



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0287995

THE APPLICATION OF CLAYTON WILLIAMS ENERGY, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 HOSEK UNIT LEASE, WELL NO. 1 EAGLEVILLE (EAGLE FORD-1) FIELD WILSON COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Terry Johnson – Legal Examiner

DATE OF HEARING: May 7, 2014

APPEARANCES:

REPRESENTING:

APPLICANT:

Bryan Lauer
Betsy Luna

Clayton Williams Energy, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Clayton Williams Energy, Inc. ("CW") requests an exception to Statewide Rule 32 to flare casinghead gas for the Hosek Unit Lease, Well No. 1, Eagleville (Eagle Ford-1) Field, Wilson County, Texas. Notice was provided to offset operators surrounding the subject well and no protests were received. The application is unopposed and the examiners recommend approval of the exception to Statewide 32 to flare casinghead gas from the subject well.

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

CW is seeking temporary authority to flare a maximum of 100 MCF per day of casinghead gas from the Hosek Unit Lease, Well No. 1 (API No. 42-493-32594). An exception to Statewide Rule 32 will allow CW time to evaluate pipeline availability in the area and market conditions. The subject well was completed on October 3, 2011 with an initial potential of 768 BOPD and 200 MCF gas per day. The subject well produces sour gas with a hydrogen sulfide (H₂S) concentration of 7,800 ppm per test data from December 2, 2011. The nearest pipeline has been identified to be approximately 1.5 miles due north of the subject well location. However, this pipeline only accepts sweet gas. The nearest pipeline that accepts sour gas is located approximately 1.5 miles east of the subject well location.

The Hosek Unit Lease, Well No. 1 received a 180 day flaring permit (Permit No. 10731), that commenced on October 20, 2011, and expired on April 29, 2012. Final Order No. 01-0276036 granted CW an exception to flare a maximum of 135 MCF gas per day from the Hosek Unit Lease, Well No. 1 from April 30, 2012 through June 1, 2013.

CW submitted a Statewide Rule 32 exception application data sheet requesting a permanent flaring exception to flare less than 50 MCF gas per day from the subject well since gas production had declined to less than 50 MCF per day. In a letter dated May 14, 2013, CW requested a permanent Statewide Rule 32 exception to flare a maximum of 45 MCF gas per day from the Hosek Unit Lease, Well No. 1. During the hearing, CW submitted a copy of the check submitted to cover the filing fee for the application. CW late-filed an exhibit on May 12, 2014 that showed the check was received by the Commission and posted on May 24, 2013.

On March 5, 2014, CW received a Notice of Intent to Cancel P-4 Certificate of Compliance and to Sever Pipeline or Other Carrier Connection from the Commission. The notice stated a violation of SWR 32: failure to obtain a permit to flare/vent casinghead gas. CW was of the opinion that the Commission did not receive the permit request dated May 14, 2013. Email correspondence between CW and the Commission revealed that a 4-month period from September 2012 through December 2013 was over 1500 MCF per month (which would result in volumes, on average, greater than 50 MCF gas per day). The email also acknowledged that the SWR 32 flaring exception application dated May 14, 2013 must have been misplaced. It was determined that the daily average flaring volumes were in excess of both the maximum daily requested flaring volume of 45 MCF per day, and the maximum flaring volume of 50 MCF per day permitted without a Final Order signed by the Commission as per TAC 3.32 (h)(4).

Table 1: Average Daily Flaring Volumes, August 2013 through January 2014

<u>Month</u>	<u>Daily average flaring volume (MCF per day)</u>
August	54
September	67
October	62
November	60
December	54
January	52

After receiving the notice, CW requested a hearing for an exception to flare gas volumes greater than 50 MCF per day from the date the previously granted Commission Final Order granting CW authority to flare greater than 50 MCF gas per day expired to March 1st, 2014, when the P-4 transfer took effect.

The subject property was sold to Lonestar Operating, LLC and a P-4 transfer filed to be effective March 2014. CW was informed that they would need to request the hearing for the exception to SWR 32 since they were the operator of record prior to March 2014 when the daily average flaring volumes were in excess of 50 MCF gas.

CW is requesting an exception to Statewide Rule 32 to flare 100 MCF of casinghead gas per day from the date the previously granted Commission Final Order granting CW authority to flare greater than 50 MCF gas per day expired to March 1, 2014, when the P-4 transfer took effect. After the hearing, the examiner checked Commission records which revealed that the current operator of the well, Lonestar Operating, LLC has received a permanent permit to flare a maximum of 45 MCF gas per day from the subject well, effective March 1, 2014.

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 well in the subject application is completed in the Eagleville (Eagle Ford-1) Field located in Wilson County, Texas.
3. CW is requesting an exception to Statewide Rule 32 for the subject well pursuant to 16 TAC §§3.32(h), specifically, 3.32(h)(4).
4. Final Order No.01-0276036 granted CW an exception to flare a maximum of 135 MCF gas per day from the Hosek Unit Lease, Well No. 1 from April 30, 2012 through June 1, 2013.

5. CW filed the necessary paperwork to flare up to 45 MCF of casinghead gas per day from the subject well in May 2014, prior to the previous Final Order expiring that granted CW authority to flare casinghead gas from the subject well.
6. CW is requesting an exception to Statewide Rule 32 to flare a maximum of 100 MCF casinghead gas per day from June 1 2013, through March 1, 2014, in the event gas volumes are in excess of 50 MCF per day.

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. The requested authority to flare casinghead gas from the subject well satisfies the requirements of Title 16, Texas Administrative Code §§3.32(h)(4).

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 for the Hosek Unit Lease, Well No. 1, Eagleville (Eagle Ford-1) Field, Wilson County, Texas as requested by Clayton Williams Energy, Inc.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Terry Johnson
Legal Examiner