



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0277865

THE APPLICATION OF DIAMONDBACK E & P LLC FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE UL II 14 LEASE, SPRABERRY (TREND AREA) FIELD, ANDREWS COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. - Technical Examiner
Randall Collins - Legal Examiner

DATE OF HEARING: September 14, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Jamie Nielson Diamonback E & P, LLC
Jeff White

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Diamonback E & P, LLC ("Diamonback") seeks to flare casing-head gas from the tank battery associated with its UL II 14 Lease in the Spraberry (Trend Area) Field, Andrews County, Texas.

At the hearing, Diamonback E & P, LLC ("Diamonback") requested a permanent exception to Statewide Rule 32 to flare casing-head gas from the subject lease. The examiners opined it inappropriate to grant a permanent exception to 16 TAC §3.32 and suggested a limitation of twelve months. Diamonback did not consider the examiners' opinion adverse. The application was unopposed. The examiners recommend approval of the application, as modified.

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) requirements provide an administrative exception to flare natural gas in volumes greater than fifty thousand cubic feet ("MCF") per well for a period up to 180 days. Also, Statewide Rule 32(h)(4) provides that exceptions beyond 180 days shall be granted only in a final order signed by the Commission.



In the subject application, Diamondback seeks to flare casing-head gas for a twelve month period beyond the 180 day exception approval. Diamondback testified it seeks to flare from the tank battery located on its UL II 14 Leases.

Diamondback testified there are two wells completed in the Spraberry (Trend Area) Field that are located on the UL II 14 Lease, Well Nos. 8 and 15. Diamondback testified the UL II 14 Lease received an administrative exception for 180 days (Permit No. 11185). Permit No. 11185 granted Diamondback authority to flare 84 MCF of gas per day from the UL II 14 Lease, and was effective from February 06, 2012 through August 06, 2012. Based on the current production rates from Well Nos. 8 and 15, Diamondback seeks an exception to flare 200 MCF of gas per day.

This area of the Spraberry (Trend Area) Field is undergoing rapid development and lacks existing gas pipeline infrastructure for new casing-head gas production. The purchaser in the area, DCP Midstream ("DCP"), does not have the capacity necessary to take and process all of the casing-head gas that is being produced. As a result, DCP is having to curtail gas purchases from operators in the area.

Diamondback testified it is an affiliate company to the Midmar Gas Plant ("Midmar"), an additional gas purchaser in the area surrounding the subject leases. Diamondback testified the Midmar is currently at or near capacity for accepting produced natural gas and is close to completing a one hundred million dollar facility expansion that will provide for additional gas capacity. Diamondback testified it plans to implement a pipeline to transport casing-head gas from the subject lease to Midmar after the 1st quarter of fiscal year 2013.

In support of its application, Diamondback submitted a copy of the monthly casing-head gas production for each well located on the subject leases. Diamondback testified that the UL II 14 Lease, Well Nos. 8 and 15, collectively produced 24.1 million cubic feet of gas ("MMCF") from December 2011 through September 2012. Diamondback testified the daily average for the UL II 14 Lease, Well Nos. 8 and 15, collectively ranged from 47 MCF to 235 MCF of casing-head gas.

Diamondback submitted a table that compares the values of oil and gas produced in August 2012 from wells located on the subject leases. The UL II 14 Lease, Well Nos. 8 and 15, collectively produced 3,481 barrels of oil and 5.6 MMCF of casing-head gas. Assuming prices at \$90.0 per barrel of oil and \$5.87 per MCF of gas, the UL II 14 Lease's oil production is valued at \$313,290, while the casing-head gas production is valued at \$33,318.

Diamondback testified that if the relief it seeks to flare casing-head gas from the subject lease is denied, the subject wells cannot be produced. Moreover, Diamondback testified it anticipates to drill additional wells on the subject lease.

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. Diamondback E&P, LLC (“Diamondback”) seeks an exception to flare casing-head gas in volumes greater than 50 thousand cubic feet (“MCF”) per day for its UL II 14 Lease, Spraberry (Trend Area) Field, Andrews County, Texas.
 - a. The UL II 14 Lease currently has two wells completed in the Spraberry (Trend Area) Field, Well Nos. 8 and 15.
 - b. The purchaser in the area, DCP Midstream (“DCP”), does not have the capacity necessary to take and process all of the gas that is being produced.
 - c. DCP is curtailing natural gas purchases from operators in the area surrounding the UL II 14 Lease, Spraberry (Trend Area) Field, Andrews County, Texas.
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 for volumes exceeding 50 MCF per day.
 - a. Diamondback received administrative Permit No. 11185, granting Diamondback authority to flare 84 MCF of gas per day from the UL II 14 Lease.
 - b. Permit No. 11185 was effective February 06, 2012 and expired August 06, 2012, which totaled the maximum 180 days allowed by an administrative permit.
5. An exception to Statewide Rule 32 to flare 200 MCF of casing-head gas per day for twelve months from the UL II 14 Lease Tank Battery is appropriate.
 - a. Well Nos. 8 and 15 produce into the UL II 14 Lease Tank Battery.
 - b. The volume of hydrocarbons produced from Well Nos. 8 and 15, on the UL II 14 Lease, Spraberry (Trend Area) Field, in August 2012 were 3,481 barrels of oil and 5.6 million cubic feet (“MMCF”) of casing-head 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 Spraberry (Trend Area) 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 to flare 200 MCF of casing-head gas per day through October 2013 from the UL II 14 Lease Tank Battery, as requested by Diamondback E&P, LLC.

Respectfully submitted,


Brian K. Fancher, P.G.
Technical Examiner


Randall Collins
Legal Examiner