 2011, after one extension, which totaled 120 days.
 - b. Riley failed to submit information requested by Commission staff and was denied the final 60 extension that would total the maximum 180 days allowed by an administrative permit.
 - c. Riley was not mailed a Commission Intent to Sever letter for violation of Statewide Rule 32 for flaring gas without a permit. Riley requested a hearing on June 4, 2012.
 - d. Riley has been in violation of Statewide Rule 32 for two periods from the completion date through July 11, 2011, and November 11, 2011, through the date of the hearing request. Through July 2012, Riley has flared a total of 144.2 MMCFG.
 - e. Riley has signed a gas sales contract with Houston Pipe Line Company LP. Riley is constructing a gas gathering line that will be approximately three miles in length and will gather casinghead gas from all of Riley's wells in the area.
7. An exception to Statewide Rule 32 from the date of the hearing through the end date noted for each well, but not to exceed a period of one year, for the subject wells to flare casinghead gas is appropriate.
- a. For the John B Baggett Lease, Well No. 7H, a permit to flare 120 MCFPD of casinghead gas from the date of the hearing through November 30, 2012, is appropriate.
 - b. For the Flores Lease, Well No. 1H, a permit to flare 150 MCFPD of casinghead gas from the date of the hearing through December 31, 2013, is appropriate.

- c. For the S. Duderstadt Lease, Well No. 1H, a permit to flare 120 MCFPD of casinghead gas from the date of the hearing through February 28, 2013, is appropriate.

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 of the hearing through the end date noted for each well, but not to exceed a period of one year, for the subject wells in the Eagleville (Eagle Ford-1) Field, as requested by Riley Exploration, LLC.

Respectfully submitted,



Richard D. Atkins, P.E.
Technical Examiner



Randall Collins
Legal Examiner