RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0296848

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE OCELOT (A) LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0296880

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE BOWMAN WEST LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0296970

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PEVERETT LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, GONZALES COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0296971

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HUNDLEY (B) LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, MCMULLEN COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0296972

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE BOWMAN WEST (B) LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0296973

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE WATTS UNIT LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, GONZALES COUNTY, TEXAS

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HEARD BY: Karl Caldwell – Technical Examiner
Marshall Enquist – Hearings Examiner

DATE OF HEARING: July 21, 2015
DATE OF CONFERENCE: August 25, 2015

APPEARANCES: **REPRESENTING:**

APPLICANT:

Doug Dashiell
Jeff Perry
EOG Resources, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

EOG Resources, Inc. (EOG) requests an exception to Statewide Rule 32 to flare casinghead gas at a total of six facilities. The casinghead gas is produced from wells completed in the Eagleville (Eagle Ford-1) Field in Atascosa, McMullen, and Gonzales Counties, Texas. Notice was provided to offset operators in the field surrounding the facilities and no protests were received. The applications are unprotested and the Examiners recommend approval of an exception to Statewide 32 to flare casinghead gas for each of the facilities.

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. For each of the subject applications, EOG has received 180 day flare permits, and is requesting an exception to Statewide 32 to flare casinghead gas for an additional period of time for each application.

The Watts Unit Lease (Lease ID No. 01-17943) was granted Permit No. 20523, to flare a maximum of 250 MCF of casinghead gas per day, effective November 18, 2014 to May 17, 2015, for a total period of 180 days. The Oil and Gas Division of the Texas Railroad Commission ("Commission") received a hearing request from EOG for an exception to Statewide Rule 32 on May 28, 2015. EOG has a need to flare casinghead gas from the Watts Unit facility beyond the 180 days that has been previously granted. The Watts Unit is connected to EOG's sweet gas facility, which was connected prior to the well completion. However, the Watts Unit, Well No. 1H produces sour gas. The H_2S concentration has averaged 10,000 parts per million (ppm) to 15,000 ppm over the past three month period. The latest reading, taken June 14, 2015, showed a H_2S concentration of 10,000 ppm. As result, the economics to treat the sour gas to a point where it would meet the sweet gas facility specifications is estimated to be $283 per day at the current rate of 60 MCF per day, while the estimated revenue at current sweet netback revenue of $3.60 per MCF would equate to $216 per day. The difference between the treating cost, and sales cost at the current production rate and price of gas, is a net loss of $67 per day. The nearest sour market is over 10 miles away and the cost to connect to the nearest sour gas pipeline is estimated at $3,600,000. The cost to connect the Watts Unit to the nearest sour gas line is estimated to pay out in approximately 56 years, if the casinghead gas production maintains a constant rate of 60 MCF per day over the next 56 years, at a daily sour netback revenue of $2.89 per day. The current oil production from the Watts Unit is 40 to 50 BOPD. EOG anticipates a need to continue to flare casinghead gas at this time in order to produce oil from the Watts Unit. The casinghead gas production from the Watts Unit has been below 100 MCF per day since June 11, 2015, with an average of approximately 90 MCF per day. EOG is requesting to flare a maximum of 90 MCF of casinghead gas per day for a period not less than a year. The Examiners' recommend granting an exception to Statewide Rule 32 for the Watts Unit for a maximum of 90 MCF per day, from the date the hearing request was received, to one calendar year from the hearing date of July 21, 2015; a period of time of approximately one year and fifty-four days (May 28, 2015 to July 21, 2016). Within a calendar year from the date of the hearing, the Watts Unit may be eligible for a permit to flare volumes no greater than 50 MCF, administratively, in accordance with Statewide Rule 32.

The Bowman West (B) Unit Facility (Lease ID No. 01-17472) was granted Permit No. 20686, to flare casinghead gas for two consecutive 90 day periods: from November 28, 2014 to February 26, 2015, to flare a maximum volume of 350 MCF of casinghead gas per day, and from February 27, 2015 to May 28, 2015 to flare a maximum volume of 200 MCF of casinghead gas per day. Realizing a need to continue flaring in order to continue to produce oil at this time, EOG requested a hearing for an exception to Statewide Rule 32 on May 28, 2015. The Bowman West B Unit, Well No. 1H produces sweet gas, however, the nearest connection is a sour gas connection, approximately 5.7 miles away. If EOG were to connect to this sales line it would be selling gas at a reduced rate. EOG has plans to construct facilities and have the infrastructure in place to market the gas, but the plans have been delayed due to issues obtaining right-of-way (ROW) easements. EOG's estimated pipeline completion time period is late-July, 2016, approximately one calendar year from the hearing date of July 21, 2015. Under the current conditions, the economics, based on a production rate of 200 MCF per day, EOG estimates a daily netback revenue of $260 per day. The estimated 12-inch pipeline cost is $8,502,000, resulting in a payout time period of approximately 89.58 years. However, EOG has plans to drill additional wells in this area in the future. These additional wells, once drilled and completed, will justify developing infrastructure in this area. EOG is requesting an exception to Statewide Rule 32 to flare a maximum volume of 100 MCF of casinghead gas per day for a period commencing the date the previous permit expires to a period ending one calendar year from the hearing date (May 29, 2015, to July 21, 2016).

