RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0297621

THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO. – USA FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR FOR THE KUYKENDALL LEASE WELL NOS. 1H & 2H AND THE PEELER LEASE, WELL NO. 2H, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA AND MCMULLEN COUNTIES, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Randall Collins – Administrative Law Judge

HEARING DATE: September 25, 2015
CONFERENCE DATE: December 8, 2015

APPEARANCES: **REPRESENTING:**

APPLICANT: Murphy Exploration & Production Co. – USA

Kelli Kenney
Nathan Bishop
Brent Sonnier
Chris Vergona

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Murphy Exploration & Production Co. – USA ("Murphy") requests an exception to Statewide Rule 32 for the Kuykendall Lease and the Peeler Lease, to flare casinghead gas. Wells on the subject leases are completed in the Eagleville (Eagle Ford-1) Field, Atascosa and McMullen Counties, Texas. Notice was provided to offset operators in the field surrounding the leases and no protests were received. The applications are unprotested and the Examiners recommend approval of an exception to Statewide 32 for both leases.

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. For the subject application, Murphy was granted a two year exception to Statewide Rule 32 for the Kuykendall Lease in Final Order 01-0283649 to flare casinghead gas from August 20, 2013 to August 19, 2015. The Peeler Lease, Well No. 2H ("Peeler 2H"), was granted Permit No. 21186, effective March 3, 2015 to June 1, 2015 to flare a maximum of 185 Mcf per day of casinghead gas. The permit was extended from June 2, 2015 to August 31, 2015 to flare a maximum casinghead gas volume of 250 Mcf per day. Due to the upcoming expiration of each authorization to flare gas pursuant to Statewide Rule 32, the Commission received a request for hearing on July 28, 2015 to extend the current flaring authority for both of the subject leases.

Two wells have been completed on the Kuykendall Lease (Lease No. 01-16435), the Kuykendall Lease Well Nos. 1H (API No. 42-311-35009) and 2H (API No. 42-311-35098). The Form W-2 for the Kuykendall Lease, Well No. 1H shows the well was completed on February 13, 2013. On a 24-hour initial potential test conducted on February 22, 2013 the well produced 535 BOPD, 139 Mcf of casinghead gas, and 165 barrels of water (BWPD). The well was tested at a flowing tubing pressure of 2,750 psi. The Form W-2 for the Kuykendall Lease, Well No. 2H shows the well was completed on February 16, 2013. An initial potential test was conducted on March 4, 2013. Over a 24-hour period the well produced 326 BOPD, 189 Mcf of casinghead gas, and 296 BWPD. The well was tested at a flowing tubing pressure of 2,000 psi. Murphy has no plans at this time to drill additional wells on the lease.

The Kuykendall Lease was previously granted a two year exception to Statewide Rule 32 due to the relatively low gas volumes produced from the two wells completed on the lease. The two-year period would allow Murphy time to evaluate options for disposition of the gas from the lease. A DCP pipeline runs through the middle of the Kuykendall Lease. Murphy investigated tying into the DCP pipeline, however this line is a sweet gas pipeline with a maximum H_2S concentration limit of 4 parts per million (ppm). Nathan Bishop, Murphy's facilities engineering team lead, testified that the gas produced from the Kuykendall Lease Well Nos. 1H and 2H contains 9,000 to 9,500 ppm H_2S. The cost to treat the gas to a limit acceptable for the DCP pipeline is $12 per Mcf. Therefore, Murphy has determined that it is uneconomic to treat the gas to enter the DCP pipeline.

An Access MLP/Williams pipeline is located nearby which is connected to a Regency system. This pipeline will accept gas with H_2S concentrations up to a maximum of 12,000 ppm. Murphy estimates approximately 1.5 miles of pipeline would be required to connect to this sales line. The estimated cost to build a 1.5 mile pipeline and an associated facility is $3,720,000. Individual well production of gas from the Kuykendall Lease Well Nos. 1H and 2H is currently below 50 Mcf per day. Murphy may request an administratively-granted permanent exception to flare gas for volumes less than 50 Mcf per day. However, since flared gas volumes are reported to the Commission on a per-lease basis for oil leases, the combined lease production for the Kuykendall Lease is currently greater than 50 Mcf per day. Gas production continues to decline for the the Kuykendall Lease, Well Nos. 1 and 2, and due to the current economic environment; Murphy has no plans to drill additional wells on the lease at this time. As a result, Murphy is requesting a subsequent two-year exception to Statewide Rule 32 to flare a maximum of 90 Mcf of casinghead gas per day.

