

for each well, but does not consider an 18 month exception to be adverse. The application is unopposed and the examiners recommend approval of the exception to Statewide 32 to flare casinghead gas for a period of 18 months.

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 application, Murphy is requesting an exception to flare casinghead gas produced from the subject lease as provided by Statewide Rule 32(h).

Both the LSWT Unit, Well No. 1H, and the Fernandez Unit, Well 1H are located in the North Tilden area, which Murphy described as an area undergoing drilling activity, but low production. According to Murphy there is little to no infrastructure in the area. The date of first production for the LSWT Unit, Well No. 1H was March 21, 2014 with an initial potential test conducted on April 10, 2014. On initial potential test, the well produced 260 BOPD, 325 MCF gas per day, 661 BWPD, with a gas-oil ratio (GOR) of 1,250.

Murphy received a flaring permit (Permit No. 16586) for the LSWT Unit, Well No. 1H, effective April 6, 2014, expiring October 2, 2014 for a total of 180 days, the maximum length of time an exception to Statewide Rule 32 may be granted administratively. This permit authorized Murphy to flare a maximum of 400 MCF per day of casinghead gas. On September 11, 2014, Murphy requested a hearing be held to consider an additional exception to Statewide Rule 32 for the well.

The LSWT Unit, Well No. 1H is located near additional Murphy leases, including the White Tail Unit, which contains the White Tail Unit, Well No. 1H. There is an existing Regency Pipeline in the area, estimated to be approximately 1 mile from the LSWT Unit. At the present time there are no facilities on the LSWT Unit. Murphy estimated construction of approximately two miles of pipeline would be required to connect both the LSWT Unit, Well No. 1H and the White Tail Unit, Well No. 1H to the Regency pipeline. Murphy determined that the project economics are not favorable at this time to connect the LSWT Unit, Well No. 1H and the White Tail Unit, Well No. 1H to the Regency pipeline. The economic analysis conducted by Murphy assumed gas production with a starting production of 200 MCF per day and declining exponentially, with the gas processed for NGLs. The estimated capital investment to capture gas for each of the LSWT Unit, Well No. 1H and the White Tail Unit, Well No. 1H, including approximately one mile of pipeline per well is \$875,000. A centralized gas compression facility would be an additional expense, estimated at \$2,200 per month. Murphy assumed a price of \$5 per MCF of gas and a gas lifting cost of \$0.15 per MCF. Murphy

concluded that the remaining gas to be produced was 115.1 MMCF, resulting in \$320,300 revenue from NGL and gas sales. The estimated capital investment to capture this gas would be \$875,000 and an additional \$90,500 for incremental operating expenses and taxes. Murphy concluded that net revenue from gas sales would be a loss of \$720,000 over a period of three years, which is the time frame Murphy estimated as the remaining economic life of the well.

The Fernandez Unit, Well No. 1H date of first production was April 17, 2014, with an initial potential test conducted on May 7, 2014. On initial potential test, the well produced 567 BOPD, 389 MCF gas per day, 969 BWPD, with a GOR of 686.

Murphy received a flaring permit (Permit No. 16751) for the Fernandez Unit, Well No. 1H, effective April 28, 2014, expiring August 12, 2014 for a total of 105 days. Murphy Exhibit No. 8 contained a copy of a Statewide Rule 32 Exception Data Sheet, dated September 10, 2014, that requested to flare 500 MCF per day from August 13, 2014 to October 26, 2014, for a period of 75 days, which would be a total of 180 days for the Fernandez Unit, Well No. 1H, the maximum length of time an exception to Statewide Rule 32 may be granted administratively. Commission records show the requested additional 75 days were granted. On September 11, 2014, Murphy requested a hearing be held to consider an additional exception to Statewide Rule 32 for the Fernandez Unit, Well No. 1H.

