



## RAILROAD COMMISSION OF TEXAS

### HEARINGS DIVISION

**OIL AND GAS DOCKET NO. 01-0287461**

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**THE APPLICATION OF COMSTOCK OIL & GAS, L.P. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE DVR MESQUITE TANK BATTERY LEASE EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS**

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**OIL AND GAS DOCKET NO.02-0287462**

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**THE APPLICATION OF COMSTOCK OIL & GAS, LP FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE COATES "A" TANK BATTERY LEASE, EAGLEVILLE (EAGLE FORD-2) FIELD, KARNES COUNTY, TEXAS**

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**OIL AND GAS DOCKET NO. 01-0287463**

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**THE APPLICATION OF COMSTOCK OIL & GAS L.P. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE LUCAS TANK BATTERY LEASE EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS**

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**OIL AND GAS DOCKET NO. 01-0287464**

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**THE APPLICATION OF COMSTOCK OIL & GAS L.P. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE SCHORP LEASE, EAGLEVILLE (EAGLE FORD-1) FIELD, LA SALLE COUNTY, TEXAS**

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**HEARD BY:** Karl Caldwell - Technical Examiner  
Laura Miles-Valdez - Legal Examiner

**HEARING DATES:** March 26, 28, 2014

**APPEARANCES:**

**REPRESENTING:**

**APPLICANT:**

Dale Miller  
Richard Atkins

Comstock Oil & Gas, LP

**EXAMINERS' REPORT AND RECOMMENDATION**

**STATEMENT OF THE CASE**

Comstock Oil & Gas, L.P. ("Comstock") requests an exception to Statewide Rule 32 to flare casinghead gas from the following leases and tank batteries:

Table 1: Subject Lease Names, Commingling Permit Numbers, and Field Names

<b><u>LEASE NAME</u></b>	<b><u>FIELD NAME</u></b>
DVR Mesquite Tank Battery (CP No. 5477)	Eagleville (Eagleford-1)
Coates "A" (09620)	Eagleville (Eagleford-2)
Lucas Tank Battery (CP No. 01-5451)	Eagleville (Eagleford-1)
Schorp (15754)	Eagleville (Eagleford-1)

Notice was provided to offset operators surrounding the subject leases and no protests were received. The applications are unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the subject leases and tank batteries from the date the Commission-granted flare permit orders expire through March 26, 2016.

**DISCUSSION OF THE EVIDENCE**

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 MCFPD per well may be granted administratively for a period up to 180 days. Beyond that, Statewide Rule 32(h) provides that exceptions shall be granted only in a final order signed by the Commission. In the context of the subject applications, Comstock is requesting exceptions to flare casinghead gas produced from the various leases and tank batteries listed in Table 1, as provided by Statewide Rule 32(h).

The wells in the subject leases of these applications are completed in the Eagleville (Eagle Ford-1) in Atascosa and La Salle Counties and the Eagleville (Eagle Ford-2) Field in Karnes County, Texas. The subject leases are located in areas of the field that lack

existing infrastructure for gas production. All of the leases and tank batteries listed in Table 1 have received previous administrative approval and Commission-granted orders to flare casinghead gas.

The DVR Mesquite Tank Battery consists of four separate leases (Mesquite No. 1H, DVR "A" No. 1H, DVR "B" No. 1H, and the DVR "D" No. 1H) in which all four leases are commingled under Commingle Permit No. 01-05477. All production is commingled to the DVR Mesquite Tank Battery.

