



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 03-0287456

THE APPLICATION OF FAIRWAYS EXPLORATION & PROD, LLC, FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE GALLO LEASE WELL NO. 1A, GALLO (FRIO B-15) FIELD, CHAMBERS COUNTY, TEXAS

HEARD BY: Paul Dubois – Technical Examiner
Marshall Enquist – Hearings Examiner

HEARING DATE: March 24, 2014

APPEARANCES: **REPRESENTING:**

APPLICANT:

Richard D. Atkins, P. E. Fairways Exploration & Prod
Dale Miller

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

This is the application of Fairways Exploration & Prod., LLC, for authority to flare casinghead gas from its Gallo 1A well, Gallo (Frio-B15) Field, in Chambers County, Texas. Fairways is requesting a permanent exception to flare 250 MCFGPD from the well. There is not an existing, active administrative flaring permit for the well. The examiners stated that a two-year permit beginning on the date of the hearing request would be recommended to the Commission. Fairways did not consider this to be adverse. The matter was not protested.

DISCUSSION OF THE EVIDENCE

The Gallo 1A was completed on January 3, 2013. It is the discovery well for the Gallo (Frio B-15) Field, and to date is the only well in the field. On initial potential testing the well produced 310 BO, 73 MCFG, and 9 BW. The discovery allowable for the field is 440 BOPD. The well was drilled on a 640 acre lease located 5.8 miles west

of Stowell. The leased acreage has been reduced to 80 acres due to non-development.

Through January 2014, the well has produced 183,350 BO and 59,984 MCFG. Monthly production of oil and gas has been very constant during this time, with little decline. Daily gas production quickly increased after initial completion and in February 2014, gas production ranged from 174 to 192 MCFGPD. There is not a gas sales point accessible to the lease. The nearest gas sales lines in the area are from 1.6 to 6.6 miles from the lease by direct-line measurement. Currently about 17 percent of the produced gas is used on the lease, and the remainder is flared or vented.

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 MCFGPD per well may be granted administratively for a period up to 180 days. Beyond that, Statewide Rule 32(h) provides that exceptions beyond 180 days shall be granted only in a final order signed by the Commission.

On February 12, 2013, The Commission received a Rule 32 Exception Data Sheet and a cover letter from Fairways requesting an exception to flare 80 MCFGPD on a permanent basis or for at least 36 months. Fairways indicated at the time that it would be uneconomic to sell the gas due to the very low gas volume and long distance to the nearest pipeline. On February 13, 2013, the Commission issued permit number 12810 to flare 80 MCFD of casinghead gas from February 1, 2013 to April 2, 2013. The permit also indicated that Fairways needed to provide additional information to justify its requested exception.

At the hearing, Fairways submitted (Exhibit No. 9) a letter dated March 4, 2013 providing additional information. This letter, and an attached Rule 32 exception data sheet dated February 27, 2014, further explained Fairways' request for a permanent exception. Also, at this time Fairways asked for authority to flare 250 MCFGPD, as gas production from the well had increased. A cost-benefit analysis was included that stated the estimated recoverable reserves were not sufficient to make the project profitable.

The documentary exhibit offered by Fairways appeared to be an original, not one date stamped as received by Commission staff. While there is no reason to believe it was not submitted at the time, it also has not been established that the document was received by the Commission. Regardless, Commission staff would not have granted the requested permanent exception; indeed, Commission staff could only, by rule, extend the permit for an additional 120 days, at which time Fairways would be required to request a hearing to seek additional flaring authority. It is also not clear how or

whether Commission staff communicated to Fairways the inadequacy of the March 4, 2013 request.

As it stands, Fairways' flaring authority under permit no. 12810 expired on April 2, 2013. Had Fairways requested additional authority in a manner in which Commission Staff could process under Statewide Rule 32, then permit no. 12810 would have likely been extended to flare 250 MCFGPD until July 31, 2013, which is the full 180 days allowed by Rule 32. Fairways also testified that they experienced turnover of regulatory staff during this time, which may have contributed to the matter becoming lost on their part; Fairways always believed, however, that it was in compliance with Statewide Rule 32.

At the hearing Fairways demonstrated a continuing and reasonable need to flare gas from its Gallo 1A well, and this need included a revised economic analysis. Fairways also indicated that it projects the well to continue to produce economic quantities of oil for about 20 more months. However, Fairways was informed by the examiners that a retroactive permit backdated to April 2, 2013 would not be recommended; it is the operator's responsibility to obtain and maintain the necessary permit authority. Instead, the examiners indicated a two-year authority from the date Fairways requested the hearing, February 28, 2014, would be reasonable.

FINDINGS OF FACT

1. Proper notice of this hearing was given. There were no protests to the application.
2. The Gallo 1A was completed on January 3, 2013, it is the discovery well for the Gallo (Frio B-15) Field, and to date is the only well in the field. On initial potential testing the well produced 310 BO, 73 MCFG, and 9 BW.
3. Daily gas production quickly increased after initial completion and in February 2014, gas production ranged from 174 to 192 MCFGPD.
4. There is not a gas sales point on the lease.
5. The nearest gas sales lines in the area are from 1.6 to 6.6 miles from the lease by direct-line measurement.
6. It is not economic based on the value of gas produced to connect the well to a gas sales line.

7. The well will produce oil and gas for about 20 months, at which time it will be no longer economic to operate.
8. Fairways acquired an administrative permit to flare 80 MCFGPD from February 1, 2013 until April 2, 2013.
9. Since April 3, 2013, the well has continued to flare gas without a permit.
10. On February 28, 2014, Fairways requested a hearing to extend flaring authority.
11. A two year permit to flare 250 MCFGPD from February 28, 2014, through February 27, 2016, is reasonable as Fairways expects the well to only be productive for another 20 months.

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 exception to Statewide Rule 32 to flare 250 MCF/D casinghead gas for the subject well for two years will not harm correlative rights.

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 to flare 250 MCF/D casinghead gas for the subject well for two years, from February 28, 2014 to February 27, 2016.

Respectfully submitted,



Paul Dubois
Technical Examiner



Marshall Enquist
Hearings Examiner