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RAILROAD COMMISSION OF TEXAS HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0302118

THE APPLICATION OF RKI EXPLORATION & PRODUCTION LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES/WELLS, PHANTOM (WOLFCAMP) FIELD, LOVING AND REEVES COUNTIES, TEXAS

OIL AND GAS DOCKET NO. 08-0302119

THE APPLICATION OF RKI EXPLORATION & PRODUCTION LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES/WELLS, SANDBAR (BONE SPRING) FIELD, LOVING AND REEVES COUNTIES, TEXAS

OIL AND GAS DOCKET NO. 08-0302120

THE APPLICATION OF RKI EXPLORATION & PRODUCTION LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES/WELLS, RED BLUFF (CONSOLIDATED) FIELD, LOVING COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Marshall Enquist– Administrative Law Judge

HEARING DATE: December 5 2016
RECORD CLOSED: March 14, 2017
CONFERENCE DATE: March 21, 2017

APPEARANCES: **REPRESENTING:**

APPLICANT: RKI Exploration & Production LLC

Bill Spencer
James Clark, PE

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

RKI Exploration & Production LLC ("RKI") seeks a two-year exception to Statewide Rule 32 for the various leases and wells completed in the Phantom (Wolfcamp) and Sandbar (Bone Spring) Fields in Loving and Reeves Counties, and the Red Bluff (Consolidated) Field, in Loving

County, Texas. Notice of the applications were provided to the offset operators of the flare points in each application and no protests were received. The applications are unopposed and the Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of the applications for an exception to Statewide 32 to flare gas as requested by RKI.

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 Mcf per day 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. RKI has existing permits that were granted administratively for most of the flare points in each of the applications (Table 1). On October 12, 2016, the Commission received a hearing request for an exception to Statewide Rule 32 for each of the flare points. RKI now seeks a two-year exception to Statewide Rule 32 for each flare point listed in Table 1.

RKI seeks a two-year exception to Statewide Rule 32 to flare gas at a total of 38 separate flare points when all gas cannot be sold. The maximum requested monthly flare volumes for each flare point are listed in Table 2. All wells are connected to the same gas gathering system and each well has its own flare stack. RKI had a need to flare gas due to an explosion at the Delaware Basin Midstream "Ramsey" Gas Plant that occurred on December 4, 2015. Delaware Basin Midstream was the primary gas processing plant for the production from RKI's wells at the time of the explosion. The explosion resulted in a complete shutdown of the Ramsey plant. During the first 3 months of downtime (December 15, 2015 to February 16, 2016), the only outlet for gas sales was another midstream provider on an interruptible basis and at a maximum capacity far less than RKI production. On June 6, 2016, Delaware Basin Midstream began taking production from RKI again.

RKI is committed to selling as much gas as possible from this asset. Gas has value and most the gas produced from these wells is sold. RKI has either incurred or has committed to capital costs of \$10,000,000 in efforts to increase the sale of this gas. Gas must be compressed into gathering lines. As wells are drilled and production increases, compression and surface facilities are added and/or upgraded. RKI is in the process of adding compression, which includes a new compressor station that was added in October 2016 at a capital cost of \$954,000, which provided an additional 10 MMcfd. RKI is also in the process of permitting/constructing another new compressor station at a capital cost of \$4,000,000. The target date for this compressor station is the third quarter of 2017. Which will add 50 MMcfd of capacity. In addition, RKI is adding another new compressor station for a pipeline interconnect at a capital cost of \$4,000,000, with a target date of the second quarter of 2018. This compressor station will add 50 MMcfd of capacity. RKI is also increasing compression at two existing compressor stations. The target date for completion is the second quarter 2017, and the upgrade will add 40 MMcfd of capacity. The requested maximum monthly flare volumes are listed in Table 2.

Table I: Administrative Flare Permits for the Subject Flare Points

Flare Permit No.	From	To	Lease Name	RRC Lease No.	Well No.
27624	2/1/2016	7/29/2016	CBR 22	44623	32
27625	2/1/2016	7/29/2016	CBR 22	44623	4DH
27599	2/1/2016	7/29/2016	TXL 27	47076	1H
27604	2/1/2016	7/29/2016	Lindsay 10	44395	5H
27605	2/1/2016	7/29/2016	Covington 46	278512	1H
27607	2/1/2016	7/29/2016	Robinson 5	277586	2H
27628	2/1/2016	7/29/2016	CBR 20	278775	1H
28837	3/1/2016	8/28/2016	Pecos State 46	278935	1H
28836	3/1/2016	8/28/2016	Robinson 5	278861	1H
28839	3/1/2016	8/28/2016	CBR 22	278777	1H
28509	4/14/2016	10/11/2016	CBR 32	277928	1H
27600	2/1/2016	7/29/2016	Red Bluff 13	45705	3H
27601	2/1/2016	7/29/2016	Red Bluff 13	45705	5H
27602	2/1/2016	7/29/2016	Pecos State 46	45627	3H
27603	2/1/2016	7/29/2016	Pecos State 46	45627	4H
27606	2/1/2016	7/29/2016	Lindsay 2	278466	2H
27608	2/1/2016	7/29/2016	CBR 32	45789	4H
27609	2/1/2016	7/29/2016	CBR 32	45789	6H
27610	2/1/2016	7/29/2016	Covington 46	45738	3H
27611	2/1/2016	7/29/2016	Covington 46	45738	2H
27612	2/1/2016	7/29/2016	CBR 28	45735	3H
27614	2/1/2016	7/29/2016	Bunin 4	45742	2H
27613	2/1/2016	7/29/2016	Bunin 4	45742	3H
27615	2/1/2016	7/29/2016	Bunin 4	45742	4H
27616	2/1/2016	7/29/2016	Bunin 4	45742	5H
27617	2/1/2016	7/29/2016	CBR 18	45714	3H
27619	2/1/2016	7/29/2016	CBR 10	45715	3H
27618	2/1/2016	7/29/2016	CBR 10	45715	4H
27620	2/1/2016	7/29/2016	CBR 44	45720	2H
27621	2/1/2016	7/29/2016	CBR 44A	45723	1H
27623	2/1/2016	7/29/2016	Lindsay 10	46362	8H
27622	2/1/2016	7/29/2016	Lindsay 10	46362	9H
27626	2/1/2016	7/29/2016	CBR 22	46406	5H
27627	2/1/2016	7/29/2016	CBR 14	46414	2H
28838	4/1/2016	9/28/2016	CBR 6	46405	2H
28508	4/14/2016	10/11/2016	Lindsay 9	47397	1H
			Lindsay 9	47397	3H
			Lindsay 9	47397	4H

