RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0294344

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PRIEST UNIT, EAGLEVILLE (EAGLE FORD-1) FIELD, GONZALES COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
John Dodson – Legal Examiner

HEARING DATE January 16, 2015
CONFERENCE DATE: March 10, 2015

APPEARANCES: **REPRESENTING:**

APPLICANT:

Doug Dashiell 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 from the Priest Unit, Eagleville (Eagle-Ford-1) Field, Gonzales County, Texas. Notice was provided to the offset operator surrounding the subject lease in the Eagleville (Eagle Ford-1) Field and no protests were received. The application is unprotested and the examiners recommend approval of an exception to Statewide 32 to flare casinghead gas from the Priest Unit.

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 lease as provided by Statewide Rule 32(h).

EOG received a flaring permit (Permit No. 18120) for the Priest Unit (Lease No. 17634), effective April 9, 2014, expiring October 30, 2014 for a total of 180 days, the maximum length of time an exception to Statewide Rule 32 may be granted administratively for volumes greater than 50 MCF per day. This permit authorized EOG to flare a maximum of 80 MCF per day of casinghead gas. During this time period, EOG flared less than 50 MCF per day from July 19, 2014 through August 1, 2014[1]. On November 7, 2014, the Commission received a hearing request from EOG to consider a further exception to Statewide Rule 32 for the Priest Unit to flare casinghead gas.

During the month of October prior to the expiration date of the administrative permit, casinghead gas production was trending towards an average volume equal or less than 50 MCF per day, a volume in which an administrative permit may be granted under Statewide Rule 32. However, daily rates greater than 50 MCF per day were measured, at which time EOG requested a hearing to consider an exception to Statewide Rule 32 for volumes greater than 50 MCF per day.

The average H_2S concentration of the gas produced from the subject lease has ranged between 5,000 to 5,500 ppm over the past three months. The nearest pipeline to the Priest Unit is an EOG sweet gas line located approximately 2 miles away. The nearest sour gas line to the Priest Unit is a Regency line located approximately 7 miles from the subject lease. There is currently only one well producing on the Priest Unit and current lease production averages 60 MCF per day of casinghead gas. EOG's witness testified that EOG has no plans to drill further wells on the Priest Unit for at least several years. All other EOG wells in the area produce sweet gas. EOG has detected a fault in the area causing wells in certain areas to produce sour gas.

Given the current production, combined with high treating costs and the pipeline infrastructure required in order to market the gas, EOG's witness testified that it is difficult to justify the economics to market the gas at this time. EOG's estimated the associated costs to construct a sweet pipeline connection, including treating the gas, would result in a loss of $698,000 over the next five years.[2] EOG estimated a flat payout of 160 years, if casinghead gas production maintained an average rate of 60 MCF per day over the next 160 years. EOG expects the gas production to continue to decrease over time from the single well currently on the lease.

EOG estimated a cost of $2,520,000 to construct a 6-inch pipeline approximately 7 miles in length to connect to the Regency sour gas pipeline. Based on the current price of sour gas, estimated to be $2.89 per MCF, and an average volume of 60 MCF per day, EOG estimated it would take approximately 40 years to reach the flat payout

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[1] The 180-day limitation shall not apply for volumes less than or equal to 50 MCF. Statewide Rule 3.32(h)(3)

[2] EOG Exhibit No. 1, Section 5 Economics

point for the construction of the pipeline connection. This calculation assumes daily average gas production will remain constant over this 40 year period. However, gas production is expected to decline over time from the single well on the lease.

EOG has requested Commission authority to continue to flare casinghead gas from the Priest Unit, for a maximum volume of 150 MCF per day. The gas volumes from the lease averaged 70 MCF per day in November, while in December this average daily rate was 125 MCF per day. EOG is requesting a maximum daily rate of 150 MCF per day in the event the daily gas rate unexpectedly increases above the current daily average on any given day during this time. EOG's witness testified that on most days, gas production would be less than 150 MCF per day. EOG is requesting a permanent exception, but would not consider any length of time to be adverse. Based on the evidence, including EOG delaying a request for hearing until early November 2014 due to gas production approaching a rate of 50 MCF per day, and economics going forward based on a daily rate of 60 MCF per day, the examiners recommend an 18-month exception to Statewide Rule 32. Based on historical gas production from the single well on the lease, it is reasonable to expect gas production to be less than 50 MCF per day after this time period. EOG may request a permanent exception for a volume less than or equal to 50 MCF per day, which may be granted administratively under Statewide Rule 3.32(h)(3).

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators. No protests to the application were received.

2. The Priest Unit is located in the Eagleville (Eagle Ford-1) Field, Gonzales County, Texas.

3. EOG received Permit No. 18120 for the Priest Unit granting an exception to Statewide Rule 32 for a total of 180 days, the maximum length of time an exception to Statewide Rule 32 may be granted administratively for volumes greater than 50 MCF per day.

4. Permit No. 18120 authorized EOG to flare a maximum of 80 MCF per day of casinghead gas from the Priest Unit.

5. The Commission received a request for hearing from EOG on November 7, 2014, to consider a further exception to Statewide Rule 32 for the Priest Unit to flare casinghead gas.

6. There is a single well producing on the Priest Unit and EOG has no plans to drill additional wells on the unit at this time.

7. The average H_2S concentration in the gas produced from the subject lease has ranged between 5,000 to 5,500 ppm over the past three months.

8. The nearest pipeline to the Priest Unit is an EOG sweet gas line located approximately 2 miles away.

9. The nearest sour gas line to the Priest Unit is located approximately 7 miles from the Priest Unit.

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. Exceptions may be granted under Title 16, Texas Administrative Code 3.32(h).

4. Renewals and amendment of exceptions may be granted under Title 16, Texas Administrative Code 3.32(i).

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 as requested by EOG Resources, Inc. for the Priest Unit for a period of 18 months.

Respectfully submitted,

Karl Caldwell
Technical Examiner

John Dodson
Legal Examiner