



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0283755

THE APPLICATION OF DIAMONDBACK E&P LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE UL II 14 LEASE TANK BATTERY, SPRABERRY (TREND AREA) FIELD, ANDREWS COUNTY, TEXAS

OIL AND GAS DOCKET NO. 08-0283756

THE APPLICATION OF DIAMONDBACK E&P LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE UL III 4 LEASE TANK BATTERY, SPRABERRY (TREND AREA) FIELD, ANDREWS COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E. - Technical Examiner
Terry Johnson - Legal Examiner

ER&R PREPARED BY: Richard D. Atkins, P.E. - Technical Examiner

DATE OF HEARING: September 26, 2013

APPEARANCES: **REPRESENTING:**

APPLICANT:

Jamie Nielson
Danny Wesson

Diamondback E&P LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Diamondback E&P LLC ("Diamondback") requests an exception to Statewide Rule 32 to flare casinghead gas from the UL II 14 and UL III 4 Lease Tank Batteries, Spraberry (Trend Area) Field, Andrews County, Texas. Notice was provided to offset operators surrounding the above referenced leases and no protests were received.

The applications are unopposed and the examiners recommend approval of the exceptions to Statewide Rule 32 to flare casinghead gas from the subject tank batteries from the date the Commission granted flare permit orders expired through December 31, 2015, for the UL II 14 Lease Tank Battery and through August 31, 2013, for the UL III 4 Lease Tank Battery.

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 applications, Diamondback is requesting an exception to flare casinghead gas produced from the subject tank batteries, as provided by Statewide Rule 32(h).

This area of the Spraberry (Trend Area) Field is undergoing rapid development and lacks existing gas pipeline infrastructure for new casinghead gas production. The gas purchaser in the area, DCP Midstream ("DCP"), does not have the capacity necessary to take and process all of the casinghead gas that is being produced. As a result, DCP is having to curtail gas purchases from operators in the area. An additional gas purchaser in the area surrounding the subject leases is the Midmar Gas Plant ("Midmar"). Midmar is also currently at or near capacity for accepting produced natural gas and is constructing a one hundred million dollar facility expansion that will provide for additional gas capacity.

Diamondback has previously received Commission granted flare permit orders to flare 79 MCFPD of casinghead gas from the UL II 14 Tank Battery and 176 MCFPD of casinghead gas from the UL III 4 Tank Battery. The orders were effective August 7, 2012, and expired on August 6, 2013. 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 a Commission granted flare permit order. Diamondback has requested a hearing for the subject tank batteries before the Commission granted flare permit orders expired.

In support of its application, Diamondback submitted a table that compares the values of oil and gas produced from August 2012 through August 2013 from the subject leases. The UL II 14 Lease produced 21.1 MBO and 29.3 MMCFG. Assuming prices at \$100.0 per barrel of oil and \$6.00 per MCF of gas, the UL II 14 Lease's oil production is valued at \$2.1 million, while the casinghead gas production is only valued at \$175,900. The UL III 4 Lease produced 32.5 MBO and 34.6 MMCFG. Assuming prices at \$100.0 per barrel of oil and \$6.00 per MCF of gas, the UL III 4 Lease's oil production is valued at \$3.2 million, while the casinghead gas production is only valued at \$207,700.

Diamondback stated that if the relief it seeks to flare casinghead gas from the subject leases is denied, the wells on the subject leases cannot be produced. For the UL II 14 Lease Tank Battery, Diamondback requests to flare a maximum of 70 MCFPD of casinghead gas through December 31, 2015. For the UL III 4 Lease Tank Battery, Diamondback requests to flare a maximum of 110 MCFPD of casinghead gas through August 31, 2013, as the lease was connected to the gas gathering system in August 2013.

FINDINGS OF FACT

1. Proper notice of this hearing was given at least ten (10) days prior to the date of the hearing and no protests to the application were received.
2. This area of the Spraberry (Trend Area) Field is undergoing rapid development and lacks existing gas pipeline infrastructure for new casing-head gas production.
 - a. A gas purchaser in the area, DCP Midstream ("DCP"), does not have the capacity necessary to take and process all of the casinghead gas that is being produced.
 - b. An additional gas purchaser in the area surrounding the subject leases is the Midmar Gas Plant ("Midmar"). Midmar is also currently at or near capacity for accepting produced natural gas and is constructing a one hundred million dollar facility expansion that will provide for additional gas capacity.
3. Diamondback has previously received Commission granted flare permit orders to flare 79 MCFPD of casinghead gas from the UL II 14 Tank Battery and 176 MCFPD of casinghead gas from the UL III 4 Tank Battery. The orders were effective August 7, 2012, and expired on August 6, 2013.
4. 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 a Commission granted flare permit order.
5. Diamondback has requested a hearing for the subject tank batteries before the Commission granted flare permit orders expired.
6. An exception to Statewide Rule 32 from the date the Commission granted flare permit orders expired for the subject tank batteries to flare casinghead gas is appropriate.

- a. For the UL II 14 Tank Battery, Diamondback requests to flare a maximum of 70 MCFPD of casinghead gas through December 31, 2015.
- b. For the UL III 4 Tank Battery, Diamondback requests to flare a maximum of 110 MCFPD of casinghead gas through August 31, 2013, as the lease was connected to the gas gathering system in August 2013.

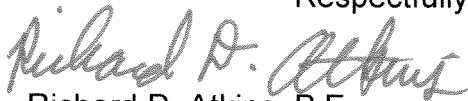
CONCLUSIONS OF LAW

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 approve an exception to Statewide Rule 32 from the date the Commission granted flare permit orders expired through December 31, 2015, for the UL II 14 Lease Tank Battery and through August 31, 2013, for the UL III 4 Lease Tank Battery, as requested by Diamondback E&P LLC.

Respectfully submitted,


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Technical Examiner


Terry Johnson
Legal Examiner