



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0296164

THE APPLICATION OF JETTA OPERATING COMPANY, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES AND VARIOUS WELLS, SCOTT (CHERRY CANYON) FIELD, WARD COUNTY, TEXAS

OIL AND GAS DOCKET NO. 08-0296324

THE APPLICATION OF JETTA OPERATING COMPANY, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES AND VARIOUS WELLS, TWO GEORGES (BONE SPRING) FIELD, REEVES AND WARD COUNTIES, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Cecile Hanna – Hearings Examiner

ER& R PREPARED BY: Karl Caldwell – Technical Examiner
Terry Johnson – Hearings Examiner

DATE OF HEARING: May 13, 2015
DATE OF CONFERENCE: July 14, 2015

APPEARANCES: **REPRESENTING:**

APPLICANT:

Mickey Olmstead
Zachery Nix

Jetta Operating Company, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Jetta Operating Company, Inc. (Jetta) requests an exception to Statewide Rule 32 to flare casinghead gas from a total of 17 leases with wells completed in the Scott (Cherry Canyon) and Two Georges (Bone Spring) Fields in Reeves and Ward Counties, Texas. 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 an exception to Statewide 32 to flare casinghead gas for each of the leases, as requested by Jetta.

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 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, Jetta is requesting an exception to flare casinghead gas from a total of 17 leases as provided by Statewide Rule 32(h).

Jetta is requesting an exception to Statewide 32 for wells completed in the Two Georges (Bone Spring) Field in Reeves and Ward Counties on a total of six leases. Jetta is also requesting an exception to Statewide 32 for wells completed in the Scott (Cherry Canyon) Field on a total of eleven leases. In all, Jetta is requesting a two-year exception to Statewide Rule 32 to flare a cumulative maximum volume of 13.5 MMcf of casinghead gas per day from the seventeen leases, encompassing approximately 130 wells completed in the Two Georges (Bone Spring) Field and Scott (Cherry Canyon) Field, for an average maximum flare volume of 104 Mcf per day, per well. All of the wells on these 17 leases are currently connected to the Regency Gathering System, and all gas produced has been committed to Regency since March, 2004. Jetta is contractually obligated to commit all gas produced from these seventeen leases to Regency, per the terms of the contract. The contract agreement between Jetta and Regency also requires a delivery point pressure of up to 35 psi. However, the Regency system has been accepting more high pressure, deep gas from Wolfcamp and Wolfbone completions in the area, which has incrementally increased the line pressure and subsequently, knocked Jetta's low pressure wells off of the system. When this occurs, Jetta does not receive a warning, which leaves Jetta with no recourse other than to flare the gas in order to produce the oil wells. Jetta estimates that this occurrence started towards the end of 2014, and has been working with Regency to resolve this issue. As of approximately three weeks prior to the hearing date, Jetta had the majority of their wells back on-line. Jetta estimates that 99% of the gas produced was being sold as of April 12, 2015.

Three weeks prior to the hearing, the Regency Cayanosa Plant failed, which knocked at least 100 of Jetta's wells off-line, without warning. Since this time, Jetta has been working with Regency to resolve the issue. Jetta has obtained 180 day temporary flare permits, as summarized in Tables 1 and 2 for the leases, but additional time is needed beyond the initial 180 days, as Regency has not resolved all of the problems. The Commission received a hearing request from Jetta on March 27, 2015 for an exception to Statewide Rule 32 for a total of 17 leases with wells completed in the Scott (Cherry Canyon) and Two Georges (Bone Spring) Fields in Reeves and Ward Counties.

