



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 03-0291538

**THE APPLICATION OF VENADO OIL & GAS, LLC (P-5 OPERATOR NO. 884501)
FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE WOELFEL UNIT, WELL
NO. 1H, SOUTHERN BAY (EAGLE FORD) FIELD, LEE COUNTY, TEXAS**

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Cecile Hanna – Legal Examiner

HEARING DATE: September 24, 2014
RECORD CLOSED: January 5, 2015
SUBMISSION DATE: January 13, 2015
CONFERENCE DATE: January 27, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

Davis Gross
Brenda Wise

Venado Oil & Gas, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Venado Oil & Gas, LLC ("Venado") requests an exception to flare casing-head gas from its Woelfel Unit, Well No. 1H (API No. 42-287-32615) (the "Well"), pursuant to 16 Tex. Admin. Code §3.32. Venado seeks authority to flare 55,000 cubic feet of gas per day ("55 MCFGD") from the Well in the subject field beginning on September 3, 2014 through April 2015.

On October 30, 2014, the Examiners issued a letter to Venado seeking clarification on whether or not Venado would withdraw the subject application as a result of the Well's production falling below 50 MCFGD.¹ On January 5, 2015, Venado's counsel responded to the

¹ 16 Tex. Admin. Code §3.32(h)(4).

Examiners' October 30th letter, effectively closing the record for the subject application. The application is unopposed, and the Examiners recommend that it be approved.

DISCUSSION OF THE EVIDENCE

Ms. Brenda Wise testified on behalf of Venado. Ms. Wise is employed with Venado as an Engineering Technician, which is a role tasked with tracking the need for Venado's flaring exception requests.²

Applicable Rules

This application centers on one issue – Venado's request for an exception to flare 55 MCFGD from the Well beginning on September 3, 2014 through April 30, 2015. In general, 16 Tex. Admin. Code §3.32 ("SWR 32") governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Titled "Exceptions," SWR 32(h) states:

Requests for exceptions for more than 180-days and for volumes greater than 50 mcf of hydrocarbon gas per day shall be granted only in a final order signed by the commission.

Well History

The Well is situated on a 704-acre pooled unit composed of 16 individual tracts. On August 25, 2013, the Well was granted a drilling permit at a normal location (*i.e.*, exceptions to SWRs 37 and/or 38 were not required). On November 8, 2013, an amended drilling permit was granted for a new normal location. On June 17, 2014, Venado submitted a completion report for the Well, which indicated it was tested for a 24-hour Initial Potential ("IP") on April, 13, 2014. The Well's April 13th IP test results included: 264 barrels of oil; 109 MCFG; 677 barrels of water; and, a gas to oil ratio of 412 standard cubic feet of gas per stock tank barrel.

The Well received four administrative approvals from the Oil and Gas Division to flare casing-head gas for 180-days as follows (Flare Permit No. 16126):

	<u>Volume (MCFGD)</u>	<u>Effective Date</u>	<u>Expiration Date</u>
1.	400	03/03/14	04/17/14
2.	100	04/18/14	06/02/14
3.	100	06/03/14	07/17/14
4.	100	07/18/14	09/02/14

On August 11, 2014, Venado submitted its written request for a hearing on the captioned docket.

² See Testimony at 3:40 of audio recording.

Venado's Argument

In general, Venado claims that the need to flare all casing-head gas from the well during the above stated 180-day period was largely due to its own *exploring for options for a gas pipeline connection, and that shutting in the well may damage the wellbore*.³ At the hearing, however, Ms. Wise testified that securing a pipeline connection for the Well is not an economically viable option for Venado.

Venado identified that the nearest available gas gathering pipeline is owned by DCP Midstream ("DCP"), and is located approximately 1.08 miles from the Well. Venado submitted a cost to benefit analysis, based on numerous assumptions, to support its position⁴. In summary, Venado claims that the Well's Total Gross Income would be reduced to \$277,412 if Venado is required to connect the Well to the nearby DCP pipeline.⁵ Moreover, Venado claims its cost to benefit analysis indicates that connecting the Well to the nearest gas pipeline renders a net-present value of \$51,649 for the Well's casing-head gas production.

Venado submitted a monthly production curve based on the Well's production from March 5 through September 2014. The production curve indicates the Well is on exponential decline (as opposed to hyperbolic), and that the Well experienced several periods of interrupted production. After September 5, 2014, the Well's oil production remained on a consistent decline, hovering at roughly 100 barrels per day, while the casing-head gas production drastically decreased from about 50 MCFGD to 4 MCFGD.

Ms. Wise testified that the Well has produced roughly 4 MCFGD since September 5, 2014, and that Venado has no expectation that the Well's gas production rate will ever exceed 50 MCFGD. However, Venado requests that the Well be granted authority to flare up to 55 MCFGD through April 2015 because of the economic burden Venado will take on if it is required to build a pipeline to the nearby gas gathering line 1.08 miles away.

