



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 02-0301430

THE APPLICATION OF DEVON ENERGY PRODUCTION CO., FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE SHEPPARD A LEASE, WELL NO. 1H, DEWITT (EAGLE FORD SHALE) FIELD, DE WITT COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Ryan Lammert – Administrative Law Judge

HEARING DATE: October 19, 2016
SUBMISSION DATE: November 16, 2016
CONFERENCE DATE: December 6, 2016

APPEARANCES:

REPRESENTING:

APPLICANT:

John Soule
Joel Grillot

Devon Energy Production Co.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to 16 Tex. Admin. Code §3.32, Devon Energy Production Co. (Devon) seeks an exception to flare up to 125,000 cubic feet of casinghead gas per day (125 MCFD) from the Dewitt (Eagle Ford Shale) Field (Field) through its Sheppard A Lease, Well No. 1H (Well) for a period of two years, effective September 8, 2016 (Subject Application). The application is unprotested. The Examiners recommend that it be approved.

DISCUSSION OF THE EVIDENCE

Applicable Rule

16 Tex. Admin. Code §3.32 (SWR 32) governs flaring of natural gas produced under the jurisdiction of the Railroad Commission. Titled "Exceptions," SWR 32(h) 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.

Application Background

Joel Grillot, production engineer at Devon, testified on behalf of Devon.

Notice of hearing for the subject application was sent by U.S. mail directed to all operators in the Field that offset the lease that contains the Well on August 23, 2016.

Devon applied for, and received, administrative authority to flare casinghead gas from the Well for 180 consecutive days, effective March 9 through September 7, 2016.¹ On August 9, 2016, Devon timely submitted its written request for a hearing on the Subject Application.²

Devon submitted an area map depicting the location of the Well.³ That map indicates that the lease containing the Well (*i.e.* the Sheppard A Lease) is part of a larger acreage block owned by Devon. . .

Devon submitted an abbreviated copy of the Commission's October 2016 Gas Proration Schedule for the Field.⁴ The purpose of that exhibit was to show that the Well is listed as a active well in the Field, and two unrelated wells to the Subject Application that are operated by Devon (*i.e.* Steinmann A Lease, Well Nos. 1H and 2H).

Devon submitted a copy of an aerial photograph that depicts the surface location of the Well.⁵ That map also indicates the location of the flare point that is tied to the Well, and the gas market pipeline connection that serves it. Mr. Grillot testified that the Well was connected to a gas sales pipeline operated by BHP. However, Devon is no longer capable of flowing casinghead gas to that sales pipeline due to BHP shutting it in. He testified that BHP shut in a section of that gas sales pipeline that serves the Well as a precaution due to safety concerns.

Again, the Steinmann A Lease, Well Nos. 1H and 2H (Steinmann Wells) are located immediately north of the Well. Mr. Grillot testified that BHP had a similar gas sales pipeline that served those wells, and that it developed a leak. As a result, that gas sales pipeline was shut in, as well as the Steinmann Wells. Because of concerns of the condition of that line, BHP shut in a number of other lines and other wells in the general area. BHP has since analyzed a number of its gas sales pipelines in the area around the Well, except for the pipelines that serve the Well and the Steinmann Wells.

Devon submitted a copy of O&G Final Order 02-0299721 – Approving the Application of Devon Energy Production Co., LP for an Exception to Statewide Rule 32 for the Steinmann A Lease, Well Nos. 1H and 2H, DeWitt (Eagle Ford Shale) Field, DeWitt County, Texas.⁶ The

¹ Devon Exh. No. 6.

² Devon Exh. No. 7.

³ Devon Exh. No. 1.

⁴ Devon Exh. No. 2.

⁵ Devon Exh. No. 3.

⁶ Devon Exh. No. 4.

purpose of that exhibit is to show that Devon was granted authority to flare up to 225 MCFD for two years from the Steinmann Wells due to similar factual circumstances that apply to the Well.

Devon submitted a copy of a production table made for the Well. Mr. Grillot testified that table indicates that the Well's monthly condensate production has significantly declined since October 2011. The Well, however, continues to produce sufficient condensate to remain active. As a result, Devon seeks approval of its requested relief as previously stated.

Devon submitted copies of production report tables for the Well taken from the Commission's online query system.⁷ The purpose of those tables is to show the total amounts of condensate and casinghead gas production from the Well between November 2011 and September 2016, and their ultimate disposition.

Devon submitted a table that indicates the volumes of gas flared from the Well between March and September 2016.⁸ That table shows as follows:

Month	Total Vol. Flared	Avg. Daily Vol.
March 2016	3,811	166
April 2016	3,656	122
May 2016	3,309	107
June 2016	2,739	91
July 2016	2,419	78
August 2016	840	27
September 2016	None displayed	None displayed

Although the Well's daily casinghead gas volumes have declined below 125 MCFD since April 2016, Mr. Grillot testified that Devon seeks authority to flare up to 125 MCFD from the Well due to his anticipation that the daily casinghead gas volumes will increase in the near future.

