



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**OIL AND GAS DOCKET NO. 01-0286577**

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**THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO-USA FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE SEEWALD LEASE, WELL NO. 1H EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS**

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**OIL AND GAS DOCKET NO.01-0287402**

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**THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO-USA FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PENNINGTON UNIT, WELL NOS. 2H AND 3H AND WILLIAMS UNIT, WELL NO. 3H EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS**

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**OIL AND GAS DOCKET NO. 01-0287459**

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**THE APPLICATION OF MURPHY EXPLORATION & PRODUCTION CO-USA FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES VARIOUS WELLS EAGLEVILLE (EAGLE FORD-1) FIELD, ATASCOSA COUNTY, TEXAS**

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**HEARD BY:** Karl Caldwell - Technical Examiner  
Marshall Enquist - Legal Examiner

**HEARING DATE:** April 4, 2014

**APPEARANCES:**

**REPRESENTING:**

**APPLICANT:**

Murphy Exploration & Production Co-USA

Kelli Kenney  
Bryan Williams  
Sasha Ferrell  
Chris Vergona  
Nicole Holloway

**EXAMINERS' REPORT AND RECOMMENDATION****STATEMENT OF THE CASE**

Murphy Exploration & Production Co-USA ("Murphy") requests an exception to Statewide Rule 32 to flare casinghead gas from the following leases and wells:

Table 1: Subject Leases, Wells, and Flare Permit Information

<b><u>LEASE NAME, WELL NO.</u></b>	<b><u>PREVIOUS PERMIT NO.</u></b>	<b><u>EXPECTED GAS SALES DATE</u></b>
Seewald 1H	12984	01/22/2014
Pennington Unit 2H	14187	06/30/2015
Pennington Unit 3H	14179	06/30/2015
Williams Unit 3H	14112	06/30/2015
Williams Unit 2H	Forms Submitted to RRC <sup>1</sup>	06/30/2015
White Tail Unit 1H	Final Order No. 01-0279367	03/26/2015 <sup>2</sup>
Rafter Unit 1H	Final Order No. 01-0279367	03/26/2015 <sup>2</sup>

Notice was provided to offset operators surrounding the subject wells and no protests were received. The applications are unprotested and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the subject wells from the date the Commission-granted flare permit orders expire through the dates listed in Table 1 for each well.

**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, Murphy is requesting exceptions to flare casinghead gas produced from the various wells listed in Table 1, as provided by Statewide Rule 32(h).

Murphy received Permit No. 12984 to flare a maximum of 80 MCF per day of casinghead gas from the Seewald 1H Lease (Lease ID No. 01-16371) while gas sales

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<sup>1</sup> Statewide Rule 32 Exception Data Sheet forms submitted to RRC for 180 day flaring exception; permit paperwork not yet received by Murphy

<sup>2</sup> Estimated date when casinghead gas production will be less than 50 MCF per day

pipelines and facilities were under construction. The permit was effective from March 11, 2013. On October 5, 2013, it was determined there were 15 unused days from the commencement of the permit, along with 96 unused days between the permit commencement date and October 5, 2013, resulting in a total of 111 days remaining on the 180 day administrative permit. From October 6, 2013, an additional 111 days would extend the permit to an expiration date of January 24, 2014. On December, 30, 2013, Murphy requested a hearing prior to the expiration of Permit No. 12984 to ensure the well would be compliant with Statewide Rule 32 in case delays were encountered in connecting the gas pipeline to sales. The gas from the Seewald Lease Well No. 1H went to sales on January 22, 2014. Murphy testified that they had not received the final permit for the 111 days that were requested on October 6, 2013, but if they received the permit prior to the hearing they would withdraw the request. Murphy is requesting authority to flare 200 MCF gas per day from the Seewald Lease, Well No. 1H from the date the administratively-granted flare authority expires to the date the gas went to sales on January 22, 2014.

The Pennington Unit Lease Well Nos. 2H and 3H received 180 day flare permits, Permit Nos. 14187 and 14179 respectively, to flare a maximum of 300 MCF gas per day from each well, each effective September 6, 2013 and expiring March 7, 2014. The Williams Unit Lease Well No. 3H received Permit No. 14112 to flare a maximum of 200 MCF of gas per day, effective August 22, 2013 and expiring March 10, 2014. Murphy has submitted Statewide Rule 32 Exception Data Sheets for the Williams Unit Well No. 2H to flare 100 MCF gas per day from the well for a total of 180 days. Murphy testified that the 180 day time period will expire on March 31, 2014. Murphy has requested a hearing for the Pennington Unit Lease Well Nos. 2H and 3H and the Williams Unit Lease Well Nos. 3H and 2H prior to the previous permits expiring.

A gathering system has been built that will collect gas from the Pennington Unit wells and the Williams Unit wells. However, at this time there is not an existing sales point to connect the gas gathering facility to a gas sales line. Murphy has held conversations with a third party regarding a gas sales contract. A preliminary design of the gas gathering facility has been proposed with construction estimated to be complete in September 2014. Murphy estimates June 30, 2015 as the gas to sales date for the Pennington Unit Lease Well Nos. 2H and 3H and the Williams Unit Lease Well Nos. 2H and 3H. Murphy is requesting authority to flare 300 MCF gas per day from each of the Pennington Unit Lease Well Nos. 2H and 3H, 200 MCF gas per day from the Williams Unit Lease Well No. 3H, and 100 MCF gas per day from the Williams Unit Lease Well No. 2. The time period is from the date the administratively-granted flare authority expires to June 30, 2015 which is the estimated date that gas will go to sales.

