RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 02-0288115

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 HUBBERT UNIT 1H LEASE EAGLEVILLE (EAGLE FORD-2) FIELD KARNES COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Laura Miles-Valdez – Legal Examiner

DATE OF HEARING: May 8, 2014

APPEARANCES:	**REPRESENTING:**
APPLICANT:	
Bryan Lauer Jeff Perry	EOG Resources Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

EOG Resources, Inc. ("EOG") requests an exception to Statewide Rule 32 to flare casinghead gas for the Hubbert Unit 1H Lease, Eagleville (Eagle Ford-2) Field, Karnes County, Texas. Notice was provided to offset operators surrounding the subject well and no protests were received. The application is unprotested and the examiners recommend approval of the exception to Statewide 32 to flare casinghead gas from the Hubbert Unit 1H Lease.

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 MCFPD per well 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, EOG is requesting an exception to flare casinghead gas produced from the subject well as provided by Statewide Rule 32(h).

EOG is seeking temporary authority to flare a maximum of 100 MCF per day of casinghead gas from the Hubbert Unit 1H Lease from the date the previous flaring permit expired through September 10, 2015. The exception to Statewide Rule 32 will allow EOG time to re-evaluate sour gas pipeline availability in the area as well as market conditions.

The Hubbert Unit 1H was completed on September 10, 2013. Initial potential testing conducted September 29, 2013 measured 983 BO and 318 MCFG per day. Daily production data shows that the gas production has been declining. Daily average gas production ranged from 61 MCF per day to 105 MCF gas per day between March and April of 2014. EOG estimates the gas production will continue to decline as the well is produced. EOG had constructed a connection to the EOG sweet gas pipeline from the Hubbert Unit 1H Lease, as EOG did not expect the H_2S concentration in the gas produced to exceed 90 ppm, the maximum allowable H_2S concentration in the gas allowed access to EOG's sweet gas pipeline system.

The H_2S concentration measured in the Hubbert Unit 1H Lease gas stream has ranged from 15,000 to 16,000 ppm, and most recently measured 15,000 ppm on February 20, 2014. As a result of the high H_2S concentration in the gas stream from the subject well, the gas would require treatment before entering EOG's sweet gas pipeline.

EOG received Permit No. 14828 to flare a maximum of 500 MCFD of casinghead gas from the Hubbert Unit, effective October 9, 2013 and expiring November 23, 2013, a total of 45 days. Permit No. 14828 was amended to flare a maximum of 500 MCFD of casinghead gas from the Hubbert Unit 1H Lease effective November 24, 2013, and expiring on January 23, 2014, for an additional 60 days of flaring authority. EOG received a further amendment to Permit No. 14828 to flare a maximum of 250 MCFD of casinghead gas from the Hubbert Unit 1H Lease, effective January 24, 2014, and expiring April 9, 2014, for an additional 85 days of flaring authority. In total, Permit No. 14828 granted EOG authority to flare casinghead gas from the Hubbert Unit 1H Lease for a total period of 180 days.

An economic study conducted by EOG using an average production rate of 80 MCF per day and a current netback price on sour natural gas of $6.25 per MMCF, resulted in an estimated netback revenue of $500 per day. The estimated cost to treat the sour gas to reduce the H_2S concentration to levels that would be acceptable to connect to the EOG sweet gas pipeline would cost an estimated $720 per day. The daily net revenue generated from treating the gas to enable it to go to sales via the EOG sweet gas pipeline system would be a net loss of $220 per day.

The nearest sour gas system is a Regency system located a straight-line distance of 5.01 miles away. The cost to construct 5.01 miles of 6 inch pipeline is estimated at $1,953,900. Using the same daily netback revenue calculated to be $80 per day based on the current average production rate and gas prices, the expected pay-out is 10.7 years, assuming the gas production to remain constant. However, EOG estimates the gas production will continue to decline and the construction of 5.01 miles of pipeline to the sour gas line is uneconomic at this time.

A temporary exception to Statewide Rule 32 will allow EOG to re-evaluate market conditions and sour gas pipeline availability in the area to prevent future flaring of casinghead gas.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators surrounding the subject well at least ten days prior to the date of hearing. There were no protests to the application.

2. The well in the subject application is completed in the Eagleville (Eagle Ford-2) Field in Karnes County, Texas.

3. Permit No. 14828 granted EOG flaring authority for the Hubbert Unit 1H Lease, effective October 9, 2013, and expiring April 9, 2014, a total period of 180 days.

4. Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days.

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 at least 21 days prior to the expiration of the existing exception.

6. EOG is requesting an exception to Statewide Rule 32 for the Hubbert Unit 1H Lease pursuant to 16 TAC §§3.32(h).

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. The requested authority to flare casinghead gas satisfies the requirements of Title 16, Texas Administrative Code 3.32(h).

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 Hubbert Unit 1H, as requested by EOG Resources, Inc.

Respectfully submitted,

Karl Caldwell
Technical Examiner

Laura Miles-Valdez
Legal Examiner