RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NOS. 02-0301667, 02-0301663, 01-0301673, 01-0301669, 01-0301695, 01-0301670, 02-0301668, 01-0301665 AND 02-0301672

THE APPLICATIONS OF EOG RESOURCES, INC. FOR EXCEPTIONS TO STATEWIDE RULE 32 FOR VARIOUS FACILITIES IN THE EAGLEVILLE (EAGLE FORD-1) AND EAGLEVILLE (EAGLE FORD-2) FIELDS, ATASCOSA, GONZALES, KARNES, AND WILSON COUNTIES, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Ryan Lammert – Administrative Law Judge

HEARING DATE: November 3, 2016

CONFERENCE DATE: December 6, 2016

APPEARANCES:

Doug Dashiell
Jeffrey Perry — EOG Resources, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

EOG Resources, Inc. seeks exceptions to 16 TAC §3.32 (Statewide Rule 32) to flare gas from nine flare points. The nine flare points are located at oil and gas gathering facilities that are connected to gas sales pipelines. However, the pipelines cannot accommodate the sour gas produced from the subject facilities. EOG provided evidence that the cost to either construct treatment facilities or build pipelines to sour gas sales points is prohibitive. At the hearing, EOG requested that its application for an exception to Statewide Rule 32 for the Fischer Unit (Docket No. 02-0301667) be dismissed as there is no longer an on-going need to flare gas from this facility. Therefore, EOG seeks authority to flare from 70 to 150 thousand cubic feet (mcf) of gas from each of the eight remaining subject facilities for a period of up to two years. The applications were not protested. The Technical Examiner and Administrative Law Judge (collectively referred to as "Examiners") recommend the applications be granted.

DISCUSSION OF THE EVIDENCE

EOG requests exceptions to flare gas from a number of leases that produce from the Eagleville (Eagle Ford-1) and Eagleville (Eagle Ford-2) Fields in Atascosa, Gonzales, Karnes and Wilson Counties, Texas. Generally, Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. EOG seeks relief in the captioned dockets pursuant to Statewide Rule 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...*

Statewide Rule 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.*

Because EOG requests exceptions for more than 180 days and to flare more than 50 mcf of hydrocarbon gas per day, the procedure to address EOG's request for an exception is through a hearing resulting in a final order signed by the Commission.

Docket No. 02-0301667 – The Fischer Unit

At the hearing, EOG requested that its application for an exception to Statewide Rule 32 for the Fischer Unit (Docket No. 02-0301667) be dismissed as there is no longer an on-going need to flare gas from this facility.

Docket No. 02-0301663 – The Virgil Unit

The Virgil Unit (Lease No. 02-10874) produces from the Eagleville (Eagle Ford-2) Field in Karnes County, Texas. There is currently one well on the unit. The Virgil Unit Well No. 1H was completed in June 2014. On initial potential testing the well produced 1,611 barrels of oil and 835 mcf gas. In December 2014, EOG filed a Form H-9 documenting 900 ppm hydrogen sulfide ("H_2S") in the produced gas.

Currently the unit produces about 70 mcf gas per day, all of which is flared. Commission staff granted EOG administrative authority (Permit No. 26575) to flare up to 250 mcf of gas per day from the Virgil Unit from March 17, 2016, until September 14, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 70 mcf gas per day from the Virgil Unit facility for a period of two years, from September 15, 2016 through September 13, 2018. EOG provided evidence that the cost to treat the sour gas to sweet gas specifications for pipeline sales would result in a near break-even $44 per day, which would likely not be realized due to treatment inefficiencies and production decline. Such a small daily profit, according to EOG, would also have negative implications for Securities and Exchange Commission reporting matters. Also, EOG reports the altnernative cost to construct a 4.19 mile sour gas pipeline to bring the gas to market is not economically viable and would result in a five-year loss of about $677,582.

Docket No. 01-0301673 – The Sallis Bouldin Unit

The Sallis Bouldin Unit (Lease No. 01-16779) produces from the Eagleville (Eagle Ford-1) Field in Gonzales County, Texas. There are currently two wells on the unit. The Sallis Bouldin Unit Well No. 8H was completed in Feburary 2013. On initial potential testing the well produced 1,253 barrels of oil and 542 mcf gas. In July 2013, EOG filed a Form H-9 documenting that 1,000 ppm H_2S in the produced gas. EOG has been treating and selling the gas produced from the Sallis Bouldin Unit. However, with declining production rates EOG does not anticipate that the market will remain stable in the long term.

