



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 01-0302634

THE APPLICATION OF U.S. ENERGY DEVELOPMENT CORP FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HIDEAWAY RANCH E1 UNIT (18827), WELL NO. E 1EF, HIDEAWAY RANCH E2 UNIT (DRILLING PERMIT NO. 814057), WELL NO. E 2EF, AND HIDEAWAY RANCH E3 UNIT (DRILLING PERMIT NO. 814058), WELL NO. E 3EF, BRISCOE RANCH (EAGLEFORD) FIELD, ZAVALA COUNTY, TEXAS

OIL & GAS DOCKET NO. 01-0302635

THE APPLICATION OF U.S. ENERGY DEVELOPMENT CORP FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE IRONWOOD UNIT (18843), WELL NO. A 1EF, IRONWOOD A2 UNIT (18865), WELL NO. A 2EF, IRONWOOD A3 UNIT (18855), WELL NO. A 3EF, AND IRONWOOD UNIT (DRILLING PERMIT NO. 811399), WELL NO. A 4EF, BRISCOE RANCH (EAGLEFORD) FIELD, FRIO COUNTY, TEXAS

HEARD BY: Peggy Laird, P.G. – Technical Examiner
Ryan M. Lammert – Administrative Law Judge

HEARING DATE: January 18, 2017

CONFERENCE DATE: April 4, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

Dale E. Miller

U.S. Energy Development Corporation

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

U.S. Energy Development Corp ("USED") seeks an exception to Statewide Rule 32 (16, Tex. Admin. Code §3.32) to flare gas from the Hideaway Ranch E1 Unit (18827), Well No. E 1EF, Hideaway Ranch E2 Unit (Drilling Permit No. 814057), Well No. E 2EF, and Hideaway Ranch E3 Unit (Drilling Permit No. 814058), Well No. E 3EF, Briscoe Ranch (Eagleford) Field, Zavala County, Texas.

USDEC also seeks an exception to Statewide Rule 32 for the Ironwood Unit (18843), Well No. A 1EF, Ironwood A2 Unit (18865), Well No. A 2EF, Ironwood A3 Unit (18855) Well No. A 3EF, and Ironwood Unit (Drilling Permit No. 811399), Well No. A 4EF, Briscoe Ranch (Eagleford) Field, Frio County, Texas.

All offset operators in the subject fields were notified of the hearing. There were no objections filed, and no protestants appeared at the hearing. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of the exceptions to Statewide 32.

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. USEDCC was granted permits to flare casinghead gas that will be expiring. USEDCC is requesting exceptions to Statewide 32 to flare casinghead gas for an additional period of time.

Hideaway Ranch E1, E2, and E3 Units (Docket No. 01-0302634)

The Hideaway Ranch E1, E2, and E3 Units (the "HR Units") are one of five leases operated by USEDCC in Frio and Zavala Counties. There are three wells, the E 1EF, E 2EF, and E 3EF, on the Lease that flare from one shared flare stack. All wells were completed May 14, 2016. The initial potential test for Well No. E 1EF was conducted on June 10, 2016, and reported oil production was 383 barrels of oil per day ("BOPD") and gas production was 98 thousand cubic feet of gas per day ("MCFD"). Well No. E 2EF was tested on June 14, 2016, and oil production was 295 BOPD and gas production was 82 MCFD. Well No. E 3EF was tested on November 7, 2016 with reported oil production of 551 BOPD and 57 MCFD of gas produced.

USEDCC received administrative authority (Permit No. 27354) to flare up to 300 MCFD for 180 days from June 17, 2016 through December 14, 2016. The Commission received a hearing request on November 28, 2016, for an exception to Statewide Rule 32 for the HR Units and wells.

Mr. Miller, USEDCC's representative, testified that Williams MLP Operating LLC had proposed to build a 4.24-mile pipeline, the Ironwood Lateral, to connect the HR Units to a gas sales point. The pipeline would also connect the other USEDCC leases, and has not been built because all these leases are low gas producers. The gas produced from the HR Units and the other leases has high H₂S concentrations and requires treatment, which adds additional expense. USEDCC presented results of an economic study that reported total estimated project cost for the Ironwood Lateral would be \$3,277,499. The net gas revenue from remaining reserves for all the leases was estimated to be \$1,391,476. The total gas revenue after connecting to the pipeline would result in a combined (loss) of (\$1,886,023) from the HR Units and the other USEDCC leases in the area.

