RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0299576

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO 16 TEX.ADMIN. CODE § 3.32 FOR THE TIBETAN RED UNIT, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0299577

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO 16 TEX.ADMIN. CODE § 3.32 FOR THE JENDRUSCH-GEROLD UNIT, EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0299700

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

OIL AND GAS DOCKET NO. 01-0299701

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

OIL AND GAS DOCKET NO. 02-0299702

THE APPLICATION OF EOG RESOURCES, INC. FOR AN EXCEPTION TO 16 TEX.ADMIN. CODE § 3.32 FOR THE HUBBERT UNIT, EAGLEVILLE (EAGLE FORD-2) FIELD, KARNES COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: March 24, 2016
RECORD CLOSED: March 24, 2016

SUBMISSION DATE: March 30, 2016
CONFERENCE DATE: April 12, 2016

APPEARANCES: **REPRESENTING:**

APPLICANT:

Doug Dashiell — EOG Resources, Inc.
Jeff Perry

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

The captioned dockets were heard on a joint record at the March 30th hearing. EOG Resources, Inc. ("EOG") was the only party present at the hearing. The applications are unprotested. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend the application be approved.

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. Tibetan Red Unit: 180 MCFGD for two years, effective February 13, 2016;
2. Jendrusch-Gerold Unit: 60 MCFGD for two years, effective February 03, 2016;
3. Shovler Unit: 170 MCFGD for two years, effective March 25, 2016;
4. Bilbo Unit: 1,000 MCFGD for 18 months, effective March 31, 2016; and
5. Hubbert Unit: 60 MCFGD for two years, effective March 31, 2016.

DISCUSSION OF THE EVIDENCE

Jeff Perry, Senior Foreman for Pipeline Integrity testified on behalf of EOG. Notice of the subject applications were sent through U.S. mail to all operators of record that immediately offset each of the subject units on February 8, 2016.

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. EOG seeks relief in this case pursuant to SWR 32(f)(2)(D), as follows:

> The commission or the commission's delegate may administratively grant or renew an exception to the requirements of limitations of this subsection subject to the requirements of subsection (h)...if the operator of a well or production facility presents information to show the necessity for the release...

SWR 32(h)(4) 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.

Shovler Unit

EOG seeks authority to flare up to 170 million cubic feet of gas ("MMCF") per day ("MCFGD") from the Shovler Unit for two years, effective March 25, 2016. The surface facility at the Shovler Unit handles production from two wells (Shovler Unit, Well No. 1H, API No. 42-013-35241; Merganser Lease, Well No. 1H, API No. unknown).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for a total of 180-days on the Shovler Unit, as follows (Flare Permit No. 24262):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	350	9/25/2015	12/24/2015 (90 days)
2.	200	12/25/2015	03/24/2016 (90 days)

By letter dated February 9, 2016, EOG timely submitted its hearing request for the Shovler Unit.

The Shovler Unit well and the Merganser Lease well produce sour casinghead gas concentrations of 20,000 parts per million ("ppm") of hydrogen sulfide ("H_2S"). EOG submitted an economic forecast of the financial expenses it anticipates if it is not granted the relief sought for the Shovler Unit. Mr. Perry testified that the current flow rate of the wells of 0.160 MMCFD results in high treating costs and pipeline infrastructure in order to sell the product. Mr. Perry testified that it would cost $720,000 to lay a four-inch sour gas pipeline from the Shovler Unit to the nearest sour gas market pipeline located three miles away. He testified that if EOG proceeded to install the mentioned four-inch sour gas pipeline, then it would take roughly nine years for EOG to receive its return on investment. Furthermore, based on a five-year payout, at 20% rate of return, EOG would lose about $328,696. Mr. Perry testified that the estimates are based on current production rates and because the well production rates will continue to decline, the estimates are a "best case scenario".

