



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0299966

THE APPLICATION OF U.S. ENERGY DEVELOPMENT CORPORATION FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HIDEAWAY C LEASE, BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0299749

THE APPLICATION OF U.S. ENERGY DEVELOPMENT CORPORATION FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE IRONWOOD B LEASE, BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY, TEXAS

HEARD BY: Richard Eyster, P.G. - Technical Examiner
Dana Avant Lewis - Administrative Law Judge

DATE OF HEARING: May 6, 2016

CONFERENCE DATE: June 21, 2016

APPEARANCES:

REPRESENTING:

APPLICANT:
Dale Miller, P.E.

U.S. Energy Development Corporation

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

U.S. Energy Development Corporation ("US Energy") requests an exception to Statewide Rule 32 to flare casinghead gas from wells on its Hideaway C Lease (Lease No. 01-18596) and the Ironwood B Lease (Lease No. 01-18636), (Subject Leases) for a period of two years. The Subject Leases are adjacent to each other and both leases are in the Briscoe Ranch (Eagle Ford) Field, Frio County, Texas.

The application is not protested. The Administrative Law Judge and the Technical Examiner (collectively the Examiners) recommend approval of the application, as requested by US Energy.

DISCUSSION OF THE EVIDENCE

16 TAC §3.32(h) provides that an exception to flare casing-head gas in volumes greater than 50 MCFGD may be granted administratively for a period up to 180 days. Furthermore, flaring exceptions beyond the 180 days shall be granted only in a final order signed by the Commission. Statewide Rule 32 contains no notice of application requirements.

US Energy was granted administrative flaring authority (Permit No.24590) for the Hideaway C Lease for 180 days from 10/14/2015 through 04/12/2016 at a rate of 400 MCF per day (MCFD).

Additionally, US Energy was granted a 45 day administrative flaring authority (Permit No.24329) for the Ironwood B Lease from 09/08/2015 through 10/23/2015 at a rate of 750 MCFD, a 90 day extension from 10/24/2015 through 01/22/2016 at a volume of 180 MCFD. The final 45 days of the 180 day period was from 01/23/2016 through 03/08/2016 at an unspecified rate. The reason for the 180 day flaring exceptions for both leases was due to the lack of a pipeline and it was uneconomic to build a pipeline and treat the casinghead gas.

On 02/15/2016 US Energy requested a hearing to obtain an exception by Final Order for the Ironwood B Lease for a period of two years. On 03/15/2016 US Energy requested a hearing to obtain an exception by Final Order for the Hideaway C Lease for a period of two years. The hearings for the two leases were combined and set for May 06, 2016.

There are five wells on the Hideaway C Lease, they are the C 1EF, (API No. 163-33922) C 2EF, (API No. 163- 33923), C 3EF, (API No. 163- 33924), C 4EF (API No. 163- 33925), and the C 5EF (API No. 163- 33926). US Energy is requesting a two year exception for the Hideaway C Lease to flare casinghead gas from 04/13/2016 through 04/12/2018 at a combined rate of 220 MCFD.

There are three wells on the Ironwood B Lease, the B 1EF, (API No. 163- 33931), the B 2EF, (API No. 163- 33932) and the B 3EF (API No. 163- 33933). US Energy is requesting a two year exception for the Ironwood B Lease to flare casinghead gas from 03/09/2016 through 03/08/2018 at a combined rate of 140 MCFD.

Mr. Miller, US Energy's representative testified that the reason for the requested exception is due to the lack of a pipeline and H₂S treatment infrastructure to connect the two Subject Leases to a gas sales point. The casinghead gas produced from the two leases have high H₂S concentrations. Casinghead gas from the Hideaway C Lease has a maximum H₂S concentration of 525 ppm and the Ironwood Lease has a maximum H₂S concentration of 320 ppm. Mr. Miller, US Energy's representative, testified that US Energy would have to construct a 4.28 mile pipeline and H₂S treatment facilities to get their casinghead gas to a sales point. US Energy calculates that their net revenue from the remaining recoverable gas reserves from the two subject leases would be \$373,662 and the cost of building the 4.24 mile pipeline and support facilities would be \$3,277,499 for a net loss of \$2,903,878.

Therefore, US Energy argues that it is not economic to market the casinghead gas from the Ironwood B and Hideaway C Leases. US Energy believes that if the requested relief is not granted, it will have to shut-in the wells on the two leases which will result in harm to the wells.

FINDINGS OF FACT

1. US Energy Oil & Gas (USA), Inc. seeks exception to 16 Texas Admin. Code §3.32 to flare casing-head gas derived from the Eagleville (Eagle Ford-2) Field at it's Ironwood B Lease, and the Hideaway C Lease for a period of two years as follows:
 - a. Ironwood B Lease: 140 MCFD from 03/09/2016 through 03/08/2018;
 - b. Hideaway C Lease: 220 MCFD from 04/13/2016 through 04/12/2018.
2. Notice of Hearing was provided to all immediate offsetting operators adjacent to the Subject Leases in Oil & Gas Docket Nos. 01-0299966 & 01-0299749, heard on May 06, 2016.
3. US Energy's administrative authority to flare from each of the Subject Leases expired on the following days:
 - a. Ironwood B Lease 3/08/16
 - b. Hideaway C Lease 4/12/16
4. US Energy has shown necessity for flaring beyond 180 days at volumes above 50 MCFG per day in the Subject Applications.
5. US Energy submitted hearing request to the Commission for the Ironwood B Lease on February 15, 2016.
6. US Energy submitted hearing request to the Commission for the Hideaway C Lease on February 15, 2016.
7. The Hideaway C Lease has a maximum H₂S concentration of 525 ppm.
8. The Ironwood Lease has a maximum H₂S concentration of 320 ppm.
9. The cost of building the 4.24 mile pipeline and treatment facilities would result in a net loss of \$2,903,878.
10. If the requested relief is not granted, the wells on the two leases will have to be shut in resulting in harm to the wells.

11. Approval of the Subject Applications is reasonable and appropriate, pursuant to 16 Tex. Admin. Code §3.32.

CONCLUSIONS OF LAW

1. Resolution of the Subject Applications is a matter committed to the jurisdiction of the Railroad Commission of Texas - Tex. Nat. Res. Code §81.051.
2. Legally sufficient notice has been provided to all affected persons.
3. The requested rates and time frames to flare casing-head gas, as described in Finding of Fact No. 1, satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant exceptions to flare up casing-head gas from the two Subject Leases as described in Finding of Fact No. 1 above.

Respectfully submitted,



Richard Eyster, P.G.
Technical Examiner



Dana Avant Lewis
Administrative Law Judge