The Bowman West Unit Facility (Lease ID No. 01-17472), was granted Permit No. 16457 to flare a maximum volume of 250 MCF per day of casinghead gas, effective March 16, 2014 to October 17, 2014, a period of 180 days. Later, the Bowman West Unit Facility was granted an exception to Statewide Rule 32 in Final Order No. 01-0292295. This final order granted EOG an exception to Statewide Rule 32 to flare a maximum volume of 250 MCF of casinghead gas per day, from October 17, 2014 through March 31, 2015. The Commission received a hearing request from EOG on March 24, 2015 for an exception to Statewide Rule 32 for the Bowman West Unit.

The nearest pipeline connection to the Bowman West Unit Facility is approximately 7 miles away. EOG anticipates completing a gathering system for this unit within one year from the hearing date. The Bowman West, Well No. 1H well produced 109 MCF of casinghead gas per day as recently as July 1, 2015, and 52 MCF per day on July 16, as the daily rate tends to fluctuate. Due to the day-to-day fluctuations in daily gas production, EOG is requesting an exception to Statewide Rule 32 for a period of one year from the hearing date, on a cumulative volume per month basis as opposed to a per day maximum volume. EOG is requesting to flare a maximum cumulative volume of 3,000 MCF of casinghead gas per month to July 31, 2016 (April 1, 2015 to July 31, 2016). Flare volumes are reported to the Commission monthly, and an exception to flare gas with a maximum cumulative monthly limit as opposed to a maximum daily limit would provide the operator greater flexibility in maintaining compliance with the permit conditions, as opposed to granting a daily maximum of 1/30th of the maximum monthly volume requested in this instance (i.e. a maximum monthly volume of 3,000 MCF per month as opposed to 100 MCF per day per 30-day month).

The Hundley (B) Unit Facility (Lease ID No. 01-15248), was granted Permit No. 20744 to flare a maximum of 500 MCF of casinghead gas per day, effective November 30, 2014 to February 28, 2015, a period of 90 days. The permit was extended for an additional 90 day period, from March 1, 2015, to May 30, 2015, for a maximum volume of 300 MCF per day. EOG has encountered delays in obtain ROW easements due to difficulties negotiating with a surface owner on a ROW agreement. EOG has investigated several routes to connect the facility to sales, and to-date, has been unsuccessful in obtaining the ROW needed to lay the gathering lines. EOG estimates the distance to connect the gathering lines to be approximately 1.25 miles. EOG is requesting an exception to Statewide Rule 32 to flare a maximum of 150 MCF of casinghead gas per day until April 30, 2016 (May 31, 2015 to April 30, 2016) for approximately a ten-month period from the hearing date, which is the duration of time EOG has estimated is needed to resolve legal issues over ROW.

The Peverett Unit Facility, (Lease ID No. N/A; Drilling Permit No. 76084), was granted Permit No. 20769 to flare a maximum volume of 800 MCF of casinghead gas per day for a period of 90 days, effective December 20, 2014, to March 20, 2015. The permit was extended for an additional 90 days, from March 21, 2015, to June 19, 2015, for a maximum daily volume of 500 MCF of casinghead gas per day for final 90 month period.

In the 30 day period prior to the hearing, the Peverett Unit, Well No. 1H produced sweet gas in volumes ranging between 150 MCF and 250 MCF per day. EOG is requesting an exception to Statewide Rule 32 to flare a maximum cumulative monthly volume of 6,000 MCF of casinghead gas per month, which averaged over a 30 day monthly period is 200 MCF per day. The requested per-month cumulative volume provides flexibility to ensure the operator is in compliance with the maximum permitted volume over the course of the month, since day-to-day gas production at this location is unpredictable. Daily gas production may spike from day-to-day, due to an offset well being hydraulically fracture-stimulated, or a well shut-in and then brought back on-line, which tends to experience an initial spike in gas production for a day, or several days after being shut-in. The nearest distance to connect to a pipeline is 1.62 miles which is EOG's current gathering system. EOG has estimated no viable pay-out time for the lease until new wells are drilled, which is not anticipated to occur in the next nine to twelve month period. Therefore, EOG is requesting an exception to Statewide Rule 32 for a period of one year from the hearing date, for a maximum monthly cumulative volume of 6,000 MCF of casinghead gas per month (200 MCF per day, on average, for a 30-day month).