Currently the unit produces about 75 mcf gas per day, all of which is flared. Commission staff granted EOG administrative authority (Permit No. 26498) to flare up to 100 mcf of gas per day from the Sallis Bouldin Unit from March 4, 2016, until September 9, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 75 mcf gas per day from the Sallis Bouldin Unit facility for a period of two years, from September 10, 2016 through September 9, 2018. EOG provided evidence that the cost to treat the sour gas to sweet gas specifications for pipeline sales would result in a near break-even $66 per day, which would likely not be realized due to treatment inefficiencies and production decline. Such a small daily profit, according to EOG, would also have negative implications for Securities and Exchange Commission reporting matters. Also, EOG reports the altnernative cost to construct a 25 mile sour gas pipeline to bring the gas to market is not economically viable and would result in a five-year loss of about $6,422,000.

Docket No. 01-0301669 – The Steen Unit

The Steen Unit (Lease No. 01-15480) produces from the Eagleville (Eagle Ford-1) Field in Gonzales County, Texas. There are currently five wells on the unit. The Steen Unit Well No. 1H was completed in June 2011. On initial potential testing the well produced 657 barrels of oil and 694 mcf gas. In February 2012, EOG filed a Form H-9 documenting the 400 ppm H_2S in the produced gas.

Currently the unit produces about 116 mcf gas per day, most of which is flared. Commission staff granted EOG administrative authority (Permit No. 26961) to flare up to 250 mcf of gas per day from the Steen Unit from March 26, 2016, until September 23, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 150 mcf gas per day from the Steen Unit facility for a period of two years, from September 24, 2016 through September 23, 2018. EOG stated the high treatment costs are economically prohibitive. Also, EOG reports the altnernative cost to construct a 25 mile sour gas pipeline to bring the gas to market is not economically viable and would result in a five-year loss of about $16,479,553.

Docket No. 01-0301695 – The Spradlin Unit

The Spradlin Unit (Lease No. 01-16797) produces from the Eagleville (Eagle Ford-1) Field in Gonzales County, Texas. There are currently four wells on the unit. The Spradlin Unit Well No. 1H was completed in April 2013. On initial potential testing the well produced 1,993 barrels of oil and 977 mcf gas. In July 2013, EOG filed a Form H-9 documenting that 280 ppm H_2S in the produced gas.

Currently the unit produces about 75 mcf gas per day, most of which is flared. The Commission granted EOG authority (Oil & Gas Docket No.01-0300285, dated August 24, 2016, and flare Permit No. 24293) to flare up to 75 mcf of gas per day from the Spradlin Unit from April 15, 2016, until May 12, 2016. At the time, EOG did not anticipate a continued need to flare gas. However, following a workover of the well, EOG has determined that continued authority to flare up to 80 mcf gas per day is necessary.

On September 7, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 80 mcf gas per day from the Spradlin Unit facility for a period of two years, from May 13, 2016 through May 12, 2018. EOG stated the high treatment costs are economically prohibitive. Also, EOG reports the altnernative cost to construct a 17 mile sour gas pipeline to bring the gas to market is not economically viable and would result in a five-year loss of about $4,276,500.

The Spradlin Unit exception is a special case that warrants some discussion. Typically the Examiners do not recommend that the Commission grant an exception to Statewide Rule 32 to a date prior to that on which a hearing was requested. However, in this case, the Examiners note that a hearing was held for the Spradlin Unit on June 16, 2016 (Oil & Gas Docket No.01-0300285, Final Order dated August 24, 2016), through which a one-month exception was granted because EOG believed a longer exception was not needed. As it turns out, a workover has improved the gas production from the unit, and in the interest of efficiency the Examiners conclude it is appropriate to bridge the authorization gap for the Spradlin Unit.

Docket No. 01-0301670 – The Pruski/Sekula Unit

The Pruski/Sekula Unit (Lease Nos. 01-17092 and 01-17073) produces from the Eagleville (Eagle Ford-1) Field in Wilson County, Texas. There are currently two wells on the unit. The Pruski Unit Well No. 1H was completed in July 2013. On initial potential testing the well produced 899 barrels of oil and 384 mcf gas. In November 2013, EOG filed a Form H-9 documenting 30,000 ppm H_2S in the produced gas.

Currently the unit produces about 100 mcf gas per day, most of which is flared. Commission staff granted EOG administrative authority (Permit No. 26744) to flare up to 200 mcf of gas per day from the Pruski/Sekula Unit from March 23, 2016, until September 20, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 100 mcf gas per day from the Pruski/Sekula Unit facility for a period of two years, from September 21, 2016 through September 20, 2018. EOG stated the high treatment costs are economically prohibitive and would result in a daily operating loss. Also, EOG reports the altnernative cost to construct a 5.28 mile sour gas pipeline to bring the gas to market is not economically viable and would result in a five-year loss of about $818,050.

Docket No. 02-0301668 – The Moczygemba Unit

The Moczygemba Unit (Lease No 02-10037) produces from the Eagleville (Eagle Ford-2) Field in Karnes County, Texas. There are currently two wells on the unit. The Moczygemba Unit Well No. 1H was completed in May 2012. On initial potential testing the well produced 1,413 barrels of oil and 1,129 mcf gas. In August 2012, EOG filed a Form H-9 documenting 30 ppm H_2S in the produced gas.