Therefore, USEDCC considers it uneconomical to market the casinghead gas from the HR Units at this time. They are requesting authority to flare up to a combined rate of 300 MCFD for two years from December 15, 2016 through December 14, 2018.

Ironwood A1, A2, A3, and A4 Units (Docket No. 01-0302635)

The Ironwood A1 – A4 Units (“I Units”) are one of five leases operated by USEDCC in Frio and Zavala Counties. There are four wells, the A 1EF, A 2EF, A 3EF, and A 4EF on the Lease that flare from one shared flare stack. All wells were completed November 29, 2016. The initial potential test for Well No. A 1EF was conducted on May 12, 2016, and reported oil production was 161 BOPD and gas production was 36 MCFD. Well No. A 2EF was tested on May 26, 2016, and oil production was 284 BOPD and gas production was 62 MCFD. Well No. A 3EF was tested on May 20, 2016 with reported oil production of 439 BOPD and 66 MCFD of gas produced. Well No. A 4EF was tested on May 27, 2016, and oil produced was 150 BOPD and 32 MCFD of gas was produced.

USEDCC received administrative authority (Permit No. 27353) to flare up to 225 MCFD for 180 days from May 22, 2016 through November 18, 2016. The Commission received a hearing request on November 28, 2016, for an exception to Statewide Rule 32 for the subject lease and wells.

Mr. Miller requested that the permit begin from the expiration date of November 18, 2016, so there is no gap in authority to flare. The request letter was emailed on November 23, 2016, and because of the Thanksgiving holidays, the letter was not officially received by the Commission until November 28, 2016. Mr. Miller stated that for the month of November each well had flared less than 50 MCFD.

The economic analysis provided for the HR Units is the same for the I Units. The total gas revenue after connecting to the pipeline would result in a combined (loss) of (\$1,886,023) from HR Units, the I Units, and the other USEDCC leases in the area.

Therefore, USEDCC considers it uneconomical to market the casinghead gas from the I Units at this time. They are requesting authority to flare up to a combined rate of 225 MCFD for two years from November 19, 2016 through November 18, 2018.

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. There were no protests to the application.
2. The HR Units and the I Units are two of five leases operated by USEDCC in Frio and Zavala Counties.
3. USEDCC received administrative authority (Permit No. 27354) to flare up to 300 MCFD from the HR Units for 180 days from June 17, 2016 through December 14, 2016.
4. USEDCC received administrative authority (Permit No. 27353) to flare up to 225 MCFD from the I Units for 180 days from May 22, 2016 through November 18, 2016.
5. Williams MLP Operating LLC proposed to build a 4.24-mile pipeline to connect the HR Units and the I Units to gas sales. The pipeline has not been built.
6. The HR Units, the I Units, and the other USEDCC leases in the area produce low amounts of gas.
7. The gas produced from the HR Units, the I Units, and the other USEDCC leases has high H₂S concentrations and requires treatment, adding operational expense.

8. The total gas revenue after connecting to the pipeline would result in a combined (loss) of (\$1,886,023) from the HR Units, the I Units, and the other USEDCC leases in the area.
9. At the hearing, the applicant agreed on the record that the Final Orders in this case are to be effective when the Master Order is signed.

CONCLUSIONS OF LAW

1. All things have occurred and been accomplished to give the Commission jurisdiction in this matter. Tex. Nat. Res. Code § 81.051
2. Proper notice of this hearing was given to all parties entitled to notice at least 10 days prior to the hearing. 16 Tex. Admin. Code § 3.32
3. The requested exception to flare casinghead gas meets the requirements of Statewide Rule 32. 16 Tex. Admin. Code § 3.32(h)

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 the Hideaway Ranch E1, E2, and E3 Units, and for the Ironwood A1, A2, A3, and A4 Units, Briscoe Ranch (Eagleford) Field in Frio and Zavala Counties, Texas, as requested by USEDCC.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Ryan M. Lammert
Administrative Law Judge