BEFORE THE INDUSTRIAL COMMISSION

OF THE STATE OF NORTH DAKOTA

CASE NO. 8208
ORDER NO. 9641

IN THE MATTER OF A HEARING CALLED ON A MOTION OF THE COMMISSION TO CONSIDER THE APPLICATION OF LYCO ENERGY CORPORATION FOR AN ORDER PURSUANT TO NORTH DAKOTA ADMINISTRATIVE CODE SECTION 43-02-03-88.1 EXEMPTING THE PLUMER-LUNDQUIST #25-2 WELL, LOCATED IN THE NW/4 NE/4 OF SECTION 25, T.161N., R.99W., DIVIDE COUNTY, NORTH DAKOTA, FROM THE PROVISIONS OF NORTH DAKOTA CENTURY CODE SECTION 38-08-06.4 RELATING TO THE FLARING OF GAS.

ORDER OF THE COMMISSION

THE COMMISSION FINDS:

(1) This cause came on for hearing at 9:00 a.m. on the 24th day of March, 2004.

(2) Pursuant to North Dakota Administrative Code (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 North Dakota Century Code (NDCC) Section 38-08-06.4 and under NDAC Section 43-02-03-60.2.

(3) 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, or until June 30, 1986, for wells in production prior to July 1, 1985. Thereafter, flaring of gas from the well must cease and the well must either be capped or connected to a gas gathering line. 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.

(4) Applicant is the owner or operator of the following well in the Burg-Red River Pool, Divide County, North Dakota:

File #	Well Name & Number	Location
14775	Plumer-Lundquist #25-2	NW NE Section 25-T161N-R99W

(5) The Burg-Red River Pool is an oil reservoir, but gas is produced in association with the oil at the wellhead as a by-product of oil production.

(6) 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.

(7) The well is currently not connected to a gas gathering facility and that evidence presented to the Commission indicates that the well currently produces approximately 19.5 MCF per day, of which 4.5 MCF is used for lease operations and 15 MCF is surplus gas and is being flared.

(8) The well is located approximately 12 miles from the nearest gas gathering system.

(9) The applicant has estimated the total project cost of purchasing and installing a gas pipeline at a minimum of $100,000.

(10) The applicant submitted evidence indicating estimated recoverable gas reserves of 14,947 MCF, of which 3,449 MCF is surplus gas that would be available for sale.

(11) The applicant has estimated the value of the gas to be $4.79 per MCF, based upon the value of gas being sold in the area which is similar in composition .

(12) The net value (after royalty payments and state taxes) of the gas available for sale is $13,444, therefore, since the total project cost is $100,000, there are insufficient reserves of surplus gas to recoup the costs of installing and operating a gas gathering facility.

(13) The applicant 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.

(14) If applicant'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 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.

(15) 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, or in the foreseeable future, to connect the well to a gas gathering facility.

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

IT IS THEREFORE ORDERED:

(1) The applicant, its assigns and successors, is hereby allowed to flare surplus casinghead gas produced with crude oil from the Burg-Red River Pool through the well listed below under the exemption provided for under NDCC Section 38-08-06.4.

File #	Well Name & Number	Location
14775	Plumer-Lundquist #25-2	NW NE Section 25, T.161N., R.99W.

(2) This order shall remain in full force and effect until further order of the Commission.

Dated this 23rd day of April, 2004.

INDUSTRIAL COMMISSION
STATE OF NORTH DAKOTA

By the Director, on behalf of the Commission

/s/ Lynn D. Helms, Director