



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 8A-0296814

THE APPLICATION OF SILVER CREEK OIL & GAS LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE WYATT EARP LEASE, WELL 1H LEVELLAND FIELD, COCHRAN COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Randall Collins – Administrative Law Judge

DATE OF HEARING: July 7, 2015
DATE OF CONFERENCE: February 23, 2016

APPEARANCES:

REPRESENTING:

APPLICANT:

Silver Creek Oil & Gas LLC

Glenn Johnson
Mike Mackow

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Silver Creek Oil & Gas LLC ("Silver Creek") requests an exception to Statewide Rule 32 to flare casinghead gas from the Wyatt Earp Lease Well No. 1H ("Wyatt Earp No. 1H"), Levelland Field, Cochran County, Texas. Silver Creek requests an exception to Statewide 32 to flare a maximum volume of 300 Mcf per day of casinghead gas from Wyatt Earp No. 1H for a period twenty-four months. The gas produced contains impurities which would require treatment in order to meet the pipeline specifications of a pipeline located 0.9 miles away. 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 an exception to Statewide Rule 32 for the Wyatt Earp No. 1H to flare a maximum volume of 300 Mcfd of casinghead gas, effective from the expiration date of the previous permit to July 6, 2017.

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

The Wyatt Earp No. 1H (API No. 42-079-33315) was completed on November 12, 2014 in the Levelland Field, in Cochran County, Texas. Since production commenced in November 2014 there has been some interruptions, particularly in the three months prior to the hearing. During this time the well has experienced a number of operational issues, resulting in down time and partial production days. The operator has not been able to prepare an ultimate recovery decline curve for the subject well due to being early in the life of the well and no production curve trend being established over the past three months due to the aforementioned operational issues, down time, and partial production days.

Silver Creek received flare permit No. 20780 for the Wyatt Earp No. 1H, effective January 5, 2015 to July 6, 2015 to flare a maximum volume of 250 Mcf per day. In total, the permit authorized Silver Creek to flare casinghead gas from the subject well for a total of 180 days, the maximum length of time that may be granted administratively for volumes greater than 50 Mcf per day. The Commission received a hearing request from Silver Creek on May 26, 2015 for an exception to Statewide Rule 32 for the Wyatt Earp No. 1H, more than 21 days prior to the expiration of the existing flaring permit.

The nearest pipeline to the Wyatt Earp No. 1H is a Targa Midstream Services, LLC ("Targa") pipeline, located approximately 0.9 miles away. A gas/vapor fractional analysis on the gas produced from the Wyatt Earp No. 1H revealed that the gas does not meet the specifications of the Targa pipeline. The Wyatt Earp No. 1H concentrations and Targa's specifications are summarized in Table 1. Wyatt Earp No. 1H exceeds the Targa specifications for hydrogen sulfide, carbon dioxide, nitrogen, and total inerts. As a result, the gas produced from the Wyatt Earp No. 1H would require treatment to meet Targa's pipeline specifications.

Table 1: Wyatt Earp No. 1 Gas Concentration and Targa Specifications

<u>Component</u>	<u>Wyatt Earp Well 1H</u>	<u>Targa Specification</u>
Hydrogen Sulfide	2.586 mole %	Not more than one quarter of one percent (0.25 %)
Carbon Dioxide	11.554 mole %	Not more than two mole percent (2.0 %)
Nitrogen	6.04 mole %	Not more than one and one-fourth mole percent (1.25 %)
Total Inerts	>6.94 mole %	Not more than three mole percent (3.0 %)

On June 29, 2015 Silver Creek prepared a cost analysis to process and deliver the gas to market. At that time, the Henry Hub gas price was \$2.68 MMBtu. Silver Creek determined that connecting the Wyatt Earp No. 1 to the Targa pipeline under the current conditions would result in a loss of \$0.83 per Mcf of gas. Silver Creek estimates the breakeven point with the current gas production and concentration of impurities to be \$4.66 per Mcf. Silver Creek performed a well test in June 2015 in which the well was pinched back to at or below 50 Mcf per day. Silver Creek determined that pinching the well back resulted in a decrease of 20 BOPD in production.

Silver Creek has plans to drill two additional wells on the lease; however, these wells will not be drilled in the immediate future. Silver Creek is requesting an exception to Statewide Rule 32 to flare casinghead gas from the Wyatt Earp No. 1H for an additional two years (July 7, 2015 to July 6, 2017). This extension would provide Silver Creek additional time to evaluate economic conditions, pipeline connections, and the possibility of drilling additional wells on the lease. The well is currently producing between 50 Mcf and 100 Mcf per day. Gas production from the subject well may be less than 50 Mcf prior to the end of the two-year period, in which case Silver Creek would not require any additional Statewide Rule 32 exceptions. Due to well issues, the daily gas production fluctuates. As a result, Silver Creek is requesting to flare a maximum daily volume of 300 Mcf.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators at least ten days prior to the date of hearing. There were no protests to the application.
2. The Wyatt Earp No. 1H (API No. 42-079-33315) was completed on November 12, 2014 in the Levelland Field, in Cochran County, Texas.
3. Silver Creek received flare permit No. 20780 for the Wyatt Earp No. 1H.
4. The well has experienced a number of operational issues, resulting in down time and partial production days. As a result, the operator has been unable to prepare an ultimate recovery decline curve for the subject well prior to the hearing.
5. The nearest pipeline to the Wyatt Earp No. 1H is the Targa Midstream Services, LLC pipeline, located approximately 0.9 miles away.

6. The gas produced from the Wyatt Earp No. 1H contains concentrations of hydrogen sulfide, carbon dioxide, nitrogen, and total inerts that exceed the maximum allowable limits for the nearby Targa pipeline.
7. Silver Creek performed a well test in June 2015 in which the well was pinched back to at or below 50 Mcf per day. Pinching the well back resulted in a decrease of 20 BOPD in production.
8. The well is currently producing between 50 Mcf and 100 Mcf per day.
9. Due to well issues, there are currently fluctuations in the gas production.
10. Gas production from the subject well may be less than 50 Mcf within twenty-four months.

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 satisfies the requirements of Title 16, Texas Administrative Code 3.32(h).

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant the request by Silver Creek Oil & Gas LLC, Inc. for an exception to Statewide Rule 32 for the The Wyatt Earp No. 1H. The exception is granted to flare a maximum volume of 300 Mcf per day of casinghead gas from July 7, 2015, through July 6, 2017.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Randall Collins
Administrative Law Judge