Cumulative gas production through December 31, 2013 for the four leases are as follows:

Mesquite Lease Well No. 1H:	55,326 BO	25.5 MMCF
DVR 'B' Lease Well No. 1H:	83,652 BO	52.3 MMCF
DVR 'A' Lease Well No. 1H	46,225 BO	21.8 MMCF
DVR 'D' Lease Well No. 1H	47,929 BO	17.8 MMCF

There are two gas lines in the vicinity of the subject tank battery. The KOCH Midstream pipeline has been abandoned and is not an option. EOG Resources, Inc. has a pipeline in the area, however the line is considered a private line and there is no capacity at this time. In order for Comstock to gather gas from these four leases, a pipeline of approximately 3 miles in length would need to be constructed from the DVR Mesquite Tank Battery to the Lucas Tank Battery. From the Lucas Tank Battery, a pipeline would need to be run an additional 5 miles in an easterly direction to connect to an Enterprise Pipeline System.

The cost to construct the initial 3 miles of gas pipeline to connect the DVR Mesquite Tank Battery to the Lucas Tank Battery is uneconomical at this time when comparing the cost of the pipeline construction to the estimated revenue from remaining recoverable gas sales. Comstock estimates the remaining recoverable gas reserves to be 293.7 MMCF. At an average price of \$4.00 per MCF, less the amount of gas used to fuel the compressor (127.8 MMCF from 2014 to 2034), the revenue from gas sales is estimated to be \$663,980. The estimated compressor rental cost during this same time period is \$504,000. The net revenue from the remaining gas reserves would be \$159,980. The estimated cost to construct the 3 miles of pipeline from the DVR Mesquite Tank Battery to the Lucas Tank Battery is \$1,488,960. The estimated total gas revenue after connecting to pipeline in this scenario is a net loss of \$1,328,980.

Upon initial production, the DVR Mesquite Tank Battery was granted Permit No. 11839 to flare a maximum of 250 MCF of casinghead gas per day for a total of 180 days, the maximum time period that may be administratively-granted. Permit No. 11839 expired on February 8, 2013. A Final Order on Oil and Gas Docket No. 01-0279712 authorized Comstock to flare a maximum of 250 MCFGPD from the DVR Mesquite Tank Battery, effective February 9, 2013 and expiring March 26, 2014.

Comstock has requested a hearing for the DVR Mesquite Tank Battery before the Final Order on Oil & Gas Docket No. 01-0279712 granting authority to flare gas expires. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if the operator has requested a hearing prior to the expiration of the previously granted flare permit. Comstock requests an exception to flare a maximum of 300 MCF per day of casinghead gas from the DVR Mesquite Tank Battery from the expiration of the previously granted authority to flare casinghead gas through March 26, 2016.

The Coates "A" Lease is a 515 acre lease. There are currently two producing wells (Well No. 1 and Well No. 2) on the lease, both horizontal completions. The cumulative production from the Coates "A" Lease from February 2011 through the end of 2013 is 124,542 BO and 50 MMCF of casinghead gas. The casinghead gas produced is sour gas, with an H<sub>2</sub>S concentration of 250 ppm.

The Coates "A" Lease Tank Battery is located at the No. 1H well location. The lease has 1 flare point at the tank battery. EOG Resources, Inc. has a pipeline in the area, however, the line is a private line and there is no capacity at this time. There is a CPS Energy gas gathering system, located a straight-line distance of 2 miles northeast of the Coates "A" Lease Tank Battery. Comstock estimates the cost to connect to this gas gathering pipeline is approximately \$104 per foot of pipeline, or \$1,098,240 for 2 miles in length.

Gas production from the lease is declining, and Comstock estimates that within four years gas production will be insufficient to fuel the compressor for the system. An additional expense is the compressor rental, which is estimated at \$2,000 per month. The estimated recoverable gas reserves over the next four years is 47,992 MCF, less the compressor fuel requirement of 21,900 MCF for a net gas volume of 26,092 MCF for a revenue of \$104,368, assuming an average gas price of \$4.00 per MCF. The rental cost of the compressor over that four year span is estimated at \$96,000. Net total revenue from the gas is estimated to be \$8,368. When the total gas revenue is compared to the pipeline construction cost of \$1,098,240 the pipeline construction is uneconomic when compared to the estimated revenue generated from gas sales.