The Peeler Lease (Lease No. 01-18304), Well No. 2H, API No. 42-031-35189, ("Peeler 2H") is completed in the Eagleville (Eagle Ford-1) Field in Atascosa County. Murphy is also requesting an exception to Statewide Rule 32 to flare casinghead gas from the Peeler 2H as the lease currently lacks infrastructure for gas sales. The Form W-2 for the Peeler 2H shows the well was completed on February 21, 2015. On a 24-hour initial potential test the well produced 331 BOPD, 180 Mcf of casinghead gas, and 89 BWPD at a flowing tubing pressure of 248 psi.

The Peeler 2H was granted Permit No. 21186, effective March 3, 2015 to June 1, 2015 to flare a maximum of 185 Mcf of casinghead gas per day. The permit was extended from June 2, 2015 to August 31, 2015 to flare a maximum casinghead gas volume of 250 Mcf per day. The total time period encompassed a total of 180 days, the maximum period of time an exception to Statewide Rule 32 may be granted administratively for volumes greater than 50 Mcf per day. The Peeler 2H is adjacent to the Peeler SW Lease, where the Peeler SW Lease Well No. 1H ("Peeler 1H") is completed. The Peeler 1H was granted a two-year exception to Statewide Rule 32 in Final Order No. 01-0284543, effective November 6, 2013 to December 31, 2015 to flare a maximum volume of 330 Mcf of casinghead gas per day.

In investigating the associated costs to get the Peeler 2H gas to sales, Murphy has included the Peeler 1H gas production in the costs estimates. Although the Peeler 1H and the Peeler 2H wells are completed on different leases, a pipeline connection would be run in close proximity to each of the leases. Gas production from both wells is declining. The current gas production from the Peeler 2H is 150 Mcf per day. The combined gas production from the Peeler 1H and 2H is 215 Mcf per day. In the economic analysis, Murphy assumed a 4.35 mile pipeline would be required to tie into a sales line and a permanent tank battery installation would be required. Murphy estimates a cost of $2,080,000 to complete the pipeline, and an additional cost of $1,300,000 to install a permanent tank battery, for a total cost of $3,380,000. Based on the current production rate of the Peeler 2H, Murphy is forecasting gas production to decline below 50 Mcf per day by March 2017. Since the adjacent Peeler 1H was granted a two-year exception to Statewide Rule 32, Murphy is requesting a two-year exception for the Peeler 2H to flare a maximum of 150 Mcf of casinghead gas per day to account for any possible fluctuations in gas production rate during this period.

FINDINGS OF FACT

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

2. Two wells have been completed on the Kuykendall Lease, the Kuykendall Lease Well Nos. 1H and 2H. .

3. The Kuykendall Lease Well Nos. 1H and 2H are completed in the Eagleville (Eagle Ford-1) Field.

4. The Kuykendall Lease was previously granted a two year exception to Statewide Rule 32 in Final Order No. 01-0283649.

5. The gas production on an individual well basis from the two wells completed on the Kuykendall Lease is currently below 50 Mcf per day and production from both wells is declining. The combined lease production for the Kuykendall Lease Well Nos. 1 and 2 is currently greater than 50 Mcf per day.

6. Murphy has no plans to drill additional wells on the lease at this time.

7. The Peeler Lease, Well No. 2H is completed in the in the Eagleville (Eagle Ford-1) Field in Atascosa County.

8. The Peeler Lease lacks infrastructure for gas sales.

9. The Peeler 2H was granted Permit No. 21186, effective March 3, 2015 to August 31, 2015 to flare casinghead gas.

10. The Peeler 2H gas production is forecasted to be less than 50 Mcf per day by March 2017.

11. The Peeler Lease is adjacent to the Peeler SW Lease, where the Peeler 1H is completed.

12. The Peeler 1H, was granted a two-year exception to Statewide Rule 32 in Final Order 01-0284543, effective November 6, 2013 to December 31, 2015.

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. Title 16, Texas Administrative Code 3.32(h) provides an exception to flare casinghead gas.

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 Kuykendall Lease and the Peeler Lease as requested by Murphy Exploration & Production Co. – USA.

Respectfully submitted,

Karl Caldwell
Technical Examiner

Randall Collins
Administrative Law Judge