RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0295643

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE JAGGER UNIT, EAGLEVILLE (EAGLE FORD-1) FIELD, KARNES COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0295964

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE COLLINS UNIT, EAGLEVILLE (EAGLE FORD-1) FIELD, GONZALES COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0295668

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE KODIAK UNIT, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Terry Johnson – Legal Examiner

HEARING DATE: April 24, 2015
RECORD CLOSED: April 24, 2015
SUBMISSION DATE: August 12, 2015
CONFERENCE DATE: August 25, 2015

APPEARANCES:	**REPRESENTING:**
APPLICANT:	
Doug Dashiell Jeff Perry	EOG Resources, Inc.

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EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The captioned dockets were heard on a joint record at the April 24th hearing. EOG Resources, Inc. ("EOG") was the only party present at the hearing. The applications are unprotested and the Examiners recommend that they be approved, as requested by EOG.

Pursuant to 16 Tex. Admin. Code §3.32, EOG seeks authority to continue flaring casing-head gas from each of the subject leases as follows:

1. Jagger Unit: 100 MCFGD from 03/06/2015 to 03/06/2016;
2. Collins Unit: 150 MCFGD from 4/17/2015 to 4/17/2016;
3. Kodiak Unit: 100 MCFGD from 04/01/2015 to 04/01/2016.

DISCUSSION OF THE EVIDENCE

Mr. Jeff Perry, Senior Foreman for Pipeline Integrity, testified on behalf of EOG. All offset operators for each captioned docket were provided notice and an opportunity to participate in the hearing.

Applicable Rules

In general, 16 Tex. Admin. Code §3.32 ("SWR 32") governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Titled "Exceptions," SWR 32(h) states:

> Requests for exceptions for more than 180-days and for volumes greater than 50 mcf of hydrocarbon gas per day shall be granted only in a final order signed by the commission.

Jagger Unit

EOG seeks authority to flare up to 100 MCFGD from the Jagger Unit (Drilling Permit No. 02-785891) for one year, beginning on March 6, 2015. The Jagger Unit is comprised of one well (Well No. 1H; API No. 42-255-33872).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for 180-days on the Jagger as follows (Flare Permit No. 19448):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	150	9/6/2014	12/5/2014 (90 days)
2.	150	12/6/2014	3/5/2015 (90 days)

By letter dated February 17, 2015, EOG timely submitted its hearing request for the Jagger Unit.

The Jagger Unit, Well No. 1H produces sour casinghead gas concentrations that 0.3% hydrogen-sulfide ("H_2S"). Mr. Perry testified that on February 30, 2015, the Jagger Unit was measured for sour gas concentrations and found approximately 2,800 parts per million ("ppm") H_2S.

Mr. Perry testified that the closest existing sour gas market pipeline to the Jagger Unit is located over five miles southwest of the Jagger Unit's surface location.[1] He testified that EOG operates a sweet gas pipeline system approximately 1.6 miles southeast of the Jagger Unit, and that Energy Transfer Company (ETC) operates a sweet pipeline system approximately 1.4 miles from the Jagger Unit. Mr. Perry testified, however, that the cost to remove H_2S from the Jagger Unit so that its casinghead gas meets the pipeline quality standards required by ETC for acceptance is too great.[2]

EOG submitted an economic forecast of the finiancial expenses it anticipates if it is not granted its relief sought for the Jagger Unit.[3] In summary, Mr. Perry testified that it would cost $1,800,000 to lay a six-inch sour gas pipeline from the Jagger Unit to the nearest sour gas market pipeline. He testified that if EOG proceeded to install the mentioned six-inch sour gas pipeline, then it would take roughly 23 years for EOG to receive its return on investment.

Mr. Perry testified that the Jagger Unit produced roughly 70 MCFG per day from April 20th through March 20, 2015. He testified that at some point in the future, he anticipates that the Jagger Unit's daily casinghead gas production volume will fall below 50 MCFGD.[4] Based on the mentioned economic conditions, EOG requests authority to flare up to 100 MCFGD of casinghead gas for one year from the Jagger Unit.[5]

Collins Unit

EOG seeks authority to flare up to 150 MCFGD from the Collins Unit (Lease ID 17906) for one year, beginning on April 17, 2015. The Collins Unit is comprised of one well (Well No. 1H; API No. 42-177-33306).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for 180-days on the Collins Unit as follows (Flare Permit No. 20257):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	200	10/26/14	1/15/15 (90 days)
2.	200	1/16/15	4/16/15 (90 days)

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[1] EOG Exh. No. 1, Tab 6 submitted for O&G 01-0295643.
[2] Testimony at 15:25 of audio recording.
[3] EOG Exh. No. 1, Tab 5 submitted for O&G 01-0295964.
[4] Testimony at 16:44.
[5] Testimony at 20:20 of audio recording.

By letter dated March 10, 2015, EOG timely submitted its hearing request for the Collins Unit.

Mr. Perry testified that the Collins Unit, Well No. 1H produces sour casinghead gas concentrations that average 1.5 to 1.6% H_2S. He also testified that on Februay 30, 2015, the Collins Unit was measured for sour gas concentrations and found approximately 15,500 ppm H_2S.

Mr. Perry testified that EOG has installed a gas gathering system throughout the area surrounding the Collins Unit, and at times has treated the sour casinghead gas to meet the preferred sales pipeline's gas quality standards. Mr. Perry testified that the daily net return of treating the H_2S-laced casinghead gas at the Collins Unit is (-) $769. In other words, Mr. Perry testified that EOG loses $769 per day to treat the sour casinghead gas.