Table 1: Flare Permits for Scott (Cherry Canyon) Field Ward County

Lease Name	Lease No.	Flare Permit No.	Maximum Permitted Flare Volume (Mcf/d)	Permit Expiration Date
Barstow 38	08-42693	21171	100	May 24, 2015
Ballpark	08-38879	21170	50	May 24, 2015
Barstow 10	08-25319	21169	75	May 24, 2015
Barstow 14	08-30632	21168	75	May 24, 2015
Barstow 23	08-27483	21165	150	May 24, 2015
Barstow 30	08-27381	21163	75	May 24, 2015
Barstow 11	08-33996	21073	400	March 31, 2015
Barstow 22	08-37268	21072	400	March 31, 2015
Barstow 17	08-39200	21167	600	May 24, 2015
Barstow 18	08-30315	21166	250	May 24, 2015
Barstow 27	08-39202	21164	400	May 24, 2015

Table 2: Flare Permits for Two Georges (Bone Spring) Field, Reeves and Ward Counties

Lease Name	Lease No.	Flare Permit No.	Maximum Permitted Flare Volume (Mcf/d)	Permit Expiration Date
Worsham 6-14	08-42264	21160	250	May 24, 2015
Worsham 6-15	08-42008	21161	150	May 24, 2015
Worsham 6-13	08-45130	21159	300	May 24, 2015
Barstow 34-173	08-42953	21158	150	May 24, 2015
Barstow 33-35	08-45119	21071	400	March 31, 2015
Graham 33-34	08-45382	21162	450	May 24, 2015

At the present time, Jetta does not have access to other pipelines in the area. The closest gas gathering systems to Jetta's operations in the area other than Regency are PennTex and Western Gas. Both PennTex and Western Gas are located a distance away from Jetta's leases and Jetta's witness does not have knowledge as to whether either gathering system has sufficient compression to accept Jetta's gas at the current time. Connecting to either PennTex or Western Gas would require additional pipelines and compressors to tie into another gas gathering system.

Jetta is currently investigating the possibility of installing its own gas gathering lines to help avoid the current situation from arising in the future. Jetta's witness stated that there may be a possibility to put high pressure gas produced into one system and low pressure gas produced into a different gas gathering system.

Jetta is requesting a two year exception to Statewide Rule 32 to flare casinghead gas from the 17 leases for the maximum volumes listed in Appendix A as a contingency measure. In Jetta's opinion, the best case scenario for Regency to solve the current issues is at least twelve months. The requested volumes are based on a five-year projection of gas production in case Regency's system upgrades do not come to fruition. The requested maximum flare volumes include all current wells producing on the subject leases in addition to estimated future development on the leases. For example, two additional wells have been drilled on the Barstow 34-173 Lease, and are awaiting completion.

Jetta does not have control over resolving the current issues with Regency's system. According to Jetta, another operator, COG Operating, LLC is also having similar problems with Regency. Final Order No. 08-0293786 authorized COG Operating, LLC to flare up to a cumulative daily volume of 9.4 MMcf of casinghead gas from a total of thirteen tank batteries and leases in the Hoefs T-K (Wolfcamp) Field in Reeves County. Final Order No. 08-0292297 authorized COG Operating, LLC to flare up to a cumulative daily volume of 4.2 MMcf of casinghead gas from a total of five tank batteries in the Wolfbone (Trend Area) Field in Reeves County.

If the Regency system is unable to accept all of the gas produced by Jetta, the only recourse is to flare casinghead gas or shut-in the oil wells. Two SPE papers, SPE 165705 and SPE 166101, have attributed early-time shut-in of oil wells to a decrease in well production, and well shut-in as a factor affecting early well performance. Jetta also has concerns that the cyclic shutting-in of producing wells will negatively affect the propped fractures and production by reducing the effective conductivity of the proppant pack.

Jetta has plans to build its own infrastructure as a back-up plan in the future to help avoid the need to flare due to unforeseen circumstances with the Regency system. Jetta is requesting a two-year exception to Statewide Rule 32 since Regency has not provided a firm date to Jetta as to when the system will be able to accept of all Jetta's gas. The gas produced from the subject leases is contractually obligated to Regency, and the wells are currently connected to the Regency System.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators at least ten days prior to the date of hearing. There were no protests to the applications.
2. Jetta is requesting to flare gas from a total of seventeen leases for wells completed in the Scott (Cherry Canyon) and Two Georges (Bone Springs), Fields in Ward and Reeves, Counties, Texas.