The Ocelot (A) Unit Facility (Lease ID No. 01-17597) was granted Permit No. 20779 to flare a maximum volume of 400 MCF of casinghead gas per day, effective December 5, 2014 to March 5, 2015, a period of 90 days. EOG was granted a permit extension for an additional 90 day period from March 6, 2015 to June 4, 2015 for a maximum flare volume of 200 MCF per day. The Commission's Oil and Gas Division in Austin received a hearing request from EOG for an exception to Statewide Rule 32 on May 28, 2015. The Ocelot Lease, Well No. 2H has been producing less than 100 MCF per day over the two-month period prior to the hearing. The Ocelot Lease, Well No. 2H produces sour gas, with the most recent reading taken on June 6, 2015 being 10,000 ppm H_2S. The distance to nearest pipeline is 3,500 feet, but this is a sweet gas line. Therefore, the gas produced would require treatment. EOG estimates the cost to treat the sour gas to a level suitable for the sweet gas line, at the current production rate and

H_2S concentration, to be at a loss of $116 per day. The distance to nearest sour gas pipeline is estimated to be four to five miles. Under the current economic conditions, EOG is requesting to flare a maximum volume of 100 MCF of casinghead gas per day, for a period ending one year from the hearing date (June 5, 2015, to July 21, 2016).

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators at least ten days prior to the date of hearing. There were no protests to the applications.

2. EOG is requesting to flare casinghead gas produced from wells completed in the Eagleville (Eagle Ford-1) Field in Atascosa, McMullen, and Gonzales Counties from a total of six facilities.

3. The Watts Unit Lease (Lease ID No. 01-17943) was granted Permit No. 20523, to flare a maximum of 250 MCF of casinghead gas per day, effective November 18, 2014 to May 17, 2015, for a total period of 180 days.

   a. EOG has a need to flare casinghead gas from the Watts Unit facility beyond the 180 days that has been previously granted.

   b. The Watts Unit is connected to EOG's sweet gas facility, which was connected prior to the well completion.

   c. The Watts Unit, Well No. 1H produces sour gas.

   d. On June 14, 2015, the H_2S concentration was of 10,000 ppm.

   e. The economics to treat the sour gas to a point where it would meet the sweet gas facility specifications at the current production rate and price of gas is a net loss of $67 per day.

   f. The nearest sour market is over 10 miles away and the cost to connect to the nearest sour gas pipeline is estimated at $3,600,000.

   g. The cost to connect the Watts Unit to the nearest sour gas line is estimated to pay out in approximately 56 years, if the casinghead gas production maintains a constant rate of 60 MCF per day over the next 56 years, at a daily revenue of $2.89 per day.

   h. The current oil production from the Watts Unit is 40 to 50 BOPD.

4. The Bowman West (B) Unit Facility (Lease ID No. 01-17472) was granted Permit No. 20686 to flare casinghead gas, effective for two consecutive 90 day periods: from November 28, 2014 to February 26, 2015, to flare a maximum volume of 350 MCF of casinghead gas per day, and from February 27 to May 28, 2015 to flare a maximum volume of 200 MCF of casinghead gas per day.

   a. The Bowman West B Unit, Well No. 1H produces sweet gas.

   b. EOG intends to have infrastructure in place to market the gas, but the plans have been delayed due to issues obtaining ROW easements.

   c. The estimated pipeline completion time period is approximately late-July, 2016, one calendar year from the hearing date of July 21, 2015.

5. The Bowman West Unit Facility (Lease ID No. 01-17472), was granted Permit No. 16457 to flare a maximum volume of 250 MCF per day of casinghead gas, effective March 16, 2014 to October 17, 2014, a period of 180 days.

   a. The Bowman West Unit Facility was granted an exception to Statewide Rule 32 in Final Order No. 01-0292295, granting EOG an exception to Statewide Rule 32 to flare a maximum volume of 250 MCF of casinghead gas per day from October 17, 2014 through March 31, 2015.

   b. The nearest pipeline connection to the Bowman West Unit Facility is approximately 7 miles.

   c. EOG anticipates completing a gathering system for this unit within one year from the hearing date.

   d. The Bowman West, Well No. 1H daily casinghead gas production fluctuates.

   e. Due to the day-to-day fluctuations in daily gas production, EOG is requesting an exception to Statewide Rule 32 for a period of one year from the hearing date, on a cumulative volume per month basis as opposed to a per day maximum volume.

   f. EOG is requesting to flare a maximum cumulative volume of 3,000 MCF of casinghead gas per month from April 1, 2015 to July 31, 2016.