Murphy was granted an exception to Statewide Rule 32 for the Rafter Unit, Well No. 1H in a Final Order on Oil and Gas Docket No. 01-0278367. The order granted Murphy authority to flare up to 100 MCF of gas per day from the date the administratively granted 180 day flaring permit expired through March 26, 2014. The well is currently producing 40 MCF of gas per day on average, although the well will produce over 50 MCF per day, for days at a time. Murphy has requested a hearing for the Rafter Unit 1H before the Final Order on Oil and Gas Docket No. 01-0278367 granting authority to flare gas expires.

The gas production from the Rafter Unit 1H is decreasing and Murphy estimates the remaining gas production from the well to be 87.7 MMCF with a remaining life of 33 years. Murphy has estimated the shortest straight-line distance to the nearest potential pipeline, yet to be built, to be 0.5 miles. The cost to construct 0.5 miles of pipeline is estimated at \$1,000,000. A centralized gas compression facility cost is estimated at \$1000 per month, gas processed for NGLs residue sales, estimated at \$5.00 per MSCF and a lifting cost of \$0.15 per MCF. Estimated revenue generated by potential sales of the remaining 87.7 MMCF from NGL and residual gas is \$368.5M. The estimated capital investment to capture this gas is approximately \$1.0MM and an additional \$431.7M for incremental operating expenses and taxes. In total, Murphy estimates the potential net revenue from the sale of gas and compression expenses will generate a total loss of \$1.1MM over a period of 33 years. Murphy has deemed the economics unfavorable at this time and is requesting an exception to Statewide Rule 32 for the Rafter Unit 1H to flare a maximum of 80 MCF of gas per day through March 26, 2015.

Murphy was granted an exception to Statewide Rule 32 for the White Tail Unit, Well No. 1H in a Final Order on Oil and Gas Docket No. 01-0278367. The order granted Murphy authority to flare up to 100 MCF of gas per day from the date the administratively granted 180 day flaring permit expired through March 26, 2014. The well is currently producing 53 MCF of gas per day on average with gas production surging on occasion to upwards of 70 MCF of gas per day. Murphy has requested a hearing for the White Tail Unit 1H before the Final Order on Oil and Gas Docket No. 01-0278367 granting authority to flare gas expires.

The gas production from the White Tail Unit 1H is decreasing exponentially and Murphy estimates remaining gas production from the well to be 61.4 MMCF with a remaining life of 23 years. Murphy estimates a net loss of \$1.4 MM over a period of 23 years from gas sales compared to the capital investment to capture the gas, compression costs and additional incremental operating expenses and taxes. Murphy has deemed the economics unfavorable at this time and is requesting an exception to Statewide Rule 32 for the White Tail Unit 1H to flare a maximum of 80 MCF of gas per day through March 26, 2015.

#### **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 wells in the subject applications are completed in the Eagleville (Eagle Ford-1) Field located in Atascosa County, Texas.

3. Murphy has Commission-granted orders to flare casinghead gas from all of the subject leases and tank batteries listed in Table 1, with the exception of Williams Unit 2H.
  - A) Murphy has submitted the appropriate forms to the Commission for flaring authority for a period of 180 days for the Williams Unit 2H.
  - B) 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.
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. Murphy has requested a hearing for all of the subject leases and subject wells prior to the current Commission-granted flare permit orders expire.
6. The Seewald Lease, Well No. 1 was connected to a gas sales line on January 22, 2014.
7. The Pennington Unit Lease, Well Nos. 2H and 3H, and the Williams Unit Lease, Well Nos. 2H and 3H are expected to be connected to a gas sales line by June 30, 2015.
8. The cost to construct gas pipelines and operate compressors will exceed the value of the estimated remaining casinghead gas produced by the Rafter Unit Lease, Well No. 1 and the White Tail Unit, Well No. 1.
  - a. Connecting the Rafter Unit Lease, Well No. 1H to a sales line is expected to generate a loss of \$1.1 million after the costs to construct and operate the pipeline are deducted over a 33-year period.
  - b. Connecting the White Tail Unit, Well No. 1H to a sales line is expected to generate a loss of \$1.4 million after the costs to construct and operate the pipeline are deducted over a 23-year period.
9. Murphy estimates that the Rafter Unit Lease, Well No. 1H and the White Tail Unit, Well No. 1H will be producing less than 50 MCF gas per day by March 26, 2015.
10. Murphy is requesting an exception to Statewide Rule 32 for the subject wells pursuant to 16 TAC §§3.32(f)(2) and 3.32(h).

**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. The requested authority to flare casinghead gas from the subject wells satisfies the requirements of Title 16, Texas Administrative Code §§3.32(f)(2)(D) and 3.32(f)(h)(4).

**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 wells as requested by Murphy Exploration & Production Co-USA.

Respectfully submitted,



Karl Caldwell  
Technical Examiner



Marshall Enquist  
Legal Examiner