However, Mr. Perry testified that it is uneconomic for EOG to treat the sour casinghead gas for H_2S. Thus, the basis for EOG's requested relief sought in the immediate case for the Collins Unit. Mr. Perry testified that the nearest market facility to accept sour casing head gas is located 12.8 miles southwest of the Collins Unit and is owned by Regency Pipeline.[6]

EOG submitted an estimate of the finiancial expenses it anticipates if it is not granted its relief sought for the Collins Unit.[7] Mr. Perry testified that it would cost $4,384,800 to lay a six-inch sour gas pipeline from the Collins Unit to mentioned Regency Pipeline. Furthermore, Mr. Perry testified that based on a five year payout, at 20% rate of return, the mentioned expense of laying a six-inch pipeline would create a net loss of (-) $3,672,776.

EOG submitted daily production volumes that were measured at the Collins Unit between April 20, 2015 and July 21, 2014. Beginning on November 10, 2014, EOG has flared all casinghead gas from the Collins Unit nearly each following day. Moving forward from April 20th, Mr. Perry testified that he projects the daily casinghead production volume to be roughly 150 MCFG.[8]

Kodiak Unit

EOG seeks authority to flare up to 100 MCFGD from the Kodiak Unit (Lease ID 17208) for one year, beginning on April 1, 2015. The Kodiak Unit is comprised of one well (Well No. 1H; API No. 42-013-34635).

EOG received three administrative approvals from the Oil and Gas Division to flare casing-head gas for 180-days on the Kodiak as follows (Flare Permit No. 19814):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	125	9/16/2014	03/31/2015 (180 days)

[6] *Compare* testimony at 4:30 of audio recording *with* EOG's Exh. No. 1, Tab. 6 submitted for O&G 01-0295964.
[7] EOG Exh. No. 1, Tab 5 submitted for O&G 01-0295964.
[8] Testimony at 5:58 of audio recording.

By letter dated February 17, 2015, EOG timely submitted its hearing request for the Kodiak Unit.

The Kodiak Unit, Well No. 1H produces sour casinghead gas concentrations that 3.0% H_2S. Mr. Perry testified that on February 30, 2015, the Jagger Unit was measured for sour gas concentrations and found approximately 30,00 ppm H_2S.

Mr. Perry testified that Regency Pipeline's nearest market pipeline transects immediately south of the Kodiak Unit.[9] He testified, however, that the Regency Pipeline operates at a maximum sour gas pipeline concentration of 20,000 ppm at 1,150 pounds per square inch. Thus, the cost to remove H_2S from the Kodiak Unit so that its casinghead gas meets the pipeline quality standards required by Regency Pipeline for acceptance is too great.[10]

EOG submitted an economic tabulation of the finiancial expenses it anticipates if it is not granted its relief sought for the Kodiak Unit.[11] Mr. Perry testified that it would cost $86,000 to lay a six-inch sour gas pipeline from the Jagger Unit to the nearest sour gas market pipeline. He testified that if EOG proceeded to install the mentioned six-inch sour gas pipeline, then it would take roughly 7.5 years for EOG to receive its return on investment.

The Kodiak Unit produced roughly 80 MCFG per day from April 20th through March 20, 2015.[12] Based on the mentioned economic conditions, EOG requests authority to flare up to 100 MCFGD of casinghead gas for one year from the Jagger Unit.[13]

FINDINGS OF FACT

1. EOG Resources, Inc. ("EOG") seeks an exception to 16 Texas Admin. Code §3.32 to flare casing-head gas derived from the Eagleville (Eagle Ford-1) Field on the Jagger Unit, Collins Unit, and Kodiak Unit ("Subject Leases") in the following manner ("Subject Applications"):

   a. Jagger Unit: 100 MCFGD from 03/06/2015 to 03/06/2016
   b. Collins Unit: 150 MCFGD from 4/17/2015 to 4/17/2016
   c. Kodiak Unit: 100 MCFGD from 04/01/2015 to 04/01/2016

2. Notice of Hearing was provided to all immediate offsetting operators adjacent to the Subject Leases in Oil & Gas Docket Nos. 01-0295643, 01-0295668 and 01-0295964, heard on April 24, 2015.

3. EOG received administrative authority to flare the listed casing-head gas volume that corresponds with each of the Subject Leases during the following time frames (MCFGD represents 1,000 cubic feet of gas per day):

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[9] EOG Exh. No. 1, Tab 6 submitted for O&G 01-0295668
[10] Testimony at 24:05 of audio recording.
[11] Exh. No. 1, Tab 5 submitted for O&G 01-0295668.
[12] EOG Exh. No. 1, Tab 3 submitted for O&G 01-0295668.
[13] Testimony at 30:00 of audio recording.

a. Jagger Unit:	9/6/14 through 3/05/15	150 MCFGD
b. Collins Unit:	10/26/14 through 4/16/15	200 MCFGD
c. Kodiak Unit:	9/16/14 through 3/21/15	125 MCFGD

4. EOG's administrative authority to flare from each of the Subject Leases expired on the following days:

a. Jagger Unit:	3/05/15
b. Collins Unit:	4/16/15
c. Kodiak Unit:	3/21/15

5. EOG submitted hearing requests to the Commission for the Subject Applications on February 17, 2015, and March 10, 2015.

6. Approval of the subject application is reasonable and appropriate, pursuant to 16 Tex. Admin. Code §3.32

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas – Tex. Nat. Res. Code §81.051.

2. Legally sufficient notice has been provided to all affected persons.

3. The requested rates and time frames to flare casing-head gas, as described in Finding of Fact No. 1, satisfies the requirements of Title 16 TAC §§3.32.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commision grant exceptions to flare up casing-head gas from the Subject Leases as described in Finding of Fact No. 1 above.

Respectfully submitted,

Brian Fancher, P.G.
Technical Examiner

Terry Johnson
Legal Examiner