Table 2: Requested Maximum Monthly Flare Volumes

Flare Permit No.	Lease Name	RRC Lease No.	Well No.	Maximum Flare Volume (Mcf/month)
27624	CBR 22	44623	32	3,000
27625	CBR 22	44623	4DH	3,000
27599	TXL 27	47076	1H	1,500
27604	Lindsay 10	44395	5H	1,500
27605	Covington 46	278512	1H	1,500
27607	Robinson 5	277586	2H	2,250
27628	CBR 20	278775	1H	3,000
28837	Pecos State 46	278935	1H	1,500
28836	Robinson 5	278861	1H	4,500
28839	CBR 22	278777	1H	2,400
28509	CBR 32	277928	1H	2,700
27600	Red Bluff 13	45705	3H	900
27601	Red Bluff 13	45705	5H	900
27602	Pecos State 46	45627	3H	1,050
27603	Pecos State 46	45627	4H	1,050
27606	Lindsay 2	278466	2H	3,000
27608	CBR 32	45789	4H	1,800
27609	CBR 32	45789	6H	1,800
27610	Covington 46	45738	3H	3,000
27611	Covington 46	45738	2H	3,000
27612	CBR 28	45735	3H	1,800
27614	Bunin 4	45742	2H	750
27613	Bunin 4	45742	3H	750
27615	Bunin 4	45742	4H	750
27616	Bunin 4	45742	5H	750
27617	CBR 18	45714	3H	2,400
27619	CBR 10	45715	3H	750
27618	CBR 10	45715	4H	750
27620	CBR 44	45720	2H	4,500
27621	CBR 44A	45723	1H	4,500
27623	Lindsay 10	46362	8H	1,500
27622	Lindsay 10	46362	9H	1,500
27626	CBR 22	46406	5H	1,800
27627	CBR 14	46414	2H	1,500
28838	CBR 6	46405	2H	12,000
28508	Lindsay 9	47397	1H	2,100
	Lindsay 9	47397	3H	2,100
	Lindsay 9	47397	4H	2,100

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators to each of the flare points at least ten days prior to the date of hearing. There were no protests to the applications.
2. The Commission received a request for hearing on RKI's applications for an exception to Statewide Rule 32 on October 12, 2016.
3. Each well has its own flare stack.
4. RKI has received administrative flare permits for up to 180 days for most of the flare points (Table I).
5. RKI seeks a two-year exception to Statewide Rule 32 for each flare point listed in Table I when all gas cannot be sold.
6. Each well has its own flare stack and all wells are connected to the same gas gathering system.
7. RKI had a need to flare gas due to an explosion at the Delaware Basin Midstream "Ramsey" Gas Plant that occurred on December 4, 2015.
8. Delaware Basin Midstream was the primary gas processing plant for the production from RKI's wells at the time of the explosion. The explosion resulted in a complete shutdown of the Ramsey plant.
9. During the first 3 months of downtime (December 15, 2015 to February 16, 2016), the only outlet for gas sales was another midstream provider on an interruptible basis and at a maximum capacity far less than RKI production. Delaware Basin Midstream began taking production from RKI again on June 6, 2016.
10. Gas must be compressed into gathering lines, and as wells are drilled and production increases, compression and surface facilities are added and/or upgraded.
11. RKI is in the process of adding compression.
12. RKI agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be effective on the date a Master Order relating to this Final Order is signed.

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. Title 16, Texas Administrative Code 3.32(h) provides for an exception to Statewide Rule 32.
4. Pursuant to §2001.144(a)(4)(A), of the Texas Government Code, and the consent of the applicants, this Final Order is effective when a Master Order relating to this Final Order is signed on March 21, 2017.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant an exception to Statewide Rule 32 for each of the flare points listed in Table 2 for a period of two years as requested by RKI.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Marshall Enquist
Administrative Law Judge