3. All of the wells on the seventeen leases are currently connected to the Regency Gathering System, and all gas produced has been committed to Regency since March, 2004.
4. Jetta is requesting a flare permit for a period of two years for each of the leases listed in Appendix A.
5. The Regency system has been accepting more high pressure, deep gas from Wolfcamp and Wolfbone completions in the area, which has incrementally increased the line pressure and subsequently, knocked Jetta's low pressure wells off of the system.
6. At the present time, Jetta does not have access to other pipelines in the area.
7. When the Regency system is unable to accept all of the gas produced by Jetta, the only recourse is to flare casinghead gas or shut-in the oil wells.
8. Two SPE papers, SPE 165705 and SPE 166101, have attributed early-time shut-in of oil wells to a decrease in well production, and well shut-in as a factor affecting early well performance.

CONCLUSIONS OF LAW

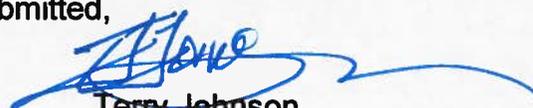
1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. The requested authority to flare casinghead gas satisfies the requirements of Title 16, Texas Administrative Code 3.32(h).

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant the request by Jetta Operating Company, Inc. for an exception to Statewide Rule 32 for the leases listed in Appendix A. The exception is granted for the maximum volumes listed for each lease as shown in Appendix A, effective March 27, 2015 to March 27, 2017.

Respectfully submitted,


Karl Caldwell
Technical Examiner


Terry Johnson
Legal Examiner

Jetta Operating Company
Western Division

APPENDIX A

Ward County Flare Totals and Projections							
Battery	County	Current Daily Gas Prod, MCFD	Future Additional Gas Prod, MCFD	Total Forecasted Prod, MCFD	Requested Maximum Daily Permitted Volume, MCFD		
Scott (Cherry Canyon) ^A	Ballpark	Ward	57	95	152	89	
	Barstow 10	Ward	239	63	302	302	
	Barstow 11	Ward	700	0	700	700	
	Barstow 14	Ward	413	0	413	413	
	Barstow 17	Ward	727	32	758	758	
	Barstow 18	Ward	440	95	535	472	
	Barstow 22	Ward	933	32	965	933	
	Barstow 23	Ward	530	0	530	530	
	Barstow 27	Ward	539	32	571	539	
	Barstow 30	Ward	167	95	261	199	
	Barstow 38	Ward	27	126	154	91	
	Two Georges (Bone Springs)	Barstow 33-35 ^B	Ward	969	2431	3400	969
		Barstow 34-173 ^C	Ward	215	2431	2646	2646
Graham 33-34 ^B		Ward	894	3647	4541	894	
Total			6852	9076	15928	9535	

NOTES
 A - total forecasted production includes all current wells and any future development up to 8 wells per lease. As is illustrated in the table the current production is 4772 MCFD with future additional gas amounting to 587 MCFD. Therefore 80% of the requested allowable flare volume from these Scott batteries is current production, we are accounting for very little Cherry Canyon expansion.
 B - Two additional wells per lease (4 total) are to be drilled on the Barstow 33-35 and Graham 33-34 but are not currently planned in the next 12 months.
 C - Two wells are currently drilled and waiting on completion in the 34-173 lease. That production will be coming on line within the next few months.

Reeves County Flare Totals and Projections						
Battery	County	Current Daily Gas Prod, MCFD	Future Additional Gas Prod, MCFD	Total Forecasted Prod, MCFD	Requested Maximum Daily Permitted Volume, MCFD	
Two Georges (Bone Springs)	Worsham 6-13 ^A	Reeves	2233	1215	3448	1550
	Worsham 6-14	Reeves	1363	0	1363	950
	Worsham 6-15	Reeves	2051	0	2051	1450
Total			5647	1215	6862	3950

NOTES
 A - One additional well is forecasted in the Worsham 6-13 lease but it is not currently planned in the next 12 months.

Jetta Operating Company, Inc.
O&G Docket No. 08-0296164/08-0296324
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Exhibit No.