



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 8A-0315200

APPLICATION OF VERDUGO-PABLO ENERGY, LLC (884574) FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE MICHAEL LEASE (DRILLING PERMIT NO. 837068) AND THE FREDO LEASE (DRILLING PERMIT NO. 837032), SABLE (SAN ANDRES) FIELD, YOAKUM COUNTY, TEXAS

HEARD BY: Karl Caldwell, P.E. – Technical Examiner
Kristi M. Reeve – Administrative Law Judge

HEARING DATE: November 19, 2018
CONFERENCE DATE: January 23, 2019

APPEARANCES: James M. Clark, P.E.
REPRESENTING: Verdugo-Pablo Energy, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Verdugo-Pablo Energy, LLC ("V-P Energy") seeks a Statewide Rule 32 exception renewal for the Michael Lease and the Fredo Lease flare point. V-P Energy requests to extend its current exception to Statewide Rule 32 for a period of two years, to flare a maximum of 1,500 Mcfd. Notice of the application was provided to all operators adjacent to the section where the flare stack is located. The application is unopposed, and the Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of the application.

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 Mcfd may be granted administratively for a period up to 180 days. Statewide Rule 32(j), *Opportunity for Hearing*, states that an operator may request a hearing on any application for an exception or exception renewal required by this section. Beyond that, Statewide Rule

32(h) provides that exceptions shall be granted only in a final order signed by the Commission.

V-P Energy was granted Permit No. 35364, effective July 13, 2018, to October 11, 2018, to flare a maximum of 500 Mcfd of casinghead gas for the central flare point servicing the Michael and Fredo Leases (Drilling Permit Nos. 837068 and 837032) in the Sable (San Andres) Field in Yoakum County. This permit was granted administratively, for a period of 90 days due to a Stakeholder gas gathering line not yet being operational.

Stakeholder has constructed and commissioned a gas line in Yoakum County, approximately 13.5 miles from the subject leases. Stakeholder has also permitted a gas line in the vicinity of the subject wells; however, this gas line has not been constructed yet. Due to the unavailability of a gas pipeline for the casinghead gas produced from the oil wells on the Michael and Fredo Leases, V-P Energy requests a renewal of its existing permit (Permit No. 35364) to flare a maximum of 1,500 Mcfd of casinghead gas for a period of two years (October 12, 2018, to October 12, 2020).

The wells on the Michael and Fredo Leases are oil wells which also produce casinghead gas. The performance of V-P Energy's wells in this area is highly variable, as the Michael #1H is producing 30 Mcfd of casinghead gas while the Fredo #1H is producing 220 Mcfd of casinghead gas. V-P Energy has drilled a second well on the western edge of Section 33, and that well will also send casinghead gas to the flare point that services the Fredo and Michael Leases. James Clark, P.E., representing V-P Energy, asserts that if the authority to flare casinghead gas is not granted, V-P Energy would have to curtail production and probably cease drilling in the area.

V-P Energy agreed that pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be final and effective on the date a Master Order relating to this Final Order is signed.

FINDINGS OF FACT

1. Notice of the application was provided to all operators adjacent to the section where the flare stack is located that services the Michael and Fredo Leases. There were no protests to the application.
2. Verdugo-Pablo Energy, LLC ("V-P Energy") seeks a Statewide Rule 32 exception renewal for the Michael Lease and the Fredo Lease flare point.
3. Verdugo-Pablo Energy, LLC was granted Permit No. 35364, effective July 13, 2018, to October 11, 2018, to flare a maximum of 500 Mcfd of casinghead gas for the central flare point servicing the Michael and Fredo Leases (Drilling Permit Nos. 837068 and 837032) in the Sable (San Andres) Field in Yoakum County.

- a. Permit No. 35364 was granted administratively for a period of 90 days due to a Stakeholder gas gathering line not yet being operational.
 - b. Stakeholder has constructed and commissioned a gas line in Yoakum County, approximately 13.5 miles from the subject leases. Stakeholder has also permitted a gas line in the vicinity of the subject wells; however, this gas line has not been constructed yet
4. Due to the unavailability of a gas pipeline for the casinghead gas produced from the oil wells on the Michael and Fredo Leases, V-P Energy requests a renewal of its existing permit (Permit No. 35364) to flare a maximum of 1,500 Mcfd of casinghead gas for a period of two years (October 12, 2018, to October 12, 2020).
5. The wells on the Michael and Fredo Leases are oil wells which also produce casinghead gas.
- a. The performance of the wells in this area is highly variable.
 - b. The Michael #1H is producing 30 Mcfd of casinghead gas.
 - c. The Fredo #1H is producing 220 Mcfd of casinghead gas.
 - d. Verdugo-Pablo Energy, LLC has drilled a second well on the western edge of Section 33, and that well will also send casinghead gas to the flare point that services the Fredo and Michael Leases.
 - e. If the authority to flare casinghead gas is not granted, Verdugo-Pablo Energy, LLC would have to curtail production and probably cease drilling in the area.
6. Verdugo-Pablo Energy, LLC agreed that pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be final and 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 agreement of the applicant, this Final Order is effective when a Master Order relating to this Final Order is signed.

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 central flare point servicing the Michael and Fredo Leases (Permit No. 35364), to flare a maximum of 1,500 Mcfd of casinghead gas for a period of two years (October 12, 2018, to October 12, 2020) as requested by Verdugo-Pablo Energy, LLC.

Respectfully submitted,



Karl Caldwell, P.E.
Technical Examiner



Kristi M. Reeve
Administrative Law Judge