EOG submitted a compilation of production volumes measured at the Shovler Unit from September 1, 2014 through March 20, 2016. The total volumes of casinghead gas flared at the Shovler Unit in March 2016 spanned from 102 to 156 MCFG per day. Based on the mentioned economic conditions, EOG requests authority to flare up to 170 MCFGD of casinghead gas for two years from the Shovler Unit because it argues that it will not be able to economically recover and sell that casinghead gas.

Hubbert Unit

EOG seeks authority to flare up to 60 MCFGD from the Hubbert Unit for two years, effective March 31, 2016. The surface facility at the Hubbert Unit handles production from one well (Hubbert Unit, Well No. 1H, API No. 42-255-33080).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for a total of 180-days on the Hubbert Unit, as follows (Flare Permit No. 24719):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	75	10/04/2015	12/30/2015 (90 days)
2.	100	12/31/2015	03/30/2016 (90 days)

By letter dated February 9, 2016, EOG timely submitted its hearing request for the Shovler Unit.

The Hubbert Unit, Well No. 1H produces sour casinghead gas concentrations of 8,000 ppm of H_2S. EOG submitted an economic forecast of the financial expenses it anticipates if it is not granted the relief sought for the Hubbert Unit. Mr. Perry testified that the current flow rate of the well of 0.060 per day results in high treating costs and pipeline infrastructure in order to sell the product. Mr. Perry testified that it would cost $1,080,000 to lay a four-inch sour gas pipeline from the Hubbert Unit to the nearest sour gas market pipeline located 4.5 miles away. He testified that if EOG proceeded to install the four-inch sour gas pipeline, then it would take roughly 37 years for EOG to receive its return on investment. Based on a five year payout, at 20% rate of return, EOG would lose about $933,261 if it were to lay that four-inch pipeline to the nearest market pipeline. Mr. Perry testified that the Hubbert Unit is surrounded by sweet gas pipelines owned by EOG. However, the cost to treat that sour casinghead gas to remove the H_2S results in a loss of about $108 per day to EOG because the Hubbert Unit, Well No. 1H casinghead gas contains relatively high concentrations of H_2S. Mr. Perry testified that these estimates are based on current production rates and because the well production rates will continue to decline, the estimates are a "best case scenario".

EOG submitted a compilation of production volumes measured at the Hubbert Unit from September 28, 2013 through March 20, 2016. The total volumes of casinghead gas flared at the Hubbert Unit in March 2016 spanned from 50 to 60 MCFG per day. Based on the mentioned economic conditions, EOG requests authority to flare up to 60 MCFGD of casinghead gas for two years from the Hubbert Unit because it argues that it will not be able to economically recover and sell that casinghead gas.

Bilbo Unit

EOG seeks authority to flare up to 1,000 MCFGD from the Bilbo Unit for eighteen months, effective March 31, 2016. The surface facility at the Bilbo Unit handles production from two wells (Bilbo Unit, Well Nos. 1H and 2H; API No. 42-311-36288, API No. unknown, respectively).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for a total of 180-days on the Bilbo Unit, as follows (Flare Permit No. 24720):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	250	10/01/2015	12/30/2015 (90 days)
2.	300	12/31/2015	03/30/2016 (90 days)

By letter dated February 9, 2016, EOG timely submitted its hearing request for the Bilbo Unit.

The Bilbo Unit produces sour casinghead gas concentrations of 15,000 ppm of H_2S. Mr. Perry testified that the current flow rate of the wells of 0.900 MMCFD results in high treating costs and pipeline infrastructure in order to sell the product. Mr. Perry testified that under normal operating conditions, EOG does not need to flare casinghead gas at the Bilbo Unit. He testified, however, that EOG needs to flare casinghead gas intermittently at the Bilbo Unit due predominantly to sales point downtime. For instance, EOG submitted a compilation of production volumes measured at the Bilbo Unit March 7, 2015 through March 20, 2016. That compilation shows that between February 1 and March 20, 2016, EOG flared volumes above 100 MCFG on 15 days. Furthermore, EOG flared volumes less than 5 MCFG on 27 days and 0 MCFG on 12 days during that period. On February 4, 2016, the Bilbo Unit flared 900 MCFG. From December 24 to May 9, 2015, the Bilbo Unit flared between 1,046 to 3,282 MCFG per day. Mr. Perry testified that these estimates are based on current production rates and because the well production rates will continue to decline, the estimates are a "best case scenario".