6. The Hundley (B) Unit Facility (Lease ID No. 01-05248), was granted Permit No. 20744, to flare a maximum of 500 MCF of casinghead gas per day, effective November 30, 2014 to February 28, 2015, a period of 90 days. The permit was extended for an additional 90 day period, from March 1, 2015, to May 30, 2015, for a maximum volume of 300 MCF per day.

   a. EOG has encountered delays in obtain pipeline right-of-way easements due to difficulties negotiating with a surface owner on a right-of-way agreement.

   b. EOG has investigated several routes to connect the facility to sales, and to-date has been unsuccessful in obtaining the ROW needed to lay the gathering lines.

   c. The distance to connect the gathering lines is approximately 1.25 miles.

   d. EOG is requesting an exception to Statewide Rule 32 to flare a maximum of 150 MCF of casinghead gas per day until April 30, 2016 (May 31, 2015 to April 30, 2016) for approximately a ten-month period from the hearing date; the duration of time estimated to resolve legal issues over ROW.

7. The Peverett Unit Facility, (Lease ID No. N/A; Drilling Permit No. 76084), was granted Permit No. 20769 to flare a maximum volume of 800 MCF of casinghead gas per day, for a period of 90 days, effective December 20, 2014, to March 20, 2015. The permit was extended for an additional 90 days, from March 21, 2015, to June 19, 2015, for a maximum daily volume of 500 MCF of casinghead gas per day for final 90 month period.

   a. In the 30 day period prior to the hearing the Peverett Unit, Well No. 1H produced sweet gas in volumes ranging between 150 MCF and 250 MCF per day.

   b. EOG is requesting an exception to Statewide Rule 32 to flare a maximum cumulative volume of 6,000 MCF of casinghead gas per month, which averaged over a 30 day monthly period, is 200 MCF per day.

   c. The requested per-month cumulative volume provides flexibility to ensure the operator is in compliance with the maximum permitted volume over the course of the month, since day-to-day gas production at this location is unpredictable.

d. The nearest distance to connect to a pipeline is 1.62 miles to EOG's current gathering system.

e. EOG has estimated no viable pay-out time for the lease until new wells are drilled, which is not anticipated to occur in the next nine to twelve month period.

f. EOG is requesting an exception to Statewide Rule 32 for a period of one year from the hearing date, for a maximum monthly cumulative volume of 6,000 MCF of casinghead gas per month (200 MCF per day, on average, for a 30-day month).

8. The Ocelot (A) Unit Facility (Lease ID No. 01-17597) was granted Permit No. 20779 to flare a maximum volume of 400 MCF of casinghead gas per day, effective December 5, 2014 to March 5, 2015, a period of 90 days. EOG was granted a permit extension for additional 90 day period from March 6, 2015, to June 4, 2015, for a maximum flare volume of 200 MCF per day.

a. The Commission's Oil and Gas Division in Austin received a hearing request from EOG for an exception to Statewide Rule 32 on May 28, 2015.

b. The Ocelot Lease, Well No. 2H has been producing less than 100 MCF per day over the two-month period prior to the hearing.

c. The Ocelot Lease, Well No. 2H produces sour gas, with a H_2S concentration of 10,000 ppm measured on June 6, 2015.

d. The distance to nearest pipeline is a sweet gas line 3,500 feet away.

e. The gas produced from the Ocelot Lease, Well No. 2H requires treatment prior to connecting to the sweet gas line 3,500 feet away.

f. At the current production rate and H_2S concentration, the cost to treat the gas would be at a loss of 116 per day.

g. The distance to nearest sour gas pipeline is estimated to be four to five miles.

h. Under the current economic conditions, EOG is requesting to flare a maximum volume of 100 MCF of casinghead gas per day, for a period ending one year from the hearing date (June 5, 2015, to July 21, 2016).

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. The requested authority to flare casinghead gas satisfies the requirements of Title 16, Texas Administrative 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 subject facilities for the time periods and the maximum volumes listed in Appendix A.

Respectfully submitted,

Karl Caldwell
Technical Examiner

Marshall Enquist
Legal Examiner

Appendix A

Lease/Facility Name	Lease ID/Drilling Permit No.	Previous Permit or Final Order No.	SWR 32 Exception Start Date	SWR 32 Exception End Date	Maximum Flare Volume
Watts Unit Facility	01-17943	20523	5/28/2015	7/21/2016	90 Mcf/day
Bowman West (B) Unit Facility	01-17472	20686	5/29/2015	7/21/2016	100 Mcf/day
Bowman West Unit Facility	01-17472	01-0292295	4/1/2015	7/31/2016	3,000 Mcf/month
Hundley (B) Unit Facility	01-15248	20744	5/31/2015	4/30/2016	150 Mcf/day
Peverett Unit Facility	76084	20769	6/1/2015	7/31/2016	6,000 Mcf/month
Ocelot (A) Unit Facility	01-17597	20779	6/5/2015	7/21/2016	100 Mcf/day