The Coates "A" Lease was administratively granted Permit No. 11840 to flare a maximum of 50 MCF of casinghead gas per day for a period of 180 days, effective August 10, 2012 and expiring on February 8, 2013. In a Final Order on Oil and Gas Docket No. 02-0279711, Comstock was granted an exception to Statewide Rule 32 and granted authority to flare up to 50 MCF GPD from the Coates "A" Lease from February 8, 2013 to March 26, 2014. Comstock is requesting to flare a maximum of 75 MCF gas per day of casinghead gas from the Coates "A" Lease from the date the previously granted flare order expires to March 26, 2016.

The Lucas Tank Battery commingles production (Commingling Permit No. 01-5451) from the three separate leases listed below:

<u>Lease Name</u>	<u>Lease Number</u>
Lucas "A" Lease	15778
Lucas "B" Lease	15895
Lucas "C" Lease	15882

The nearest pipeline to the Lucas Tank Battery is the EOG Resources Inc. pipeline, which is a private line with no available capacity. The nearest pipeline with capacity is the Enterprise Products Operating LLC Gas Gathering System which is located approximately 5 miles from the Lucas Tank Battery.

At the present time, each of the three leases ( Lucas "A" Lease, Lucas "B" Lease, and Lucas "C" Lease) have production from a single well per lease. The cumulative production from the Lucas "A" Lease, Well No. 1H from March 2012 to the end of 2013 is 54,260 BO and 76 MMCF casinghead gas. Cumulative production from the Lucas "B" Lease, Well No. 1H from April 2012 to the end of 2013 is 51,957 BO and 41 MMCF casinghead gas. Cumulative production from the Lucas "C" Lease, Well No. 1H from April 2012 to the end of 2013 is 73,889 BO and 57 MMCF casinghead gas.

The Lucas Tank Battery received Permit No. 11834 to flare a maximum of 250 MCF per day of casinghead gas from August 10, 2012 to February 8, 2013 for a total of 180 days, the maximum time period that may be administratively-granted. In a Final Order on Oil and Gas Docket No. 01-0279714 granted authority to flare a maximum of 250 MCFGPD from the Lucas Tank Battery, effective February 8, 2013 and expiring March 26, 2014.

The cost to connect to the nearest available pipeline with capacity is uneconomic at the present time when compared to the revenue generated from the estimated remaining gas reserves from the Lucas "A", "B" and "C" Leases. The estimated cost to construct 5 miles of pipeline to connect the Lucas Tank Battery to the Enterprise Products Operating LLC Gas Gathering System is \$2,280,000. The remaining recoverable gas reserves from the three leases from year 2014 to year 2029 are estimated to be 207 MMCF. Net revenue from gas sales of the estimated remaining gas reserves, at an average price of \$4.00 per MCF is \$828,544. This does not include the rental cost of the compressor or the fuel required to run the compressor.

A hearing request was made prior to the expiration of the current flaring authority. Comstock is requesting authority to flare a maximum of 250 MCF per day of casinghead gas from the Lucas Tank Battery from the expiration of the previously granted authority to flare gas to March 26, 2016.

The Schorp Lease consists of 1,877.95 acres and at the present time there is one producing well (Well No. 3H) on the lease. The nearest pipeline to the Schorp Lease is the Frio La Salle Pipeline LP gas gathering line, located approximately 2 miles northeast from the Schorp Lease Tank Battery. Cumulative production from the single producing well on the Schorp Lease from February 2012 to the end of 2013 is 94,748 BO and 143 MMCF of casinghead gas.

