

BEFORE THE INDUSTRIAL COMMISSION

OF THE STATE OF NORTH DAKOTA

CASE NO. 15982

ORDER NO. 18245

IN THE MATTER OF A HEARING CALLED ON
A MOTION OF THE COMMISSION TO
CONSIDER THE APPLICATION OF BAYTEX
ENERGY USA LTD. FOR AN ORDER
PURSUANT TO NDAC § 43-02-03-88.1
AUTHORIZING THE FLARING OF GAS FROM
THE HAUGENOE #15-162-99H WELL
LOCATED IN THE NWNW OF SECTION 15,
T.162N., R.99W., DIVIDE COUNTY, ND,
AMBROSE-BAKKEN POOL, AS AN
EXCEPTION TO THE PROVISIONS OF NDCC §
38-08-06.4 AND SUCH OTHER RELIEF AS IS
APPROPRIATE.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

- (1) This cause came on for hearing at 9:00 a.m. on the 27th day of October, 2011.
- (2) The hearing examiner left the record open to allow Baytex Energy USA Ltd (Baytex) to provide supplemental information in support of this application. The Commission received such information on June 12, 2012 and the record was closed.
- (3) The Commission received an application from Baytex on September 26, 2011 for an order pursuant to North Dakota Administrative Code (NDAC) Section 43-02-03-88.1 authorizing the flaring of gas from the Haugenoe #15-162-99H well located in the NW/4 NW/4 of Section 15, Township 162 North, Range 99 West, Divide County, North Dakota, Ambrose-Bakken Pool, as an exemption to the provisions of North Dakota Century Code (NDCC) Section 38-08-06.4 and such other relief as is appropriate.
- (4) Pursuant to NDAC Section 43-02-03-88.1, the Director is authorized to sign, on behalf of the Commission, orders relating to, inter alia, flaring exemptions under NDCC Section 38-08-06.4 and under NDAC Section 43-02-03-60.2.
- (5) NDCC Section 38-08-06.4 states:

As permitted under rules of the industrial commission, gas produced with crude oil from an oil well may be flared during a one-year period from the date of first production from the well. Thereafter, flaring of gas from the well must cease and the well must be capped, connected to a gas gathering line, or equipped with an

electrical generator that consumes at least seventy-five percent of the gas from the well. An electrical generator and its attachment units to produce electricity from gas must be considered to be personal property for all purposes. For a well operated in violation of this section, the producer shall pay royalties to royalty owners upon the value of the flared gas and shall also pay gross production tax on the flared gas at the rate imposed under section 57-51-02.2. The industrial commission may enforce this section and, for each well operator found to be in violation of this section, may determine the value of flared gas for purposes of payment of royalties under this section and its determination is final. A producer may obtain an exemption from this section from the industrial commission upon application and a showing that connection of the well to a natural gas gathering line is economically infeasible at the time of the application or in the foreseeable future or that a market for the gas is not available and that equipping the well with an electrical generator to produce electricity from gas is economically infeasible.

(6) Baytex Energy USA LTD (Baytex) is the owner or operator of the following well in the Ambrose-Bakken Pool, Divide County, North Dakota:

<u>File #</u>	<u>Well Name & Number</u>	<u>Location</u>
18978	Haugenoe #15-162-99H	NW/4NW/4 Section 15-T162N-R99W

(7) The Ambrose-Bakken Pool is an oil reservoir, but gas is produced in association with the oil at the wellhead as a by-product of oil production.

(8) By previous order of the Commission, said well is currently authorized to flare so that all owners of interests in the well herein described may receive the maximum benefits of the oil production in such a manner that will prevent waste and protect correlative rights.

(9) The well is not connected to a gas gathering facility and evidence presented to the Commission indicates that the well currently produces approximately 30 MCF per day of surplus gas.

(10) The well is located approximately 11.5 miles to the nearest gas gathering system with sufficient capacity to market the surplus gas. The Commission notes there are gas gathering pipelines located approximately 4 miles to the northwest and 6 miles to the northeast of the well, although they are currently operating at full capacity.

(11) Baytex has submitted evidence that under current market conditions the surplus casinghead gas presently being produced by the well and the estimated recoverable reserves of surplus gas from the well is insufficient to recoup the costs of installing and operating a gas gathering facility.

(12) Baytex has investigated the possibility of equipping the well with an electrical generator. It is not economic to purchase, installation, connection and operate an electric generator fueled by produced casinghead gas. The Commission concludes that equipping the well with an electrical generator to produce electricity from the gas is economically infeasible.

(13) If Baytex's request is not granted, taxes and royalties must be paid on flared gas which will increase operating costs, raise the economic limit and cause premature abandonment of the well; or the well must be connected to a gas pipeline or an electrical generator at an economic loss which would also cause premature abandonment, or flaring must cease and the well must be "capped," resulting in the loss of oil production and the loss of the benefits of that production by all owners of interest in the well and the State of North Dakota.

(14) Considering the amount of surplus gas being produced by the well, the amount of estimated recoverable reserves from the well, and the cost to connect the well to a gas pipeline, it is not economic at this time to connect the well to a gas gathering facility or an electrical generator.

(15) Baytex has entered into a contract with a gas gatherer that plans to install a new 270-mile gas gathering system in Divide County that should be operational in 2013.

(16) In order to prevent waste, and protect correlative rights this application should be granted, although limited in duration.

IT IS THEREFORE ORDERED:

(1) Baytex Energy USA LTD, its assigns and successors, is hereby allowed to flare surplus casinghead gas produced with crude oil from the Ambrose-Bakken Pool through the well listed below under the exemption provided for under NDCC Section 38-08-06.4:

<u>File #</u>	<u>Well Name & Number</u>	<u>Location</u>
18978	Haugenoe #15-162-99H	NW/4NW/4 Section 15-T162N-R99W

(2) This order is effective as of September 26, 2011 and shall remain in full force and effect until further order of the Commission.

Dated this 18th day of July, 2014.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

By the Director, on behalf of the Commission

/s/ Lynn D. Helms, Director