



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0298050

THE APPLICATION OF COG OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS TANK BATTERIES, WOLFBONE (TREND AREA) FIELD, REEVES COUNTY, TEXAS

OIL AND GAS DOCKET NO. 08-0298111

THE APPLICATION OF COG OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE MONARCH STATE LEASE, WELL NO. 3803H, HOEFS T-K (WOLFCAMP) FIELD, PECOS COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Marshall Enquist – Administrative Law Judge

HEARING DATE: October 26, 2015
CONFERENCE DATE: December 8, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

COG Operating, LLC

Ana Maria Marsland-Griffith
Tami Parker
Terry Pafford

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

COG Operating, LLC ("COG") requests one-year exceptions to Statewide Rule 32 to flare casinghead gas from five tank batteries in the Wolfbone (Trend Area) Field in Reeves County, Texas: the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon tank batteries. All five tank batteries were previously granted one year exceptions to Statewide Rule 32 in Final Order No. 08-0292297. COG also requests a one-year exception to Statewide Rule 32 for the Monarch State Lease, Well No. 3803H, Hoefs T-K (Wolfcamp) Field, in Pecos County. This

lease was previously granted a one year exception to Statewide Rule 32 in Final Order No. 08-0295006. The applications are unopposed and the Examiners recommend granting an exception to Statewide 32 as requested by COG.

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 Mcf per day 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. For the subject applications, COG was granted an exception to Statewide Rule 32 for all five (the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon) tank batteries in Final Order 08-0292297. On September 2, 2015, the Commission received a request for an extension of the exception to Statewide Rule 32 for the five tank batteries. COG was also granted an exception to Statewide Rule 32 in Final Order No. 08-0295006 for the Monarch State Lease, Well No. 3803H. On September 9, 2015, the Commission received a request from COG to extend its exception to Statewide Rule 32 for the Monarch State Lease, Well No. 3803H.

At the present time, there is insufficient infrastructure in place to handle all gas produced from the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon tank batteries. Both pipeline and facility upgrades and expansions in the area have taken more time than originally estimated. Energy Transfer is contracted to accept the gas produced by COG's wells from these five tank batteries. Currently, gas processing facilities are the biggest bottleneck in the Energy Transfer System in this area. In the twelve month period since the previous one-year flare permits were granted, Energy Transfer has completed compressor additions to existing boosters in the amount of 30 MMcf per day of handling capacity. Energy Transfer has also added two new booster stations, the Birds of Prey and the Bonanza, each at 20 MMcf per day. Other additional infrastructure upgrades include new line additions, and the Mi Vida Plant, a 200 MMcf per day processing plant. The Arrowhead facility is estimated to be completed by the third quarter of 2016 and will add additional capacity of 120 MMcf per day.

Energy Transfer is handling a greater percentage of gas produced by COG as compared to a year ago. However, COG rarely encounters the line pressures below the contractual 70 psig pressure at their meter stations. The current infrastructure in the area cannot handle the current production volumes, due in part to better than previously-estimated well production. COG's witness attributes this to advancements in completion technologies. COG's wells, on average in this area, initially produce 1,000 BOPD and 1.5MMcf of gas per day. It is not uncommon for the wells to come on-line at 1,500 BOPD and 3 to 3.5 MMcf of gas per day. A year ago, COG had estimated production to be 1.5MMcf gas per well. Although all gas is contractually obligated to Energy Transfer, COG has approached PennTex to inquire about handling the gas currently being flared due to Energy Transfer's lack of current infrastructure in place. As a result of these discussions, COG has installed dual receipt points at several of its tank batteries. The meter can be set to sell gas to Energy Transfer at their contract pressure. Any gas that cannot enter the Energy Transfer line is able to enter the PennTex line. COG is also investigating options with a

third gas purchaser in the area, Vaquero Midstream (“Vaquero”). COG has plans to work with Vaquero for two off-load points, which would also be dual-systems to sell gas to either Energy Transfer or Vaquero. COG anticipates there will be no need to flare any gas from the subject tank batteries within the next year as a result of Energy Transfer’s planned infrastructure upgrades, in addition to alternative gas sales worked out with both PennTex and Vaquero. Therefore, COG is requesting an exception to Statewide Rule 32 from the date the previous exception expires until September 12, 2016. The maximum flare volumes requested for each tank battery are summarized in Table 1.

