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RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 03-0307051

THE APPLICATION OF PDC PERMIAN, INC. FOR AN EXCEPTION TO STATEWIDE
RULE 32 FOR VARIOUS LEASES IN FORD, WEST (WOLFCAMP) AND PHANTOM
(WOLFCAMP) FIELDS, CULBERSON AND REEVES COUNTIES, TEXAS

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

HEARING DATE: November 14, 2017

CONFERENCE DATE: February 27, 2018

APPEARANCES:

REPRESENTING:

APPLICANT:

Kelli Kenney
Collin Placke
Sydney Smith

PDC Permian, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

PDC Permian, Inc. ("PDC") seeks a two-year exception to 16 Tex. Admin. Code §3.32 ("Statewide Rule 32") to flare gas from the HSS State 45-17x20 Lease in the Ford, West (Wolfcamp) Field, Culberson County; and from the Diamond State 45-10 Lease, Greenwich 57 3142 Lease, and Kenosha 4441 Lease in the Phantom (Wolfcamp) Field, Reeves 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 the exception be granted.

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. PDC was granted permits to flare gas for the subject leases for a period of 180 days. PDC is requesting an exception to Statewide Rule 32 to flare gas for an additional period until appropriate pipeline connections and upgrades can be completed.

The HSS State 45-17x20, Well No. 1H was completed on February 2, 2017. On initial testing, the well produced at a gas to liquid hydrocarbon ratio of 17,360 standard cubic feet of gas per barrel of liquid hydrocarbons (17,360:1), meeting the gas well classification requirements for the Ford, West (Wolfcamp) Field. The deliverability of the well was 1,493 mcf per day ("MCFD"). PDC received administrative authority (Permit Nos. 28909 and 30123) to flare gas from January 26, 2017 through October 28, 2017. The Commission received a hearing request on September 26, 2017, for an exception to Statewide Rule 32 for the subject lease. Gas from the HSS State 45-17x20 was initially sold via an existing sales pipeline under a short-term contract that expired in May 2017. PDC installed a temporary booster station to sell gas at its sales point to ETC. Due to difficulty in obtaining right of ways, PDC has been unable to build a full-length permanent pipeline. PDC is actively working to obtain the necessary right of ways and secure a permanent gas sales point at the Westeros CDP.

The Diamond State 45-10, Well No. 1H was completed on May 15, 2014. The initial potential test for the Well No. 1H was conducted on June 5, 2014 and reported oil production of 106 barrels of oil per day ("BOPD") and gas production of 1,058 MCFD, for a gas to oil ratio of 9,981. PDC received administrative authority (Permit Nos. 30121 and 31233) to flare gas from June 1, 2017 through December 29, 2017, for an exception to Statewide Rule 32 for the subject lease. The Commission received a hearing request on September 26, 2017, for an exception to Statewide Rule 32 for the subject lease. The Diamond State 45-10 is currently not connected to a pipeline. PDC has been unable to secure right of ways to build a full-length pipeline. They are actively working to obtain the necessary right of ways to secure a permanent gas sales point at the Westeros CDP.

The Greenwich 57-3142, Well No. 4H was completed on December 2, 2016. The initial potential test for the Well No. 4H was conducted on June 14, 2017 and reported oil production of 811 BOPD and gas production of 4,159 MCFD, for a gas to oil ratio of 5,128. PDC received administrative authority (Permit No. 3011) to flare gas from May 1, 2017 through November 30, 2017 for an exception to Statewide Rule 32 for the subject lease. The Commission received a hearing request on September 26, 2017, for an exception to Statewide Rule 32 for the subject lease. The Greenwich 57-3142 wells are tied in to the Tisdale pipeline and a gas sales point. PDC has upgraded compressors to accommodate gas from the Greenwich 57-3142, and plans to continue the upgrades as necessary to accommodate future development on the lease. The area experiences significant stress to the power grid which can result in power outages and compressor downtime.

The Kenosha 4441, Well No. 1H was completed on February 24, 2017. The initial potential test for the Well No. 1H was conducted on June 4, 2017 and reported oil production of 1,120 BOPD and gas production of 6,307 MCFD, for a gas to oil ratio of 5,631. PDC received administrative authority (Permit No. 29747) to flare gas from March 14, 2017 through October 10, 2017, for an exception to Statewide Rule 32 for the subject lease. The Commission received a hearing request on September 26, 2017, for an exception to Statewide Rule 32 for the subject lease. The Kenosha 4441 is located at the end of a 4-inch pipeline. Due to high production in the area and line pressure constraints, gas from the Kenosha 4441 is forced to flare. PDC also combusts and flares gas that is extracted from the high volumes of water produced by the Kenosha 4441.

If the wells are shut in, PDC reported they would experience an economic loss. PDC demonstrated a potential gross revenue loss of \$122,229 on the HSS State 45-17x20, \$18,211 on the Diamond State 45-10, \$1,252,643 on the Greenwich 57-3142, and \$1,802,124 on the Kenosha 4441.

PDC needs to periodically flare gas from the subject leases to avoid shutting in the wells. These needs are unpredictable in time, duration, and volume. PDC requests that it be granted flexibility in flaring casinghead gas by allowing a monthly volume limitation, as opposed to a daily volume limitation. PDC considers a monthly volume limitation will provide greater ability to adhere to the Commission requirements. Therefore, PDC is requesting authority to flare a certain volume of casinghead gas per month ("MCFM") for up to two years as shown on the following table:

Lease	Flare Permit	Effective Date	Expiration Date	Volume (MCFM)
HSS State 45-17x20	30123	10/29/2017	10/29/2019	2,500
Diamond State 45-10	31233	12/30/2017	12/30/2019	1,750
Greenwich 57 3142	30119	12/01/2017	12/01/2019	3,650
Kenosha 4441	29747	10/11/2017	10/11/2019	4,000

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.
2. The subject leases received administrative permits to flare gas for 180 days.
3. On September 26, 2017, PDC requested a hearing to obtain continued authority to flare gas from the leases.
4. PDC is actively working to secure right of ways to build a full-length pipeline and permanent gas sales point at the Westeros CDP for the HSS State 45-17x20 Lease and the Diamond State 45-10 Lease.

5. PDC will upgrade compressors at the Greenwich 57-3142 Lease as additional wells come online which will help to prevent future flaring.
6. The requested flaring authority will allow PDC to continue to produce liquid hydrocarbons from the wells.
7. At the hearing, the applicant agreed on the record that the Final Order in this case is 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. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.42.
3. The requested authority to flare casinghead gas satisfies the requirements of Statewide Rule 32. 16 Tex. Admin. Code § 3.32 (h).
4. Pursuant to § 2001.144(a)(4)(A) of the Texas Government Code and the agreement of the applicant, the Final Order is effective when a Master Order relating to the Final Order is signed on February 27, 2018.

EXAMINERS' RECOMMENDATION

The Examiners recommend approval of the application of PDC Permian, Inc. for an exception to Statewide Rule 32 for the subject leases.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Kristi M. Reeve
Administrative Law Judge