

Guidelines for Surface Commingling of State of Texas Leases and Units

Last Updated on March 23, 2018

Overview

The Texas General Land Office (GLO) administers a surface commingling program that is designed to ensure that the Permanent School Fund (PSF) receives all revenue due it from royalties payable on State oil and gas leases. As such, the GLO program is not regulatory in nature; rather, it represents a fiduciary duty owed by GLO to the State as managers of PSF lands. GLO surface commingling requirements are in addition to, and distinct from, the requirements of any other state and/or federal entity, including the Railroad Commission of Texas (RRC).

The GLO surface commingling program and requirements apply to all state lands described in 31 TAC §9.21(1) – (5) and §9.31(a)(1), and is described in 31 TAC §9.35. It is the responsibility of each lessee to:

- I. Obtain written permission from 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.
- II. Accurately represent the surface commingling of the state lease or pooled unit production from the mouth(s) of the well(s) to the point(s) of sale, title transfer, and/or custody transfer of all crude oil and/or condensate, natural gas, natural gas liquids, and any other gaseous substance or product made from gas produced from a state lease.

NOTE: RRC requires a Form P-17 commingling permit application to be filed in cases where multiple gas wells produce from a single tract, and assigns a unique Gas ID to each gas well. Consistent with 31 TAC §9.35(a)(3), production from a single state lease or a single state pooled unit that comprises multiple RRC Gas IDs does not represent surface commingling under the rule so long as:

- A. no surface commingling of the single state lease or single state pooled unit with private lease production is occurring, and
- B. GLO has an identical royalty interest in each and every well producing from the single state lease or single state pooled unit.

As such, no written permission from GLO to surface commingle shall be required to produce a single state lease or single state pooled unit comprised of multiple RRC Gas IDs under those circumstances.

GLO Definition of Commingling

Crude oil and/or Condensate

All hydrocarbons produced in a liquid form at the mouth of a well, plus all other liquid hydrocarbons recovered from oil or gas run through separation equipment, that are combined 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. The scope of commingling extends from the wellhead up to and including the point(s) of final title or custody transfer to a non-affiliated third party.

Natural Gas

All hydrocarbons and other gaseous substances produced at the mouth of a well that are not defined as crude oil and/or condensate, and that are combined 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. The scope of commingling extends from the wellhead up to and including the point(s) of final title or custody transfer to a non-affiliated third party.

Applying for Permission from GLO to Surface Commingle

A GLO surface commingling application consists of six documents, which may be submitted either by email or in hard copy format using the following contact information:

Texas General Land Office
Energy Resources
Attn: Thomas Manuel Ortiz, Ph.D., P.E.
1700 N. Congress Ave.
Austin, TX 78701
512-463-5296
tom.ortiz@glo.texas.gov

There are no standardized forms for these documents. However, a brief description of the information requirements for each one is provided below.

Cover Letter

The letter must include a request to surface commingle State leases and/or units, and all RRC lease names and State Mineral Lease numbers (MFXXXXXX) to be commingled must be listed.

Copy of RRC Form P-17 surface commingling permit application

The RRC application does not have to be approved before you apply to GLO. You may submit the draft application you sent to RRC pending approval, and then submit the final permit within ten days after its approval by RRC. RRC has a slightly different definition of surface commingling than does GLO. Therefore, you may not be required by RRC to submit a P-17. This is uncommon, but in such cases please submit certification that a RRC surface commingling permit is not required instead of the P-17.

GLO Lease Table

A sample of this document is available at <http://www.glo.texas.gov/energy-business/oil-gas/mineral-leasing/commingling/index.html>. Provide information for all commingled wells—with and without GLO interest—associated with all RRC Lease IDs which are being commingled per the above GLO definitions.