Again, the Bilbo Unit is currently connected to a sour gas pipeline. EOG submitted an economic forecast of the financial expenses it anticipates if it is not granted its relief sought for the Bilbo Unit. Mr. Perry testified that EOG would encounter a loss of roughly $7,000 per day to remove the H_2S from casinghead gas on the Bilbo Unit for sales into a sweet gas pipeline, in addition to the fact that it is already currently connected to a sour gas pipeline. EOG plans to tie into a different low-pressure gas gathering system in the next 12 months, which will include an extra 6.8 miles of 12-inch pipe at $6.5 million and a $3 million booster station. Therefore, EOG requests authority to flare up to 1,000 MCFGD of casinghead gas for eighteen months from the Bilbo Unit.

Tibetan Red Unit

EOG seeks authority to flare up to 180 MCFGD from the Tibetan Red Unit for two years, effective February 13, 2016. The Tibetan Red Unit is comprised of one well (Well No. 1H; API No. 42-013-35241).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for a total of 180-days on the Tibetan Red Unit, as follows (Flare Permit No. 23238):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	400	7/20/2015	10/18/2015 (73 days)
2.	200	10/19/2015	2/12/2016 (107 days)

By letter dated January 28, 2016, EOG timely submitted its hearing request for the Tibetan Red Unit.

The Tibetan Red Unit, Well No. 1H produces sour casinghead gas concentrations of 12,000 ppm of H_2S. EOG submitted an economic forecast of the financial expenses it anticipates if it is not granted the relief sought for the Tibetan Red Unit. Mr. Perry testified that the current flow rate of the well of 0.150 MMCFD results in high treating costs and pipeline infrastructure in order to sell the product. Mr. Perry testified that it would cost $480,000 to lay a four-inch sour gas pipeline from the Tibetan Red Unit to the nearest sour gas market pipeline located three miles away. He testified that if EOG proceeded to install the mentioned four-inch sour gas pipeline, then it would take roughly 6.5 years for EOG to receive its return on investment. Furthermore, based on a five-year payout, at 20% rate of return, EOG would lose about $110,769. Mr. Perry testified that the estimates are based on current production rates and because the well production rates will continue to decline, the estimates are a "best case scenario".

EOG submitted a compilation of production volumes measured at the Tibetan Red Unit from September 30, 2015 through March 20, 2016. The total volumes of casinghead gas flared at the Tibetan Red Unit spanned from 150 to 551 MCFG per day during that period. Based on the mentioned economic conditions, EOG requests authority to flare up to 180 MCFGD of casinghead gas for two years from the Tibetan Red Unit because it argues that it will not be able to economically recover and sell that casinghead gas.

Jendrusch-Gerold Unit

EOG seeks authority to flare up to 60 MCFGD from the Jendrusch-Gerold Unit for two years, effective February 3, 2016. The surface facility at the Jendrusch-Gerold Unit handles production from two wells (Jendrusch-Gerold Unit, Well Nos. 1H and 2H; API No. 42-013-34326; API No. unknown, respectively).

EOG received two administrative approvals from the Oil and Gas Division to flare casing-head gas for a total of 180-days on the Jendrusch-Gerold Unit, as follows (Flare Permit No. 23792):

	Volume (MCFGD)	Effective Date	Expiration Date
1.	100	8/01/2015	10/30/2015 (90 days)
2.	100	10/31/2015	01/29/2016 (90 days)

By letter dated January 28, 2016, EOG submitted its hearing request for the Jendrusch-Gerold Unit.

