



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0277486

THE APPLICATION OF DIAMONDBACK E & P LLC FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE UL III 4 LEASE, SPRABERRY (TREND AREA) FIELD, ANDREWS COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. - Technical Examiner
Randall Collins - Legal Examiner

DATE OF HEARING: September 14, 2012 and November 14, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Jamie Nielson Diamonback E & P, LLC
Jeff White

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Diamonback E & P, LLC ("Diamonback") seeks to flare casing-head gas from the tank battery associated with its UL III 4 Lease in the Spraberry (Trend Area) Field, Andrews County, Texas.

At the hearing on September 14, 2012, Diamonback E & P, LLC ("Diamonback") requested a permanent exception to Statewide Rule 32 to flare casing-head gas from the subject lease. The examiners opined it inappropriate to grant a permanent exception to 16 TAC §3.32 and suggested a limitation of twelve months. Diamonback did not consider the examiners' opinion adverse.

By letter dated October 30, 2012, Diamonback requested to re-open the hearing for the subject application to amend the application it submitted at the initial hearing. Diamonback's motion was granted and hearing was re-opened on November 14, 2012.

The application was unopposed. The examiners recommend approval of the application, as requested by Diamonback and modified by the examiners.



DISCUSSION OF THE EVIDENCE

16 Texas Administrative Code §3.32 ("Rule 32") governs the utilization, for legal purposes, of natural gas produced under the jurisdiction of the Railroad Commission. Specifically, Rule 32(h) provides an administrative exception to flare casing-head gas in volumes greater than fifty thousand cubic feet per day ("MCFGPD") per well for a period up to 180 days. Beyond that, Rule 32(h)(4) provides that exceptions beyond 180 days shall be granted only in a final order signed by the Commission.

In the subject application, Diamondback seeks to flare casing-head gas in volumes exceeding fifty MCFGPD beyond the 180 day exception approval. Diamondback testified it seeks to flare from the tank battery located on its UL III 4 Lease for a twelve month period.

At the initial hearing, Diamondback testified there is one well completed in the Spraberry (Trend Area) Field that is located on the UL III 4 Lease, Well No. 6. Subsequently, it came to light that Well No. 9 was recently hooked up to the UL III 4 Lease tank battery resulting in Diamondback's request to re-open the hearing.

On November 14, 2012, the hearing for the subject application was re-opened. Diamondback requested to increase the daily volume of casing-head gas from 79 thousand cubic feet per day ("MCFGPD") to 176 MCFGPD. Diamondback testified the UL III 4 Lease received an administrative exception for 180 days (Permit No. 11058). Permit No. 11058 granted Diamondback authority to flare 91 MCF of gas per day from the UL III 4 Lease, and was effective from February 06, 2012 through August 06, 2012.

This area of the Spraberry (Trend Area) Field is undergoing rapid development and lacks existing gas pipeline infrastructure for new casing-head gas production. The purchaser in the area, DCP Midstream ("DCP"), does not have the capacity necessary to take and process all of the casing-head gas that is being produced. As a result, DCP is having to curtail gas purchases from operators in the area.

Diamondback testified it is working with Midmar Gas Plant ("Midmar"), an additional gas purchaser in the area surrounding the subject leases. Diamondback testified Midmar is currently at or near capacity for accepting produced natural gas and is close to completing a one hundred million dollar facility expansion that will provide for additional gas capacity. Diamondback testified it plans to implement a pipeline to transport casing-head gas from the subject lease to Midmar after the 1st quarter of fiscal year 2013.

Diamondback submitted a table that compares the values of oil and gas produced in August 2012 from the subject lease. The UL III 4 Lease produced 828 barrels of oil and 1.8 MMCF of casing-head gas. Assuming prices at \$90.0 per barrel of oil and \$5.87 per MCF of gas, the UL III 4 Lease's oil production was valued at \$74,520, while the casing-head gas production valued at \$10,325.

Diamondback testified that if the relief it seeks to flare casing-head gas from the subject lease is denied, the subject wells cannot be produced. Moreover, Diamondback testified it anticipates to drill additional wells on the subject lease in the future.

FINDINGS OF FACT

1. Proper notice of this hearing was given at least ten days prior to the date of hearing. There were no protests to the application.
2. Diamondback E&P, LLC (“Diamondback”) seeks an exception to flare casing-head gas in volumes greater than 50 thousand cubic feet (“MCF”) per day for its UL III 4 Lease, Spraberry (Trend Area) Field, Andrews County, Texas.
 - a. The UL III 4 Lease currently has two wells completed in the Spraberry (Trend Area) Field, Well Nos. 6 and 9.
 - b. The purchaser in the area, DCP Midstream (“DCP”), does not have the capacity necessary to take and process all of the gas that is being produced.
 - c. DCP is curtailing natural gas purchases from operators in the area surrounding the UL III 4 Lease, Spraberry (Trend Area) Field, Andrews County, Texas.
3. Statewide Rule 32(h) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days for volumes exceeding 50 MCF per day.
 - a. Diamondback received administrative Permit No. 11058, granting Diamondback authority to flare 91 MCF of gas per day from the UL II 14 Lease.
 - b. Permit No. 11058 was effective February 06, 2012 through August 06, 2012.
5. An exception to Statewide Rule 32 to flare 176 MCF of casing-head gas per day for twelve months from the UL III 4 Lease Tank Battery is appropriate.
 - a. Well Nos. 6 and 9 produce into the UL III 4 Lease Tank Battery.
 - b. The volume of hydrocarbons produced from the UL III 4 Lease, Spraberry (Trend Area) Field, in August 2012 were 828 barrels of oil and 1.8 million cubic feet (“MMCF”) of casing-head gas.

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. Approval of the requested authority pursuant to Statewide Rule 32 will prevent waste, will not harm correlative rights, and will promote development of the Spraberry (Trend Area) Field.

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 to flare 176 MCF of casing-head gas per day from August 07, 2012 through August 06, 2013, from the UL III 4 Lease Tank Battery, as requested by Diamondback E&P, LLC.

Respectfully submitted,


Brian Fancher, P.G.
Technical Examiner


Randall Collins
Legal Examiner