Examiners' Discussion

Beginning September 3, 2014, the Well's 180-day administrative flaring authority expired and Venado timely requested a hearing on the subject application.⁶ Thus, Venado seeks a flaring exception in the subject application for 55 MCFGD from September 3, 2014 to April 30, 2015 for the Well, notwithstanding the fact that the Well has produced roughly 4 MCFGD since September 5, 2014. In other words, the Well's casinghead gas production has been below 50 MCFGD since September 5, 2014. Consequently, the flaring authority became unnecessary since September 5th because the Well's casing-head gas production rate declined to less than 50 MCFGD.⁷ This raises the issue of whether Venado requires a permit to flare up to 55 MCFGD

³ Venado Exh. No. 3, pages 1-4, Remarks.

⁴ Venado Exh. No. 7 (Casinghead Gas Gathering Analysis) – This exhibit only incorporates an economic analysis of the Well's casing-head gas production. In other words, the Well's oil production value was not integrated into Venado's economic analysis. From March 5 through September 2014 (202 days), the Well produced roughly 25,136.8 barrels of oil.

⁵ *Id.* – Compare Total Gross Revenue with the collective expenses for (1) pipeline connection cost; (2) operating expenses over a 29 year period; and (3) severance tax. The difference is \$277,412.

⁶ 16 Tex. Admin. Code §3.32(i)(4).

⁷ 16 Tex. Admin. Code §3.32(h)(3).

for nearly seven months when two days may be sufficient. Venado argues in order to avoid a gap in time for the flaring authority that the requested permit is appropriate.

The Examiners recommend approval of Venado's requested permit. Venado timely requested a flaring extension on August 11, 2014, prior to the expiration of Venado's previous exception, resulting in no potential penalty exposure. The evidence shows that Venado requires the requested flaring authority for two days (September 3rd and 4th). Moreover, Venado provided economic evidence to support approval of the exception. Evidence related to the Well's oil economics, similar to Venado's Exhibit No. 7 (Casing-head Gas Gathering Analysis), however, would have also been credible to the Examiners analysis. Because Venado timely requested an extension for flaring authority, as well as the economic evidence supporting the flaring authority, the Examiners recommend approval of the subject application in this instance.

FINDINGS OF FACT

1. Venado Oil & Gas, LLC ("Venado") requests an exception to 16 Texas Administrative Code §3.32 to flare casing-head gas from its Woelfel Unit, Well No. 1H (API No. 42-287-32615) in the Southern Bay (Eagle Ford) Field, Lee County, Texas, (the "Well") at a rate of 55,000 cubic feet of gas per day ("50 MCFGD") beginning September 3, 2014 through April 30, 2015.
2. Venado received 180 days of administrative authority to flare the Well at volumes beyond 50 MCFGD from March 3, 2014 through September 2, 2014 (Flare Permit No. 16126).
3. Venado's 180-day administrative authority to flare casing-head gas from the Well expired on September 2, 2014.
4. Venado timely requested an extension to flare casing-head gas from the Well on August 11, 2014.
5. The nearest available gas pipeline to the Well is located at a distance of 1.08 miles from the Well.
6. Venado's economic analysis of the Well supports its requested flaring exception for the Well over building a gas pipeline from the Well to the closest available gas sales pipeline.
7. The Well has produced casing-head gas at a rate of 4 MCFGD since September 5, 2014.
8. The Well produced 25,136 barrels of oil from March 5, 2014 through September 2014, and averages about 100 barrels of oil production per day.
9. 16 Tex. Admin. Code §3.32(h)(3) provides operators the ability to flare casing-head gas, at volumes less than 50 MCFGD, without the need for an exception to flare pursuant to 16 Tex. Admin. Code §3.32(h).

10. Approval of the subject application is reasonable and appropriate, pursuant to 16 Tex. Admin. Code §3.32(h).

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas – Tex. Nat. Res. Code §81.051.
2. Legally sufficient notice has been provided to all affected persons.
3. The requested authority to flare up to 55 MCFGD of casing-head gas derived from the Southern Bay (Eagle Ford) Field, Lee County, Texas at Venado’s Woelfel Unit, Well No. 1H (42-287-32615) from September 3, 2014 through April 30, 2015 satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS’ RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission grant an exception to flare casing-head gas from the Woelfel Unit, Well No. 1H (API No. 42-287-32615) in the Southern Bay (Eagle Ford) Field, Lee County, Texas at a rate of up to 55 MCFGD from September 3, 2014 through April 30, 2015.

Respectfully submitted,



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Technical Examiner



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