Process Flow Diagram

The diagram must show all wells, meters, separators, treatment vessels, tanks, flares, flowlines, and other surface equipment for each commingled lease from wellhead(s) to point(s) of custody transfer. Give each piece of equipment a unique label. Include continuation line labels for all flowlines that extend across multiple sheets/pages. Include meters for all non-sales hydrocarbon dispositions (e.g. flare, fuel, instrument, and lift gas). You may omit meters for vent gas emissions from atmospheric tanks, but show the emissions on your diagram. Color code the phase(s) flowing through each line.

Process narrative

Describe the flow process shown in your diagram in a way that can be understood by someone who is familiar with hydrocarbon accounting, but who does not necessarily have an engineering background. There is no one specific required format for the narrative. However, one suggestion is as follows:

Process Narrative for <Battery>

<Lease 1>

Oil

Describe the flow of oil from each wellhead through all separators, meters, treaters, and other equipment all the way to the point(s) of custody transfer. Include descriptions of any oil flows being diverted from or collected on the lease (e.g. scrubber liquid, drip condensate, skim oil).

Gas

Describe the flow of gas from each wellhead through all separators, meters, treaters, and other equipment all the way to the point(s) of custody transfer. Include descriptions of any gas flows being diverted from or consumed on the lease (e.g. flare, fuel, instrument, lift, and vent gas).

Water

Describe the flow of water from each wellhead through all separators, meters, treaters, and other equipment all the way to the point(s) of custody transfer.

<Lease 2>...

Allocation Examples

Provide a set of allocation examples (oil, gas) with sample calculations to illustrate your proposed allocation methodology. If you use a spreadsheet, please ensure that the calculations can be followed on a hard copy (i.e. without having to refer to cell formulas, which will not be visible once the application is uploaded to the GLO database).

Commingled oils produced from the same RRC field will generally have similar physical characteristics (e.g. gravity) and may be therefore allocated by volume. However, oils commingled from different RRC fields must be explicitly allocated by mass (i.e. corrected for differences in gravity).

Processed gas must be allocated by molecular balance (component). The term processed gas is defined in your lease, which is the controlling document. A rule of thumb follows: Wherever produced gas is unsuitable for direct injection into a transmission pipeline (e.g. too high in energy content), then it is deemed to be processed gas. Such gas may first need to be treated either on or off lease, and may thereafter be processed in a plant for separation into liquid (NGL) products plus residue gas. Residue gas from a processing plant must be allocated as non-processed gas (see below). If you have a very old lease, processed gas may refer to gas “used or sold for the manufacture of gasoline”.

Non-processed gas must be allocated by energy balance. The term non-processed gas is defined in your lease, which is the controlling document. A rule of thumb follows: Wherever produced gas may be sold directly from the lease as dry, “pipeline quality” gas, it will be deemed to be non-processed gas. Residue gas from a processing plant must also be allocated by energy balance. If you have a very old lease, non-processed gas may refer to all gas that is not defined as “used or sold for the manufacture of gasoline”.

Amending an Existing GLO Surface Commingling Approval

If a lessee has previously obtained written permission from the GLO per 31 TAC §9.35(a)(3) for a given number of State leases and/or units, and wishes to amend the scope of the prior approval, then the lessee must contact GLO using the contact information above to discuss the scope of the proposed amendment. Based on the scope of the proposed changes, GLO staff will notify the lessee in writing (either by email or letter) of the data requirements necessary for review of the proposed amendment.

Application Review Process

GLO staff will review all documents and other data submitted by the applicant for compliance with GLO rules, and to ensure that approval of the application would be in the best interest of the PSF. GLO staff may, at their discretion, request additional documents or other information as required to reach a final decision on the application. All written GLO requests, whether by email or letter, must receive an adequate response within sixty (60) days of the request. If the 60th day lies on a weekend or GLO holiday, then the deadline for the response will be the next business day thereafter. Failure to respond by the deadline will subject the application to administrative denial, which includes notification to RRC.

The final decision reached on an application will be transmitted to the applicant by letter via Certified Mail. GLO staff, at their discretion, may also forward a courtesy copy of this letter by email.