Table 1: Tank Battery Statewide Rule 32 Exception Summary

Tank Battery Name	Oil Lease No.	Previous Exception to SWR 32 Time Period	Maximum Requested Flare Volume (Mcf per day)
Big Lub Tank Battery	08-44562	09/12/14 - 09/11/15	165
Cowboy Battery	08-43836	09/12/14 - 09/11/15	1,868
Dutch State 24 Battery	08-41271	11/01/14 - 10/31/15	133
IKE State Battery	08-7687	09/12/14 - 09/11/15	1,011
Tycoon Tank Battery	08-6876	09/12/14 – 09/11/15	1,000

COG is also requesting a one-year exception to Statewide Rule 32 for the Monarch State Lease, Well No. 3803H, to flare a maximum of 700 Mcf of casinghead gas per day. This lease was previously granted a one year exception to Statewide Rule 32 in Final Order No. 08-0295006, effective October 1, 2014 to October 1, 2015. All gas produced from the Monarch State Lease is connected and contracted to Energy Transfer. In addition to the Monarch State Lease, COG has other wells in this area connected to the Energy Transfer system. COG’s expert witness estimates that at one point, approximately 95% of the gas produced from the Monarch State Lease was being flared. As a result, COG contacted PennTex to discuss handling the gas produced from the Monarch State Lease. COG connected the Monarch State Lease to the PennTex system and started selling gas from the lease on June 25, 2015. COG was able to sell 100% of gas from the subject lease in July 2015. However, COG brought two additional wells on-line north of PennTex’s Kimsey station, which proceeded to knock other wells off-line. As a result, COG started flaring gas from the Monarch State Lease in August 2015. PennTex is working to add additional booster compression in the amount of 6 MMcf per day at the Kimsey station. In the meantime, Energy Transfer is starting to make progress in adding infrastructure in this area, but is not highly focused in developing this area. The Monarch State Lease, Well No. 3803H is COG’s most easterly well in this area, and is considered to be on the edge of the prime Wolfcamp acreage. In addition, production from the Monarch State Lease, Well No. 3803H is declining fairly rapidly.

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. Energy Transfer has contracted to accept the gas produced by COG's wells from the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon tank batteries.
3. All gas produced from the Monarch State Lease is connected and contracted to Energy Transfer.
4. There is insufficient infrastructure in place to handle all gas produced by COG's wells in the Wolfbone (Trend Area) and Hoefs T-K (Wolfcamp) Fields.
5. COG received an exception to Statewide Rule 32 for the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon tank batteries in Final Order 08-0292297.
6. COG was granted a one year exception to Statewide Rule 32 for the Monarch State Lease, Well No. 3803H in Final Order No. 08-0295006, effective October 1, 2014 to October 1, 2015.
7. Energy Transfer has added two new booster stations, the Birds of Prey and the Bonanza, in addition to the Mi Vida Plant, a 200 MMcf per day processing plant.
8. COG is requesting an exception to Statewide Rule 32 from the date the previous exception expires to September 12, 2016, for the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon tank batteries, and the Monarch State Lease, Well No. 3803H.

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. Title 16, Texas Administrative Code 3.32(h) provides an exception to flare casinghead gas.

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 for the Big Lub, Cowboy, Dutch State 24, IKE State, and Tycoon tank batteries, and the Monarch State Lease, Well No. 3803H as requested by COG.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Marshall Enquist
Administrative Law Judge