Currently the unit produces about 110 mcf gas per day, most of which is flared. Commission staff granted EOG administrative authority (Permit No. 26959) to flare up to 300 mcf of gas per day from the Moczygemba Unit from April 8, 2016, until October 6, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 120 mcf gas per day from the Moczygemba Unit facility for a period of two years, from October 7, 2016 through October 6, 2018. EOG stated the high treatment costs are economically prohibitive and would result in a daily operating loss. Also, EOG reports the altnernative cost to construct a 1.9 mile sour gas pipeline to bring the gas to market is not economically viable.

Docket No. 01-0301665 – The Gobbler Unit

The Gobler Unit (Lease Nos. 01-16257) produces from the Eagleville (Eagle Ford-1) Field in Atascosa County, Texas. There are currently two wells on the unit. The Gobbler Unit Well No. 1H was completed in May 2012. On initial potential testing the well produced 844 barrels of oil and 264 mcf gas. In February 2013, EOG filed a Form H-9 documenting 2,200 ppm H_2S in the produced gas.

Currently the unit produces about 75 mcf gas per day, most of which is flared. Commission staff granted EOG administrative authority (Permit No. 27073) to flare up to 200 mcf of gas per day from the Gobbler Unit from May 6, 2016, until November 26, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 100 mcf gas per day from the Gobbler Unit facility for a period of two years, from November 27, 2016 through November 26, 2018. EOG stated the high treatment costs are economically prohibitive and would result in a daily operating loss. Also, EOG reports the altnernative cost to construct a 4.34 mile sour gas pipeline to bring the gas to market is not economically viable and would result in five-year loss of $677,404.

Docket No. 02-0301672 – The Kotara Carter Unit

The Kotara Carter Unit (Lease Nos. 02-10816) produces from the Eagleville (Eagle Ford-2) Field in Karnes County, Texas. There are currently two wells on the unit. The Kotara Carter Unit Well No. 2H was completed in March 2014. On initial potential testing the well produced 1,179 barrels of oil and 505 mcf gas. In April 2015, EOG filed a Form H-9 documenting 700 ppm H_2S in the produced gas.

Currently the unit produces about 56 mcf gas per day, most of which is flared. Commission staff granted EOG administrative authority (Permit No. 26960) to flare up to 150 mcf of gas per day from the Kotara Carter Unit from March 17, 2016, until September 14, 2016, for a period of 180 days.

On August 31, 2016, EOG requested a hearing to extend the flaring authority. EOG seeks continued authority to flare up to 100 mcf gas per day from the Kotara Carter Unit facility for a period of two years, from November 27, 2016 through November 26, 2018. EOG further requests flexibility in how this authority is administered, specifically that the permit authorize up to a monthly volume of up to 3.5 million cubic feet (MMcf) of gas be flared. This is because one of the unit wells, No. 1H, produces intermittently. EOG further testified that treatment costs are are economically prohibitive and would result in a daily operating loss. Also, EOG reports the altnernative cost to construct a 5.43 mile sour gas pipeline to bring the gas to market is not economically viable and would result in five-year loss of $1,051,617.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of the hearing.

2. EOG operates wells on the Fischer, Virgil, Sallis Bouldin, Steen, Spradlin, Pruski/Sekula, Moczygema, Gobbler and Kotara Carter Units, which produce from the Eagleville (Eagle Ford-1) and Eagleville (Eagle Ford-2) Fields in Atascosa, Gonzales, Karnes and Wilson Counties, Texas. The units are all connected to sweet gas sales lines.

3. Sour gas is produced from the subject units, and the gas does not meet the pipeline specifications for sweet gas facilities.

4. EOG has conducted an economic analysis of the cost to either (1) obtain right-of-way and build a pipeline to the nearest sour gas sales point, or (2) install adequate treatment facilities at the existing sweet gas sales points.

5. In all cases EOG's analysis indicated the pipeline and/or treatment options were not economically viable. Therefore, EOG requests authority to flare gas produced from the subject units.

6. Exceptions to Statewide Rule 32 will enable EOG to continue to produce hydrocarbon liquids, preventing the waste of those liquids and protecting their correlative rights.

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. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45

3. The requested authority to collectively flare up to 485 mcf gas per day produced from the Eagleville (Eagle Ford-1) and Eagleville (Eagle Ford-2) Fields in Atascosa, Gonzales, Karnes, and Wilson Counties, Texas, for up to two years satisfies the requirements of 16 Tex. Admin. Code §3.32.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the applications of EOG, Resources Inc. for exceptions to Statewide Rule 32 for facilities, time periods and the flare rates requested.

Respectfully submitted,

Paul Dubois
Technical Examiner

Ryan Lammert
Administrative Law Judge