



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0299131

THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PEELER SW LEASE , WELL NO.1H, AND THE DH UNIT, WELL NO. 1H, INDIO TANKS (PEARSALL) FIELD, THE RYCHLIK UNIT, WELL NO. 1H, AND WHITETAIL UNIT, WELL NO. 1H, EAGLEVILLE (EAGLE FORD -1) FIELD, ATASCOSA COUNTY, TEXAS

HEARD BY: Richard Eyster, P.G.– Technical Examiner
Ryan Lammert – Administrative Law Judge

HEARING DATE: January, 29, 2016

CONFERENCE DATE: March 08, 2016

APPEARANCES:

REPRESENTING:

APPLICANT:

Murphy Exploration & Production CO.

Kelli Kenny
Chris Vergona
Brent Sonnier
Francisco Garcia

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Murphy Exploration & Production Co. (Murphy) requests an exception to Statewide Rule 32 to flare gas for the Peeler SW Lease , Well No.1H, and the DH Unit, Well No. 1H, Indio Tanks (Pearsall) Field; the Rychlik Unt, Well No. 1H, and Whitetail Unit, Well No. 1H, Eagleville (Eagle Ford-1) Field, Atascosa County, Texas.

All persons entitled to notice received notice of the hearing. The matter is not protested.

DISCUSSION OF THE EVIDENCE

Peeler SW Lease Well No.1H, (API No. 42-013-34645) and the DH Unit, Well No. 1H, (API No. 42-013-34629) Indio Tanks (Pearsall) Field; the Rychlik Unit, Well No. 1H, (API No. 42-013-34455) and the Whitetail Unit, Well No. 1H, (API No. 42-013-4498), Eagleville (Eagle Ford-1) Field in Atascosa County Texas, as provided in Statewide Rule 32(h).

The Peeler SW 1H Well and the DH Unit 1H Well have both been completed in the Indio Tanks (Pearsall) Field, Atascosa County. The Peeler SW 1H Well received administrative Permit No. 13684 to flare up to 860 mcf/d of casinghead gas, which was effective from May 8, 2013 and expired on November 6, 2013, after two extensions, which totaled the maximum 180 days allowed by an administrative permit. Murphy received additional flaring authority for the Peeler SW1H Well to flare 330 mcf/d by Final Order No. 01-0284543 from November 6, 2013 through December 31, 2015. Murphy is now requesting an exception to flare 125 mcf/d from the Peeler SW 1H Well for a period of two years from December 31, 2015 through December 31, 2017.

The DH Unit 1H Well received administrative Permit No. 750933 to flare up to 820 MCFPD of casinghead gas. The permit was effective from March 21, 2012, and expired on September 19, 2013, after two extensions, which totaled 165 days. Murphy E&P filed a Statewide Rule 32 Exception Data Sheet requesting an extension to flare up to 660 MCFPD of casinghead gas from the DH Unit 1H Well on August 19, 2013 for an additional 45 days that would span from September 19, 2013 to November 3, 2013. This would total the maximum 180 days allowed by an administrative permit. Murphy was granted additional flaring authority for the DH Unit 1H Well Well in Final Order No. 01-0284543 from November 6, 2013 through December 31, 2015. Murphy is now requesting an exception to flare 150 MCFPD from the DH Unit 1H Well for a period of two years from December 31, 2015 through December 31, 2017.

There are currently two gas pipelines in the vicinity of the four wells. Murphy has identified the closest sales point and determined the economics required to connect these wells. In the economic analysis, Murphy used the most optimistic scenarios for each well, which would be a straight line distance to connect the wells to the pipeline.

The current gas production for the Peeler SW 1H Well is 43 MCFPD. Cumulative production to date has been 221 MMCFG, and Murphy E&P estimates that the remaining gas to be recovered from the well is 41 MMCFG. The remaining 41MMCF equates to an estimated revenue of \$79,000. Murphy estimates that it would require a total capital investment of \$990,000 to construct approximately 2 miles of pipe line to connect the Peeler SW1H Well to a gas pipeline in the area. Compared to the estimated \$990,000 pipeline cost this scenario would result in a loss of approximately \$968,000 over the life of the well. As a result, the economics are not favorable at this time and without another Final Order from the Commission authorizing the continued flaring of gas from the two units until it is economical to connect the well to a pipeline. Without such authority Murphy stated

they would have to shut in production from the wells, possibly resulting in waste of hydrocarbon reserves.

