



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0287405

THE APPLICATION OF APACHE CORPORATION FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR ALL WELLS ON THE AUGUSTA BARROW LEASE, SPRABERRY (TREND AREA) FIELD, ECTOR COUNTY, TEXAS

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

HEARING DATE: March 27, 2014

APPEARANCES: **REPRESENTING:**

APPLICANT:

Thomas Richter, P.E.

Apache Corporation

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Apache Corporation (Apache) requests an exception to Statewide Rule 32 to flare gas from wells on its Augusta Barrow Lease in the Spraberry (Trend Area) and other fields, Ector County, Texas. The application was not protested. The examiners recommend that Apache be granted an exception to flare up to 500 MCFGPD from wells on its Augusta Barrow Lease from March 1, 2014 through August 1, 2015.

DISCUSSION OF THE EVIDENCE

Apache's 6,259 acre Augusta Barrow Lease in Ector County, Texas, produces oil and casinghead gas from seven fields: Spraberry (Trend Area), Barrow (Ellenburger), Headlee (Bend), Headlee, N. (Devonian), Headlee, N. (Canyon), Cowden, North and Hence (Grayburg). Most of the production is from the Spraberry (Trend Area) Field.

Apache has completed 14 wells in the Spraberry (Trend Area) Field on this lease in 2013. These wells are currently producing about 201 BOPD and 178 MCFD each.

Apache continues to aggressively develop the lease, completing about one well a month. Twenty-two additional wells have so far been permitted in the Spraberry (Trend Area) Field on the lease.

There are seventeen wells completed in the other six fields: eight are producing, five are shut-in, and four are injection wells. Apache holds surface commingling permits for oil and gas produced from all seven fields. In January 2014 the Spraberry (Trend Area) Field produced 28,700 BO and 55MMCFG; the other six fields combined produced 1,565 BO and 1.4 MMCFG. Apache is planning on further developing these fields, also. It currently holds 11 drilling permits for horizontal wells to be drilled in the Atoka Formation.

Gas gathering and sales options in the area are severely limited by infrastructure capacity issues that affect Apache and all operators. 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 MCFD 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. In the context of the subject application, permit no. 13879 authorized Apache to flare 500 MCFD in any proportion from the three flare points on the lease. This permit was effective from September 1, 2013 through February 28, 2014, for a total of 180 days. Apache is now requesting continued authority to flare gas from the lease until August 1, 2015. Apache provided evidence to substantiate its continuing need to flare gas.

In January 2014 Apache sold about 40 percent of the gas produced on the lease and flared the remaining 60 percent. There are three tank battery and separation facilities on the lease. The flaring and gas sales points are located at the three tank battery and separation facilities. DCP Midstream is the casinghead gas gatherer. All flaring occurs from these tank battery and separation facilities. The lease is bisected by U.S. Highway 385 which runs north-south. Tank Battery No. 2 is on the west side of the highway and Tank Battery Nos. 1 and 3 are on the east. The highway poses a logistical problem for pipeline connection and gas sales. DCP can only take 800 MCFD from Tank Battery No. 1. Sales options at Tank battery No. 2 on the west side of the highway are very limited and most all gas gathered there is flared. DCP's capacity at Tank Battery No. 3 has been limited. DCP has recently agreed to take 4 MMCFD from No. 3. Apache has laid a pipeline to move excess gas from Battery No. 1 to No. 3. The highway makes a similar connection between Tank Battery No. 2 to No. 3 impractical.

DCP Midstream continues to make improvements in capacity and reliability to its system, and a number of specific projects are underway. Apache is also pursuing alternate gas gathering services from Canyon Midstream. Canyon Midstream anticipates its system will be installed and operational by August 2015. All of the gas producers in the area are suffering from similar capacity limitations. Therefore, Apache requests an extension of its

authority to flare the 500 MCFG from wells on the Augusta Barrow Lease from March 1, 2014 through August 1, 2015. The examiners recommend that the application be approved.

FINDINGS OF FACT

1. Proper notice of this hearing was given to all offset operators at least ten days prior to the date of hearing. There were no protests to the application.
2. Apache produces oil and casinghead gas from seven fields on its 6,259 acre Augusta Barrow Lease in Ector County.
 - a. Apache is aggressively developing hydrocarbon resources on the lease, especially in the Spraberry (Trend Area) Field.
 - b. Apache is completing about one well per month on the lease.
3. DCP Midstream is the gas gatherer in the area.
 - a. Apache sells gas to DCP at three tank batteries on the lease.
 - b. Capacity and upset conditions require Apache to flare about 60 percent of the gas produced.
4. Apache obtained administrative permit no. 13879, which authorized Apache to flare 500 MCFD from September 1, 2013 through February 28, 2014, for the maximum 180 days.
5. Due to the rapid development and drilling activity in the area, DCP's gathering system has become overloaded.
 - a. As a result, Apache and other operators in the area are facing limitations due to system capacity and upset conditions
 - b. DCP is working on system improvements.
6. Apache is developing an alternative sales agreement with Canyon Midstream; Canyon's system will not be operational until August 1, 2015.
7. Apache anticipates a need to flare gas until August 1, 2015.

8. An exception to Statewide Rule 32 to flare up to 500 MCFD from the Augusta Barrow Lease from March 1, 2014, through August 1, 2015, 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 exception to Statewide Rule 32 to flare gas from the subject leases 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 an exception to Statewide Rule 32 for the subject lease, as requested by Apache.

Respectfully submitted,



Paul Dubois
Technical Examiner



Marshall Enquist
Hearings Examiner