



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 8A-0301279

THE APPLICATION OF SEABOARD OPERATING CO FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE CONDOR LEASE, NEWSON (YATES) FIELD, GAINES COUNTY, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Marshall Enquist – Administrative Law Judge

HEARING DATE: September 28, 2016

CONFERENCE DATE: October 25, 2016

APPEARANCES:

Bill Hyenga
Ed Runyon

REPRESENTING:

Seaboard Operating Co

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to Statewide Rule 32 (16 Tex. Admin. Code §3.32), Seaboard Operating Co ("Seaboard") (Operator No. 760960) requests an exception to flare gas from its Condor Lease (No. 69609) in the Newson (Yates) Field in Gaines County, Texas. Seaboard requests authority to flare up to 190 thousand cubic feet (mcf) of casinghead gas per day from the lease for a period of two years. The gas produced from the Newson Lease contains high levels of nitrogen (20 percent), which requires treatment and removal before the gas can be sold. The cost to treat the casinghead gas is economically prohibitive. Therefore, Seaboard seeks authority to flare the gas. The application was not protested. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend the exception be granted.

DISCUSSION OF THE EVIDENCE

Seaboard requests exceptions to flare gas from one flare point on the Condor Lease in the Newson (Yates) Field, Gaines County, Texas. Generally, Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad

Commission. Seaboard seeks relief in the captioned docket pursuant to Statewide Rule 32(f)(2)(D), as follows:

The commission or the commission's delegate may administratively grant or renew an exception to the requirements of limitations of this subsection subject to the requirements of subsection (h)...if the operator of a well or production facility presents information to show the necessity for the release...

Statewide Rule 32(h)(4) states:

Requests for exceptions for more than 180-days and for volumes greater than 50 mcf of hydrocarbon gas per day shall be granted only in a final order signed by the commission.

Because Seaboard requests an exception for more than 180 days and to flare more than 50 mcf of hydrocarbon gas per day, the procedure to address Seaboard's request for an exception is through a hearing resulting in a final order signed by the Commission.

Seaboard operates five wells on its Condor Lease in the Newson (Yates) Field in Gaines County, Texas. From July through September 2016 oil and gas production has been stable at 20 to 30 barrels of oil per day and 100 to 200 mcf gas per day, respectively. The casinghead gas produced from the wells contains about 20 percent nitrogen, which does not meet the specifications of the nearby DCP Midstream gathering system. Seaboard was treating the gas through the nearby Lynx nitrogen reject plant. However, the Lynx facility shut down on December 31, 2015.

Seaboard has obtained administrative authority (Permit No. 25268) to flare gas from the lease. From February 17, 2016 through May 16, 2016, Seaboard was authorized to flare up to 150 mcf gas per day. From May 17, 2016 through August 16, 2016, Seaboard was authorized to flare up to 180 mcf gas per day. The administrative flare permit stated that flaring was necessary to do low volume and depressed gas value. In addition, DCP Midstream, the gas gatherer has cut-off gas purchases in the area. Therefore, Seaboard contends it does not have a market for the produced gas. Seaboard has met the 180 day limit of administrative exception authority provided by the rule. On July 27, 2016, Seaboard requested a hearing to extend the flaring authority.

Seaboard reports about \$96,000 net income on the lease for 2016 to date. Seaboard estimates the cost to build a nitrogen treatment plant to be about \$3.6 million, which would not be economical. Therefore, Seaboard requests authority to flare 190 mcf gas per day for a period of two years, from August 17, 2016 through August 16, 2018. Authority to continue to flare gas will allow Seaboard to continue to produce oil from the wells on the Condor Lease.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of the hearing.
2. Seaboard operates five wells on its Condor Lease in the Newson (Yates) Field in Gaines County, Texas.
3. From July through September 2016 oil and gas production has been stable at 20 to 30 barrels of oil per day and 100 to 200 mcf gas per day, respectively.
4. The casinghead gas produced from the wells contains about 20 percent nitrogen, which does not meet the specifications of the nearby DCP Midstream gathering system.
5. Seaboard has obtained administrative authority (Permit No. 25268) to flare gas from the lease.
 - a. From February 17, 2016 through May 16, 2016, Seaboard was authorized to flare up to 150 mcf gas per day.
 - b. From May 17, 2016 through August 16, 2016, Seaboard was authorized to flare up to 180 mcf gas per day.
 - c. Seaboard has met the 180 day limit of administrative exception authority provided by the rule.
 - d. On July 27, 2016, Seaboard requested a hearing to extend the flaring authority.
6. Seaboard does not have a market for the produced gas.
7. Seaboard reports about \$96,000 net income on the lease for 2016 to date.
8. Seaboard estimates the cost to build a nitrogen treatment plant to be about \$3.6 million, which would not be economical.
9. Authority to flare 190 mcf gas per day for a period of two years, from August 17, 2016 through August 16, 2018, will allow Seaboard to continue to produce oil from the wells on the Condor Lease.

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051.
2. All notice requirements have been satisfied. 16 Tex. Admin. Code §§ 1.43 and 1.45.

3. Seaboard has met the requirements in 16 Tex. Admin. Code § 3.32 for an exception to the limitations in that section regarding the requested authority to flare gas produced from the Condor Lease.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Seaboard Operating Co for an exception to Statewide Rule 32 to flare gas from the Condor Lease, Newson (Yates) Field, Gaines County, Texas.

Respectfully submitted,



Paul Dubois
Technical Examiner



Marshall Enquist
Administrative Law Judge