Current gas production from the DH Unit 1H Well is 33 MCFPD and cumulative gas production to date is 126.0 MMCFG, with an estimated 45 MMCFG remaining to be recovered. The estimated cost to run 1.0 miles of line to connect the DH Unit 1H Well to the nearest gas pipeline is \$700,000. The remaining 45 MMCFG would result in an estimated revenue of \$88,000. However, the capital investment of \$500,000 for 1.0 mile of pipe line would result in a net loss of \$675,000. As a result, the economics are not favorable at this time and without another Final Order from the Commission authorizing the continued flaring of casinghead gas from the DH Unit 1H Well until it is economical to connect the well to a pipeline. Without such authority Murphy stated they would have to shut in production from the wells, possibly resulting in waste of hydrocarbon reserves.

The current gas production for the White Tail Unit 1H Well is 40 MCFPD. Cumulative production to date has been 50 MMCFG, and Murphy E&P estimates that the remaining gas to be recovered from the well is 40 MMCFG. Murphy estimates that it would require a total capital investment of \$710,000 to construct approximately 1.4 miles of pipe line to connect the White Tail Unit 1H Well to a gas pipeline in the area. Comparing to the estimated \$710,000 pipeline cost this scenario would result in a loss of approximately \$459,000. As a result, the economics are not favorable at this time and without a Final Order from the Commission authorizing the continued flaring of casinghead gas from the White Tail Unit 1H Well until it is economical to connect the well to a pipeline. Without such authority Murphy stated they would have to shut in production from the wells, possibly resulting in waste of hydrocarbon reserves.

The current gas production for the Rychlik Unit 1H Well is 20 MCFPD. Cumulative production to date has been 49.1 MMCFG, and Murphy estimates that the remaining gas to be recovered from the well is 99.3 MMCFG with an estimated revenue \$193,000. Murphy estimates that it would require a total capital investment of \$780,000 to construct approximately 1.6 miles of pipe line to connect the Rychlik Unit 1H Well to a gas pipeline in the area. Comparing to the estimated \$780,000 pipeline cost this scenario would result in a loss of approximately \$726,000. As a result, the economics are not favorable at this time and without a Final Order from the Commission authorizing the continued flaring of casinghead gas from the Rychlik Unit 1H Well until it is economical to connect the well to a pipeline. Without such authority Murphy stated they would have to shut in production from the wells, possibly resulting in waste of hydrocarbon reserves .

The flaring authority obtained by the Applicant in Final Order No. 01-0279367 for the Rychlik Unit 1H Well and the White Tail Unit 1H Well expired on April 26, 2014. During the hearing Murphy requested retroactive exceptions to Statewide Rule 32 to flare gas at a volume of 90 MCFPD from the Rychlik Unit, Well No.1H from February 2015 through October 2015, and 90 MCFPD for the White Tail Unit Well No. 1H for the months of June 2015 through November 2015. The Examiners informed the Applicant during the

hearing that Statewide Rule 32 does not provide the Examiners the latitude to grant retroactive flaring exceptions. Murphy said they would not find the denial of retroactive flaring exception request to be adverse.

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. The subject wells in this application are completed in the Eagleville (Eagle Ford-1) Field, in Atascosa County, Texas.
3. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of a Commission granted flare permit order.
4. Murphy received either an administrative permit or Commission-granted orders to flare casinghead gas from the Peeler SW 1H Well, the DH Unit 1H Well, the Rychlik and the White Tail Unit 1H Well which are yet to be connected to a gas pipeline.
5. Murphy E&P has requested a hearing for the wells before the Commission granted flare permit orders expired for the Peeler SW 1H Well, and the DH Unit 1H Well.
6. An exception to Statewide Rule 32 for the SW Peeler 1H Well, the DH Unit 1H Well, and the White Tail Unit 1H Well is appropriate.
7. For the Peeler SW 1H Well, Murphy requests to flare a maximum of 125 MCFPD of casinghead gas from December 31, 2015 through December 31, 2017.
8. For the DH Unit 1H Well, Murphy requests to flare a maximum of 150 MCFPD of casinghead gas from December 31, 2015 through December 31, 2017.
9. For the White Tail Unit 1H Well, Murphy requests to flare a maximum of 75 MCFPD of casinghead gas from December 31, 2015 through December 31, 2017.

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 field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that 125 MCFPD of casinghead gas for the Peeler SW 1H Well, a maximum of 150 MCFPD for the DH Unit Well No. 1H, from December 31, 2015 through December 31, 2017 be approved as requested by Murphy Exploration & Production Co. USA. The Examiners also recommend the Commission approve an exception to Statewide Rule 32 to flare a maximum of 75 MCFPD from the White Tail Unit Well No. 1H from December 1, 2015 through December 10, 2016 as requested by Murphy Exploration & Production Co. USA, and deny the request for retroactive flaring authority for the Rychlik Unit 1H for the months of February 2014 through October 2015 and for the months of June through November 2015 for the White Tail Unit 1H Well.

Respectfully submitted,



Richard Eyster, P.G.
Technical Examiner



Ryan Lammert
Administrative Law Judge