

PROCEDURE: SURFACE COMMINGLING OF STATE OF TEXAS LEASES AND/OR UNITS

Texas Administrative Code Title 31, Part1, Chapter 9, Subchapter C, Rule §9.35(a)(3) requires a mineral lessee to obtain written permission from the Texas General Land Office (GLO) before surface commingling oil or gas production from a state lease or pooled unit with either private lease production or production from another state lease or pooled state unit. These requirements are in addition to, and apart from, the requirements of any other state and/or federal entity.

Scope

The scope of the review of commingled state leases and/or units includes the following:

1. **Crude oil and/or condensate:** All hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator (or other equipment at least as efficient) that are surface commingled with the production from any other lease and/or unit into (a) a common manifold and/or separator, (b) common storage, or (c) a common gathering system or pipeline, up to and including the point of final title or custody transfer of the liquid hydrocarbons to a non-affiliated third party at a point in the process where the hydrocarbons are ready for sale or use (merchantable and marketable).

Generally, the point of sale, title transfer, and/or custody transfer occurs at the discharge connection downstream of a Lease Automatic Custody Transfer (LACT) unit or at the point of connection used for truck haul of the liquid hydrocarbons.

2. **Natural Gas:** All hydrocarbons and gaseous substances not defined as crude oil and/or condensate as defined in the sub paragraph above that are surface commingled with the production from any other lease and/or unit into (a) a common manifold and/or separator, (b) common storage, (c) a common gathering system or pipeline, (d) a common gas treatment plant/facility, or (e) a common natural gas processing plant, up to and including the point of final title or custody transfer of all hydrocarbons (gaseous and liquid), gaseous substances, and/or other products to a non-affiliated third party at a point in the process where the hydrocarbons, gaseous substances and/or other products are ready for sale or use (merchantable and marketable).

Generally, if a natural gas is processed in a natural gas processing plant to remove liquefiable hydrocarbons from the gas then the typical point of sale, title transfer, and/or custody transfer is at the tail gate of the processing plant after removal of all impurities, other gaseous substances and/or other products, and liquefiable hydrocarbons required to make the natural gas ready for sale or use such that it is interchangeable with the typical composition of the natural gas in an interstate and/or intrastate gas pipeline.

3. 31 TAC §9.35(a)(3) applies to all state lands described in 31 TAC §9.21(1)–(5) and §9.31(a)(1).

It is the responsibility of the applicant to fully disclose and accurately represent the surface commingling of the state lease or pooled unit production from the mouth of the well to the point of sale, title transfer, and/or custody transfer of the crude oil and/or condensate, natural gas, natural gas liquids, and any other gaseous substance or product made from the gas produced from a state lease.

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Request for Permission to Commingle State Leases and/or Units Per 31 TAC §9.35(a)(3).

If the Lessee/Operator has not obtained prior written permission to commingle the affected state lease(s) and/or unit(s) from the GLO, then the Lessee/Operator must provide three copies (unless otherwise indicated) of the following information (**GLO Data Requirements**) to the GLO in connection with the Lessee's/Operator's request to commingle:

1. A cover letter (one original) to the GLO (to the attention of Matthew T. Scott, P.E., Texas General Land Office, P.O. Box 12873, Austin, TX, 78711-2873) identifying and requesting permission to surface commingle production from the affected leases. (Phone: 512-475-2230, Fax: 512-475-1543)
2. Three copies of the completed Railroad Commission (RRC) of Texas application Form P-17, where applicable, for the proposed surface commingling, and of the RRC approved permit when made available by RRC staff. Note that a Lessee/Operator must request permission to commingle the production from a state lease/unit regardless of whether a RRC Form P-17 application or commingling permit is or is not required by the RRC.
3. Three copies of a table or spreadsheet (the **GLO Lease List**) that includes the following information for **all** RRC Lease Ids that are commingled with the production from any other lease tract or unit (whether the state lease and/or unit production that is proposed to be commingled is or is not run through an oil and gas separator and the oil and gas is then separately metered before surface commingling with the production from other state or private leases/units):
 - a) RRC district number,
 - b) RRC Form P-17 permit number (if applicable),
 - c) RRC Form P-17 application date,
 - d) RRC Form P-17 request status (add/delete) of a RRC Lease ID,
 - e) Surface commingling facility name or RRC Form R-3 plant name, plant number, and plant operator where applicable,
 - f) RRC field name,
 - g) RRC lease name,
 - h) RRC Lease ID No. for **all** commingled RRC Lease ID Nos. (State and private),
 - i) Wellbore 10-digit API No., RRC lease Form P4 operator, RRC lease type (oil/gas), and current RRC well status of each well associated with each RRC Lease ID No.,
 - j) GLO State Mineral Lease (Mineral File) No. where the productive field interval of the well is located within the physical boundary of the lease. If, due to depth limitations, several leases exist within a common wellbore, then enter the mineral lease number for the producing field interval. If the wellbore of a horizontal well or directional well traverses multiple state mineral leases then enter each state mineral lease associated with the producing RRC Field interval in order from the heel (first take point) to the toe (last take point) of the well.
 - k) GLO or private unit name if the state mineral lease is pooled,
 - l) GLO assigned unit number if the state mineral lease is pooled,
 - m) State mineral lease or unit net royalty interest.

If the state lease and/or unit production that is proposed to be commingled is **not** run through an oil and gas separator and the oil and gas is then separately metered before surface commingling with the production from other state or private leases/units, then also provide the most recent month's RRC Form PR or R-3 (as appropriate) lease production volumes and the appropriate production month on the GLO Lease List.