Murphy has additional acreage surrounding the Fernandez Unit in the North Tilden area. There is a proposed Regency Field Services pipeline route in the vicinity. Based on the proposed location of the pipeline, Murphy estimated approximately 0.5 miles of pipeline would be required to connect the Fernandez Unit, Well No. 1H to the proposed pipeline, once constructed. Murphy has prepared a cost estimate to connect the Fernandez Unit, Well No. 1H to this proposed pipeline route. Murphy assumed that gas production would decline hyperbolically with a starting production of 241 MCF per day. The estimated capital investment to capture the gas was estimated at \$1,000,000, which included 0.5 miles of pipeline. Murphy estimated a centralized gas compression facility would require an additional \$1,100 per month. Other assumptions made by Murphy in the economic analysis included the gas was processed for NGLs, residue sales of \$5 per MSCF, a lifting gas cost of \$0.15 per MCF, and NRI of 75%.

Murphy's economic analysis for the Fernandez Unit, Well No. 1H well included an estimated remaining gross gas to be produced to be 204.7 MMCF, equating to an estimated \$564,600 of revenue from NGL and residue gas sales. The estimated capital investment to capture the gas is approximately \$1,000,000, and an additional \$418,700 would be required for incremental operational expenses and taxes. Murphy determined that the net revenue from the sale of gas and compression expenses would generate a loss of \$429,200 over a period of 28 years, the estimated remaining economic life of the well. As a result, Murphy has deemed the project to be economically unfavorable at this time.

Murphy has requested authority to continue to flare casinghead gas from both the LSWT Unit, Well No. 1H, and the Fernandez Unit, Well No. 1H, for up to two years, but would not consider an 18 month exception to Statewide Rule 32 to be adverse. The maximum daily flare volumes requested by Murphy were 240 MCF per day for the LSWT Unit, Well No. 1H and 400 MCF per day for the Fernandez Unit, Well No. 1H. The maximum daily flare volumes requested by Murphy for both wells were greater than the volumes used in the economic analysis for both wells. The examiners requested Murphy to provide a late-filed exhibit with the production curves for each of the wells. Murphy explained that the reason for the difference in the maximum requested daily flare volume and volume used in the economic analysis is due to fluctuations in daily gas rates. Murphy's witness testified that it would take greater for one year to design and construct a pipeline, along with acquiring right-of-way for the proposed pipeline route for the LSWT Unit, Well No. 1. In the case of the Fernandez Unit, Well No. 1H, the Regency Pipeline is merely a proposed route at this time and is not currently located 0.5 miles from this well.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators. No protests to the application were received.
2. The LSWT Unit, Well No. 1H, is located in the Indio Tanks (Pearsall) Field, Atascosa County, Texas.
3. The Fernandez Unit, Well No. 1H was originally permitted in the Indio Tanks (Pearsall) Field, but was completed in the Eagleville (Eagle Ford-1) Field, Atascosa County, Texas.
4. Murphy received Permit No. 16586, for the LSWT Unit, Well No. 1H, effective April 6, 2014, expiring October 2, 2014 for a total of 180 days, authorizing Murphy to flare a maximum of 400 MCF per day of casinghead gas.
5. Murphy received a flaring permit (Permit No. 16751) for the Fernandez Unit, Well No. 1H, effective April 28, 2014 expiring August 12, 2014 for a total of 105 days.
6. On September 10, 2014 Murphy requested to flare 500 MCF per day from August 13, 2014 to October 26, 2014, for a period of 75 days, which would be a total of 180 days for the Fernandez Unit, Well No. 1H, the maximum length of time an exception to Statewide Rule 32 may be granted administratively.

7. The time to design, construct, and obtain right-of-way for a pipeline to connect the LSWT Unit, Well No. 1H to the to the Regency Pipeline would be greater than one year.
8. The proposed Regency pipeline to be located approximately 0.5 miles from the Fernandez Unit, Well No. 1H is a proposed route at this time.
9. Murphy is requesting an exception to Statewide Rule 32 for the LSWT Unit, Well No. 1H and the Fernandez Unit, Well No. 1H.

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. Exceptions may be granted under Title 16, Texas Administrative Code 3.32(h).
4. Renewals and amendment of exceptions may be granted under Title 16, Texas Administrative Code 3.32(i).

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 as requested by Murphy Exploration & Production Co. – USA, for the LSWT Unit, Well No. 1H and the Fernandez Unit, Well No. 1H, for a period of 18 months.

Respectfully submitted,



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