

# NATURAL GAS FLARING

## AN OVERVIEW OF TEXAS' REGULATORY APPROACH

### TERMINOLOGY

**Flaring** = Controlled combustion of natural gas

**Venting** = Direct release of natural gas into the atmosphere

### WHY FLARE OR VENT GAS?

**1. Safety:** Emergency pressure release

**2. Operational:**

- Venting "Blowdown" prior to pipeline repair
- Flare gas kick during drilling
- Flare produced gas during well test
- Flare flowback gas during completions

**3. Economic: MAIN REASON**

- Economics drives behavior
- Well economics often dictate oil production at the expense of natural gas capture
- Economically rational to produce the oil and burn the gas

### HOW IS IT ECONOMIC TO FLARE GAS INSTEAD OF SELLING IT?

**1. Time Value of Money (US Dept. of Energy example):**

- 2018 Oil to Gas Price Ratio 28:1
- Lost gas sales had minimal impact on well economics
- Delaware Wolfcamp Well (assume average type curve)
  - Flaring 100% of gas during flush production (1st 6-12 months) and paying mineral owner royalty on flared volumes increased breakeven costs by only \$3/bbl (from \$42-45/bbl)

**2. Additional Variables That Drive Flaring Economics**

- Cost of Capital
- Competition for investment capital within a producer's portfolio
- Natural gas price & price risk
- Lease terms
- Likelihood of obtaining ROWs & ROW cost

### FLARING IN TEXAS

- 1. Texas Railroad Commission has primary jurisdiction over regulating flaring**
- 2. Texas Commission on Environmental Quality plays a smaller role**
- 3. Railroad Commission regulates via Statewide Rule 32 (SWR32)**

**THIS**



**NOT THAT**



**General Rule = No Flaring or Venting Gas MUST be used for legal purposes**

**Legal Purposes = Lease operations or sales**

**If you want to flare or vent, you must either:**

**BE EXEMPT**

**Exempt Flaring = Authorized Flaring  
No permit required to Flare/Vent during...**

**DRILLING**

**TESTS FOR POTENTIAL**

**1<sup>ST</sup> 10 PRODUCING DAYS FOLLOWING...**

**Initial Completion**

**Re-Completion in the Different Field**

**Workovers in the Same Field**

**I'M EXEMPT. CAN I FLARE OR VENT?  
DEPENDS... WILL THE EVENT BE >24HRS?**

**NO**

**YES**

**May Vent UNLESS Flare Req'd for Safety**

**Must Flare**

**OBTAIN A SWR32 EXCEPTION**

**ADMINISTRATIVE**

No hearing required  
**2 TYPES**

**FINAL ORDER**

If seeking permission to flare beyond 180 days, must have hearing and obtain final order signed by Commissioners

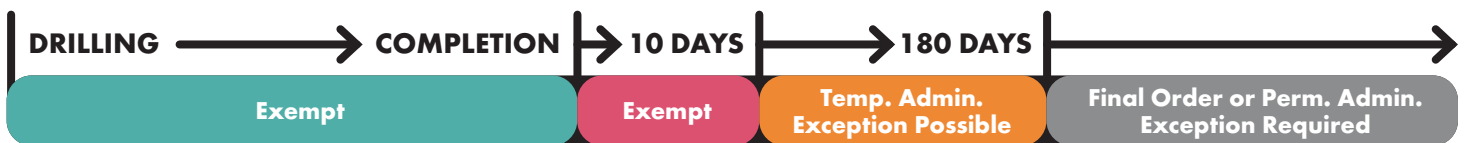
**TEMPORARY**

**45-60 Days:** Pipeline capacity issues  
**Up to 90 Days:** No takeaway infrastructure  
*\*May renew up to 180 Days upon showing that progress is being made to end flaring*

**PERMANENT**

If seeking to flare <50mcf/day and have adequate justification, may obtain permanent exception

**SWR32 Exemptions / Exceptions Timeline**



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