Refer to Attachment Nos. 2 through 5 for examples of the data required to compile a GLO Lease List per the above listing for RRC Form PR and Form R-3 RRC leases that are proposed to be commingled. Attachment Nos. 2 through 5 is available in electronic form by request from GLO staff.

4. If the state lease and/or unit production that is proposed to be commingled a) **is not** run through an oil and gas separator and the oil and gas is then separately metered before surface commingling with the production from other state and/or private leases/units, or b) the production **is** run through an oil and gas separator and the Lessee/Operator proposes to allocate and report production based on the oil and gas that is then separately metered before surface commingling with the production from other state and/or private leases/units, then also provide three copies of:

A. A representative plat or drawing showing the relative location of all proposed commingled wells, the proposed commingling facility location(s), and relevant lease line boundaries with each lease and/or unit name and state Mineral Lease No. and GLO unit number shown on the plat. At each lease well in the scope of the permit, provide the RRC Lease Name, well number, RRC Lease ID No., and API No.

B. An explanation or narrative of the process flow (with supporting flow schematic(s) and/or drawings) that is applicable to the leases and/or units that are proposed to be commingled or in the scope of the proposed RRC Form P-17 permit. Provide flow schematic(s), process flow diagram(s) (PFD) and/or process mechanical flow sheets/piping and instrumentation diagrams (P&ID) that includes the flow from the well head to a common production manifold through the complete separation and treating process until the point at which final custody transfer occurs. The process flow narrative and supporting schematics or diagrams shall include all facilities and equipment involved in the scope of the proposed commingling and/or comingling permit up to and including the final custody transfer gas sales meters, LACT Units, and/or strapped oil tanks. In addition, please identify each meter by number or label on each schematic, PFD, and/or P&ID and reference it in the explanation or narrative of the process flow. If the Lessee/Operator retains title and/or ownership of the gas after treating and/or processing same to remove liquefiable hydrocarbons and/or other gaseous substances, then identify all gas processing plants where liquefiable hydrocarbons are removed and/or gas treatment facilities where impurities and/or any other gaseous substances are removed by the RRC designated plant facility name. Provide the name of the operator of each processing plant and/or facility that processes the commingled gas. Provide schematics of all gathering systems and identify all associated gas processing plants and/or gas treatment facilities that treat and/or process the commingled gas stream from the commingled facility until the point of sale, title transfer, and/or custody transfer of the hydrocarbon gases, any other gaseous substances, and other products.

C. An example defining and showing the method of production allocation applicable to the leases in the scope of the proposed commingle permit. Please identify each meter by number or label on each process flow diagram and reference it in the explanation or narrative of the production allocation method.

Notes:

- 1) GLO staff, at its discretion, may subsequently request additional data as required to complete the review of the surface commingling application.
- 2) Pursuant to the terms of the typical state lease and per 31 TAC §9.35(a)(2), the Lessee/Operator must request an exception in writing and obtain a waiver from the GLO to the requirement to separate and meter the production from a state lease and/or pooled unit before the sale, title transfer, and/or custody transfer of production and/or before surface commingling with the production from any other lease. In addition, the Lessee/Operator must request and obtain a waiver from the GLO **before** the installation of any full well stream/wet gas/multiphase flow meters if same are proposed to be used in lieu of conventional separators equipped with meters.

Procedure If Lessee/Operator Has Previously Obtained Permission Per 31 TAC Rule §9.35(a)(3).

- A. If the Lessee/Operator has previously obtained prior written permission from the GLO per 31 TAC §9.35(a)(3) and the Lessee/Operator proposes to amend the scope of the prior approval, then the Lessee/Operator may contact GLO staff by phone, mail, or email to discuss the scope of the proposed amendment. Based on the scope of the proposed changes, GLO staff will notify the Lessee/Operator in writing of the data requirements necessary for review of the proposed amendment.
- B. If the scope of the proposed amendment is to add RRC Lease IDs or wells and the wells proposed to be added to the scope of an existing RRC Form P-17 commingling permit will be equipped in the same manner as that described and approved during the initial commingling application review and approval process by GLO staff, then GLO staff will typically (but not always) only require revision of the GLO Lease List or, at its discretion, require submittal of all or part of the GLO Data Requirements listed above. The review of an amendment of an existing or prior commingling permit or authorization is evaluated on a case by case basis where the specific data requirements requested by GLO staff depend on the scope of any proposed well and/or process changes or modifications, future lease/well development plans, the potential effect on royalty due amounts, the lease and/or unit net royalty interest, and the GLO's past history with the Lessee/Operator.
- C. If the Lessee/Operator requesting permission to amend the scope of the prior commingling permit or authorization has proposed changes to the process flow (by the addition or removal of process equipment), meter type or method, and/or allocation methodology (if applicable), then the Lessee/Operator shall submit all or part of the GLO Data Requirements listed above at the discretion of GLO staff.

Review of the Application Requesting Permission to Surface Commingle State Lease Production

GLO staff will review the documents and data submitted by the Lessee/Operator for new or amended permission to commingle state lease and/or unit production for conformance to the GLO Data Requirements. GLO staff will then respond to the requesting Lessee/Operator in writing, by certified mail, concerning the GLO's decision to permit, permit with conditions, or reject the proposed commingling, or to request additional information. If permission is granted, the GLO will notify the applicant of any conditions to be complied with in order to protect the interests of the Permanent School Fund in connection with the applicable state lease. If additional data is required to complete the review of the application, then GLO staff will request the necessary documents from the applicant in writing.

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