Devon submitted a copy of an aerial photograph of the surface location for the Well. It also shows the approximate location of BHP's previously mentioned gas sales pipeline, as well as a separate gas sales pipeline operated by Energy Transfer. Mr. Grillot testified that the portion of BHP's pipeline that extends roughly one mile from east to west is the same section that BHP shut-in. That section of pipeline was also tied to the Well. He testified that Energy Transfer's gas sales pipeline is located 0.6 miles west of the Well, that it is 20" in diameter and operates as a dehydrated gas pipeline.

Devon submitted copies of estimated costs and economic analyses made to demonstrate the expenses involved in connecting the Well to either the Energy Transfer pipeline previously mentioned, or building a new pipeline to connect to BHP's mainline (*i.e.* roughly 3,000 feet in length and 4,600 feet in length, respectively).⁹ The cost to build a pipeline to connect the Well to

⁷ Devon Exh. No. 8. The volumes in that table are represented in MCF.

⁸ Devon Exh. No. 9.

⁹ Devon Exh. Nos. 11 – 13. The economic forecasts presented by Devon only account for the anticipated casinghead gas revenue from the Well. They do not take the anticipated revenue for condensate from the Well in to consideration.

Energy Transfer's gas sales pipeline is roughly \$192,980. The cost to build a new pipeline to replace BHP's existing pipeline that serves the Well is roughly \$245,460. Mr. Grillot testified that the total expected revenue from the Well is \$245,000 from the time of the hearing through the year 2021. He testified that the cost of processing the hydrocarbons from the Well through that same period is roughly \$54,000, and that the gross margin of those values is \$191,000. He stated that the ad valorem tax on the replacement BHP pipeline previously mentioned is \$22,000 through that time period. He testified that based on those values for the replacement BHP pipeline, the net present value before tax is negative \$111,000. Therefore, the cost to rebuild that pipeline is not economic at this time. Devon presented similar economic evaluation evidence for the Energy Transfer pipeline previously mentioned through the same time period presented above. Mr. Grillot testified that the net present value of the cost to connect a pipeline from the Well to Energy Transfer's pipeline is negative \$55,000. Therefore, the cost to connect the Well to the Energy Transfer pipeline is not economic at this time.

FINDINGS OF FACT

1. Devon Energy Production Co. (Devon) seeks an exception to flare up to 125,000 cubic feet of casinghead gas per day (125 MCFD) from the Dewitt (Eagle Ford Shale) Field (Field) through its Sheppard A Lease, Well No. 1H (Well) for a period of two years, effective September 8, 2016 (Subject Application).
2. Notice of Hearing for the subject application was sent by U.S. mail directed to all operators in the Field that offset the lease that contains the Well on August 23, 2016.
3. Devon was the only party that attended the hearing held for the Subject Application.
4. Devon applied for, and received, administrative authority to flare casinghead gas from the Well for 180 consecutive days, effective March 9 through September 7, 2016.
5. On August 9, 2016, Devon timely submitted its written request for a hearing on the Subject Application.
6. Devon presented evidence for the Steinmann A Lease, Well Nos. 1H and 2H (Steinmann Wells).
7. The Steinmann Wells were not considered as part of Devon's requested relief in the Subject Application.
8. The Steinmann Wells are located on the lease that lies immediately north of the Sheppard A Lease, which contains the Well.
9. On June 21, 2016, the Commission entered O&G Final Order 02-0299721, which granted Devon authority to flare up to 225 MCFD from the Steinmann Wells for a period of two years, effective March 15, 2016.

10. Devon evidenced that at one time the Well was connected to a gas sales pipeline operated by BHP. However, that gas sales pipeline was shut in by BHP as a precaution due to safety concerns that precipitated from a separate, nearby pipeline leaking its contents.
11. Devon presented evidence as to connecting the Well to sell its casinghead gas to market via two separate, new transport pipelines. The first new pipeline would be a replacement line for the existing, shut-in BHP pipeline (New BHP Line). The second new pipeline would connect the Well to a separate and distinct pipeline operated by Energy Transfer (ET Line).
12. The New BHP Line would extend roughly one mile in length. The ET Line would extend roughly 0.6 miles in length.
13. Devon presented evidence that it is not economic at this time to connect the Well to either the New BHP Line or the ET Line.
14. Approval of the subject application is in accordance with 16 Tex. Admin. Code §3.32(h).

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. Legally sufficient notice has been provided to all affected persons.
3. The requested authority to flare casing-head gas as specified in Finding of Fact No. 1 above, effective September 8, 2016, satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS' RECOMMENDATION

The Examiners recommend that the Commission grant Devon Energy Production Co. an exception to flare casing-head gas as specified in Finding of Fact No. 1 above from the Field, effective September 8, 2016.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Ryan Lammert
Administrative Law Judge