

The applications are unopposed and the examiners recommend approval of the exceptions to Statewide Rule 32 to flare gas for the subject wells, as requested by Marathon.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization of gas well gas and casinghead gas produced by oil and gas wells under the jurisdiction of the Railroad Commission. In the context of the subject applications, Marathon is requesting to flare gas produced by the subject well, as provided in Statewide Rule 32(h).

The Flores Unit, Well No. 1H in this application was completed in the Eagleville (Eagle Ford-1) Field in August 2012, located in Atascosa County, Texas. The well had an initial potential test of 333.85 BO, 262 MCF of gas and 13 BWPD. The well currently produces a lower volume of casinghead gas of 100 MCFGPD of gas. The well is located approximately 15 miles east of the town of Jourdanton, Texas, in an area that lacks nearby oil and gas infrastructure.

The Beck Unit, Well No. 1H in this application was completed in the Eagleville (Eagle Ford-1) Field in November 2011, located in Atascosa County, Texas. The well had an initial potential test of 161.5 BO, 5 MCF of gas and 342 BWPD. The well currently produces a higher volume of casinghead gas of 47.6 MCFGPD of gas. The well is located approximately 10 miles southwest of the town of Jourdanton, Texas, in an area that lacks nearby oil and gas infrastructure.

Marathon testified that, the cost to build and operate a gas pipeline to nearby existing sales pipelines will far exceed the revenue derived from the estimated gas produced from each well, therefore, Marathon is requesting permanent authority to flare the gas. Decline curve analysis show the Flores Unit, Well No. 1H will have an EUR of 85.5 MMCF of gas with a remaining recovery of 62.4 MMCF. Cost to construct 5 miles of 4" pipeline will be \$1.0 million. Additionally, the Flores Well No. 1H will need additional equipment to treat the gas before it can enter the DCP gas pipeline. The capital cost for the equipment is estimated at \$600K. Compression and gas treatment cost are estimated to be \$6,800 monthly. Net revenue from the sales of gas less lease and compression expenses will generate a loss of \$2.521 million over a 12 year period.

Decline curve analysis show the Beck Unit, Well No. 1H will have an EUR of 48.2 MMCF of gas with a remaining recovery of 38.1 MMCF. Cost to construct 2 miles of 4" pipeline will be \$415,000. The Beck Well No. 1H will need not additional equipment to treat the gas before it can enter the Regency gas pipeline. However, will only receive a net revenue of \$0.16/MMBTU as Regency will charge Marathon \$1.84/MMBTU of gas for treatment. Compression and operating costs are estimated to be \$6,000 monthly. Net

revenue from the sales of gas less lease and compression expenses will generate a loss of \$1.958 million over a 23 year period.

Marathon received administrative Permit No. 10714 to flare 100 MCFPD of casinghead gas from its Flores Unit, Well No. 1H, that went into effect October 18, 2011 and expired on April 17, 2012, after two extensions totaling the maximum 180 days.

Marathon received administrative Permit No. 11086 to flare 95 MCFPD of casinghead gas from its Beck Unit, Well No. 1H, that went into effect December 25, 2011 and expired on June 24, 2012, after two extensions totaling the maximum 180 days.

Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days. As previously mentioned, Marathon applied for and received an administrative permit to flare casinghead gas from the subject wells for a total of 180 days. Marathon testified that because it is uneconomic to construct gas pipelines to nearby existing sales pipelines, it is requesting a permanent exception to Statewide Rule 32 to flare a volume of less than 100 MCFGPD for the Beck Unit, Well No. 1H and less than 50 MCFGPD for the Flores Unit, Well No. 1H.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators of each lease at least ten days prior to the date of hearing. There were no protests to the application.
2. The Flores Unit, Well No. 1H, and the Beck Unit, Well No. 1H in this application are completed in the Eagleville (Eagle Ford-1) Field, located in Atascosa County, Texas.
 - a. The Flores Unit, Well No. 1H currently produces 100 MCFPD of casinghead gas with a remaining recovery of 62.4 MMCF.
 - b. The Beck Unit, Well No. 1H currently produces 47.6 MCFPD of casinghead gas with a remaining recovery of 38.1 MMCF.
 - c. The wells are located approximately 2 miles and 5 miles from existing gas pipelines.
3. The cost to construct gas pipelines and operate compressors will exceed the value of casinghead gas produced for both wells.
 - a. Economic analysis for the Flores Unit, Well No. 1H shows the cost to construct 5 miles of 4" pipeline will be \$1.0 million. Net revenue from the sales of gas less lease and compression expenses will generate a loss of \$2.521 million over a 12 year period.

- b. Economic analysis for the Beck Unit, Well No. 1H shows the cost to construct 2 miles of 3" pipeline will be \$415,000. Net revenue from the sales of gas less lease and compression expenses will generate a loss of \$1.958 million over a 23 year period.
4. Marathon received administrative Permit No. 10714 to flare 100 MCFPD of casinghead gas from its Flores Unit, Well No. 1H, that went into effect October 18, 2011 and expired on April 17, 2012, after two extensions totaling the maximum 180 days.
5. Marathon received administrative Permit No. 11086 to flare 95 MCFPD of casinghead gas from its Beck Unit, Well No. 1H, that went into effect December 25, 2011 and expired on June 24, 2012, after two extensions totaling the maximum 180 days.
6. Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days.
7. A permanent exception to Statewide Rule 32 to flare up to 100 MCFGPD for the Beck Unit, Well No. 1H and up to 50 MCFGPD for the Flores Unit, Well No. 1H, is appropriate.

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. Approval of the requested permanent exception to Statewide Rule 32 to flare gas for the subject wells will prevent waste, will not harm correlative rights, and will promote development of the field.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission grant a permanent exception to Statewide Rule 32 for the subject wells, as requested by Marathon Oil EF LLC.



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Technical Examiner

Respectfully submitted,



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Legal Examiner