The Schorp Lease received Permit No. 11838 to flare a maximum of 155 MCF of casinghead gas per day from August 10, 2012 to February 8, 2013 for a total of 180 days, the maximum time period that may be administratively-granted. In a Final Order on Oil and Gas Docket No. 01-0279717, Comstock was granted authority to flare a maximum of 100 MCF/GPD from the Schorp Lease, effective February 8, 2013 and expiring March 26, 2014

At the present time the cost to connect to the nearest pipeline with available capacity is uneconomic when comparing the revenue generated from the estimated remaining gas reserves. The cost to connect to the nearest pipeline with capacity is estimated at \$103.41 per foot, and the distance is estimated at 10,560 feet, resulting in a pipeline construction cost of \$1,092,000. Estimated recoverable gas reserves from the only producing well (Well No. 3H) on the lease at the current time is 373 MMCF, based on production estimates for 2014 to 2037. After 2037, it is estimated that gas production will have declined to a point where production is insufficient to fuel the compressor. The revenue generated from the gas reserves during this time period, assuming an average price of gas of \$4.00 per MCF is \$1,492,816. Additional costs including compressor rental and fuel to run the compressor are estimated at \$576,000 and \$525,600, respectively. (Estimated compressor fuel requirements are 131,400 MCF at a cost of \$4.00 per MCF). Total estimated revenue generated between 2014 and 2037 by constructing the pipeline to gather the gas is a net loss of \$700,784.

Comstock has requesting a hearing prior to the current authority to flare gas expires. Comstock is requesting authority to flare a maximum of 250 MCF per day of casinghead gas from the Schorp Lease from the expiration of the previously granted authority to flare gas to March 26, 2016. Comstock is anticipating an additional well to be completed on the Schorp Lease in the near future and therefore requesting authority to flare a higher daily maximum volume than the previous Final Order due to the completion of an additional well on this lease.

#### **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 applications.

2. The leases and tank batteries in the subject applications are completed in the Eagleville (Eagle Ford-1) Field and Eagleville (Eagle Ford-2) Fields, located in Karnes, Atascosa and La Salle Counties, Texas.
3. Comstock has Commission-granted orders to flare casinghead gas from all of the subject leases and tank batteries listed in Table 1.
4. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of a Commission granted flare permit order.
5. Comstock has requested a hearing for all of the subject leases and tank batteries before the current Commission granted flare permit orders expire.
6. The cost to construct gas pipelines and operate compressors will exceed the value of casinghead gas produced for all subject leases and tank batteries in these applications.
  - a. Connecting the DVR Mesquite Tank Battery to a sales line is expected to generate a loss of \$1.33 million after the cost to construct and operate the pipeline are deducted over a 20 year period.
  - b. Connecting the Coates "A" Lease to a sales line is expected to generate a loss of \$1.09 million after the cost to construct and operate the pipeline are deducted over a 4 year period.
  - c. Connecting the Lucas Tank Battery to a sales line is expected to generate a loss of \$2.19 million after the cost to construct and operate the pipeline are deducted over a 15 year period.
  - d. Connecting the Schorp Lease to a sales line is expected to generate a loss of \$0.7 million after the cost to construct and operate the pipeline are deducted over a 23 year period.
7. An exception to Statewide Rule 32 from the date the Commission-granted flare permit orders expire through March 26, 2016 for all subject leases and tank batteries is appropriate to protect correlative rights.

#### **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 for the subject leases and tank batteries will not harm correlative rights, and will promote development of the field.

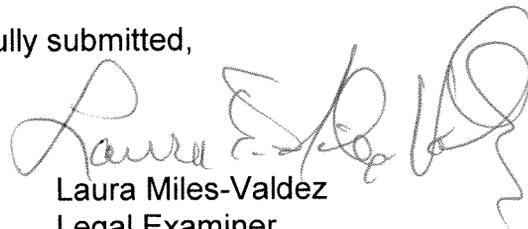
**EXAMINERS' RECOMMENDATION**

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission grant exceptions to Statewide Rule 32 for the subject leases and tank batteries, as requested by Comstock Oil & Gas, LP.

Respectfully submitted,



Karl Caldwell  
Technical Examiner



Laura Miles-Valdez  
Legal Examiner