The Jendrusch Gerold Unit produces sour casinghead gas concentrations that 600 ppm of H_2S. Mr. Perry testified that the current flow rate of the well of 0.050 MMCFD per day results in high treating costs and pipeline infrastructure in order to sell the product. EOG submitted an economic forecast of the financial expenses it anticipates if it is not granted the relief sought for the Jendrusch-Gerold Unit. Mr. Perry testified that it would cost $480,000 to lay a four-inch sour gas pipeline from the Jendrusch-Gerold Unit to the nearest sour gas market pipeline located three miles away. He testified that if EOG proceeded to install the mentioned four-inch sour gas pipeline, then it would take roughly nine years for EOG to receive its return on investment. Furthermore, based on a five-year payout, at 20% rate of return, EOG would lose about $357,551. Mr. Perry further testified that the estimates are based on current production rates and because the well production rates will continue to decline, the estimates are a "best case scenario".

EOG submitted a compilation of production volumes measured at the Jendrusch-Gerold Unit from August 17, 2015 through March 20, 2016. The total volumes of casinghead gas flared at the Jendrusch-Gerold Unit in March 2016 spanned from 35 to 68 MCFG per day. Based on the mentioned economic conditions, EOG requests authority to flare up to 60 MCFGD of casinghead gas for two years from the Jendrusch-Gerold Unit because it argues that it will not be able to economically recover and sale that casinghead gas.

FINDINGS OF FACT

1. EOG Resources, Inc. ("EOG") seeks an exception to 16 TEX. ADMIN. CODE § 3.32 to flare casing-head gas derived from the Eagleville (Eagle Ford-1) and Eagleville (Eagle Ford-2) Fields as follows ("Subject Application"):

   a. Tibetan Red Unit: 180 MCFGD for two years, effective February 13, 2016;
   b. Jendrusch-Gerold Unit: 60 MCFGD for two years, effective February 03, 2016;
   c. Shovler: 170 MCFGD for two years, effective March 25, 2016;
   d. Bilbo: 1,000 MCFGD for 18 months, effective March 31, 2016; and
   e. Hubbert: 60 MCFGD for two years, effective March 31, 2016.

2. Notice of Hearing was provided to all immediate offsetting operators adjacent to the Subject Leases in Oil & Gas Docket Nos. 01-0299576; 01-0299577; 01-0299700; 01-0299701; and 02-0299702, heard on March 24, 2016.

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

a. Tibetan Red Unit:	07/20/15 through 10/18/15	400 MCFGD
	10/19/15 through 02/12/16	200 MCFGD
b. Jendrusch-Gerold Unit:	08/01/15 through 10/30/15	100 MCFGD
	10/31/15 through 01/29/16	100 MCFGD

c. Shovler Unit:	09/25/15 through 12/24/15	350 MCFGD
	12/25/15 through 03/24/16	200 MCFGD
d. Bilbo Unit:	10/01/15 through 12/30/15	250 MCFGD
	12/31/15 through 03/30/16	300 MCFGD
e. Hubbert Unit:	10/04/15 through 12/30/15	75 MCFGD
	12/31/15 through 03/30/16	100 MCFGD

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

a. Tibetan Red Unit:	02/12/16
b. Jendrusch-Gerold Unit:	01/29/16
c. Shovler Unit:	03/24/16
d. Bilbo Unit:	03/30/16
e. Hubbert Unit:	03/30/16

5. EOG submitted hearing requests to the Commission for the Subject Applications on February 9, 2016; February 9, 2016; February 9, 2016; January 28, 2016; and January 28, 2016 for the Tibetan Red Unit, Jendrusch-Gerold, Shovler Unit; Bilbo Unit; and Hubbert Unit, respectively.

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..

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 TEX. ADMIN. CODE § 3.32.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission 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

Jennifer Cook
Administrative Law Judge