RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0286215

THE APPLICATION OF EF ENERGY, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HENSON UNIT LEASE, WELL NO. 1H, EAGLEVILLE (EAGLEFORD-1) FIELD, ATASCOSA COUNTY, TEXAS

HEARD BY: Richard D. Atkins, P.E. - Technical Examiner
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ER&R PREPARED BY: Karl Caldwell - Technical Examiner

DATE OF HEARING: February 11, 2014

APPEARANCES:	**REPRESENTING:**
APPLICANT:	
Kelli Kinney Robert Dreyline	EF Energy, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

EF Energy, LLC ("EF Energy") requests an exception to Statewide Rule 32 to flare casinghead gas from the Henson Unit Lease, Well No. 1H, Eagleville (EagleFord-1) Field, Atascosa County, Texas. Proper notice was given to the appropriate parties surrounding the above referenced well and no protests were received. The application is therefore unprotested and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the Henson Unit Lease, Well No. 1H from the date the Commission-granted flare permit order expired through December 31, 2014

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 of gas 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. In the context of the subject application, EF Energy is requesting an exception to flare casinghead gas produced from the subject well, as provided by Statewide Rule 32(h).

This area of the Eagleville (Eagle Ford-1) Field where the subject well is located lacks existing gas pipeline infrastructure. From the W-2 form that was submitted, it was noted that the subject well is producing from a Hydrogen Sulfide field, and as a result, the casinghead gas is considered to be sour. There are two gas gathering systems in the area of the subject well: the Frio LaSalle Pipeline ("Texstar") gas gathering system, and the Regency Field Services gas gathering system ("Regency"). In March of 2012, EF Energy and Texstar executed a gas sales contract that dedicated EF Energy's gas reserves in specific areas, which included the Henson Unit Lease area, to Texstar.

Texstar submitted a cost estimate to EF Energy to expand the pipeline to connect the Henson Unit Lease, Well No.1H well to the Texstar gas gathering pipeline system. Texstar determined that it would require 6.5 miles in length of 8" line at an estimated cost of $3,582,614, which did not include any operating costs. From decline curves provided by EF Energy, remaining recoverable gas from the subject well is approximately 274 MMCF, with an estimated total recovery time of 33.5 years. EF Energy has two other wells (Davis Ranch 1H and Wilson 1H) near the subject well that could possibly contribute to gas sales if the infrastructure were in place. As a result, EF Energy also considered the remaining recoverable gas reserves from these wells in addition to the subject well in the cost analysis. From decline curves, the Davis Ranch 1H, has 205 MMCF of recoverable gas reserves remaining, which will take an estimated 32 years to recover, whereas the Wilson 1H, is not currently producing any gas and EF Energy is not estimating any remaining recoverable gas reserves from this well. Therefore total remaining gas reserves from the EF Energy wells currently producing gas in the area of the subject well are 479 MMCF. Using an estimated future average gas price of $5.00 per MCF, the total revenue from the sale of all remaining recoverable gas from the wells is $2,396,000. In comparing this figure to the estimated cost to expand the pipeline provided by Texstar, the difference is a net loss of $1,186,014 which proves the expansion to the Texstar gas pipeline to be uneconomical at this time.

In an effort to explore other options for selling the gas in the Henson Unit Lease area, EF Energy met with El Paso Energy ("EP"), an offset operator in the area, to explore the possibility of a joint construction project and operation of gas gathering facilities. In September of 2013, EF Energy met with Regency, which operates a different pipeline in the area of the subject well, to initiate discussions regarding a potential gas sales contract. Regency provided EF Energy with a cost estimate of $1,508,000 to construct 2.9 miles in length of 8" line to Regency's system, which did not include additional operating expenses and treating facilities. In addition, EF Energy would have to pay royalty and severance taxes on the gas sold that was estimated to be approximately $146,830. Using a future average gas price of $5.00 per MCF, the net difference of the total remaining recoverable gas sales, less the gas line construction costs, as well as royalty and severance taxes, results in a net profit of $154,450. However, the Regency pipeline is a high pressure line which would require the gas to be compressed. Regency provided a cost estimate of $6,000 per month for compression costs to EF Energy. At this monthly cost, it would only take 26 months (2.15 years), for the gas sales to Regency to be uneconomical. EF Energy is estimating the total time to recover the remaining gas reserves to be 33.5 years.

EF Energy received administrative Permit No. 14512 to flare up to a maximum of 300 MCFD of casinghead gas from the Henson Unit Lease, Well No. 1H. The permit was effective July 5, 2013, and expired on January 3, 2014, which totaled the maximum 180 days allowed by an administrative permit. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if, the operator has requested a hearing prior to the expiration of a Commission-granted flare permit order. EF Energy requested a hearing for the subject well prior to the Commission-granted flare permit order expired. EF Energy is requesting to flare a maximum of 150 MCF per day of casinghead gas from the Henson Unit Lease, Well No. 1H from the time the administrative permit expires through December 31, 2014. During this time, EF Energy will continue to monitor development in the area and infrastructure improvements, including pipeline expansions, reduced line pressures, and reduced treating requirements. Through December 31, 2013, the Henson Unit Lease, Well No. 1H well has produced 31,478 BO, for a gross revenue of $2,979,425. The amount of gas produced during this same time frame was 31,069 MCF, for an estimated gross gas value of $128,481. If EF Energy were forced to shut-in the well at this time to wait for pipeline expansion or additional infrastructure in the area it may be considered a wasteful practice.

FINDINGS OF FACT

1. Proper notice of this hearing was given at least ten (10) days prior to the date of hearing and no protests to the application were received.

2. The Henson Unit Lease, Well No. 1H, is completed in the Eagleville (Eagle Ford-1) Field, in Atascosa County, Texas. Through December 31, 2013, the well has produced 31,478 BO and 31,069 MCF of gas.

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.

4. EF Energy, LLC ("EF Energy") received administrative Permit No. 14512 to flare up to a maximum of 300 MCFD of casinghead gas from the subject well. The permit was effective July 5, 2013, and expired on January 3, 2014, which totaled the maximum 180 days allowed by an administrative permit.

5. 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 the administratively granted flare permit.

6. EF Energy has requested a hearing for the subject well before the administratively granted flare permit expired.

7. There are two gas gathering pipelines in the area of the subject well, Texstar and Regency.

   a. Texstar determined that it would require 6.5 miles in length of 8" line at an estimated cost of $3,582,614.

   b. Regency provided a cost estimate of $1,508,000 to construct 2.9 miles in length of 8" line, which did not include additional operating expenses and treating facilities. Monthly compression costs would be $6000 per month.

   c. Under the current conditions at this time, the gas gathering pipeline options provided to EF Energy by both Texstar and Regency are not economically favorable.

8. An exception to Statewide Rule 32 from the date the administratively granted flare permit expired through December 31, 2014, for the subject well to flare casinghead gas is appropriate.

9. For the Henson Unit Lease, Well No. 1H, EF Energy requests to flare a maximum of 150 MCFPD of casinghead 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 field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve an exception to Statewide Rule 32 from the date the administratively granted flare permit expires through December 31, 2014, for the subject well, as requested by EF Energy, LLC.

Respectfully submitted,

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