

ACTION: Approval of Agency Policy Regarding Flaring of State's Interest Gas as Related to Such Flaring as a Royalty-Free Disposition

AUTHORITY: W.S. 36-6-101

ALTERNATIVES:

- Approve Policy
- Approve Policy as Amended by Board
- Reject Policy

ANALYSIS:

The agency has operated under a policy to date that allowed a request for and approval by the Board of a royalty-free disposition of State's interest gas that could not be shut in during major field gas compressor and plant compressor turnarounds for safety and plant vessel safety reviews. Generally, the issue of flaring at the well pursuant to continuing production of oil where there is no infrastructure in place has not been a particular issue. Generally, flaring was for a term of 15 days or less and sanctioned by the Oil and Gas Commission without particular knowledge of this Office. This short period for testing was recognized as inevitable and inescapable in completing and testing wells after same reached a total depth. However, with the advent of new production related to the Niobrara, Mowry, Turner and Teapot shale horizontal drilling and development for oil, significant volumes of gas are being flared for extended periods of time with no obvious movement to building needed gas gathering lines, gas trunk lines and gas plants. This is all infrastructure that needs to be in place for both Lessor and Lessee to realize the full rewards of the significant gas volumes being discovered in these new plays. As such, with this practice continuing un-abated for the foreseeable future, the Office wishes to immediately implement additional policy, with Board sanction, regarding the timing of flaring events from State lands production insofar as royalty-free disposition is allowed for these events.

NATURAL GAS FLARING POLICY – STATE OF WYOMING LEASE PRODUCTION

WYOMING OFFICE OF STATE LANDS AND INVESTMENTS

EFFECTIVE 10/1/2011

While regulatory authorization to flare or vent gas is addressed by Oil and Gas Conservation Commission Rules and Regulations, (Chapter 3, Section 40), the Office of State Lands & Investments, as trustee for the beneficiaries of Wyoming State Land production royalties, will not sanction *royalty-free disposition* of State's interest gas for a period greater than thirty (30) days from the date total well depth is reached regardless of regulatory approval by the Oil and Gas Conservation Commission, or other body, to flare or vent for a greater period, for any well drilled after July 1, 2010. Further, any flared volumes occurring after total depth is reached must be recorded by a meter installed on the flare stack and the recorded volume information reported to the Office of State Lands & Investments through the current operator reporting system on the regular monthly gas cycle basis. If flaring or venting continues beyond thirty (30) days or the time period authorized by the Board of Land Commissioners without specific authorization in writing, all flared or vented gas from State lease production interests is royalty-bearing and royalties must be remitted. In the event the Oil and Gas Conservation Commission authorizes a maximum flaring

period of less than the thirty (30) day period referenced above, royalties will begin to accrue following the lapse of the flaring authorization from the Commission.

Royalty-free disposition of State's interest gas may also be authorized by the Board for gas plant and compressor station safety inspection/turnarounds as requested, based upon a detailed explanation and time-table for same.

Failure to follow this policy may, under the terms of the State lease, result in action up to and including lease termination.

Staff believes this the most appropriate action to take pursuant to protecting the State lease beneficiaries' interests and where some anomalous situation were to arise in this regard needing special consideration, the Board would be informed and a recommendation of waiver of policy or other appropriate action would be presented for Board consideration. Lessee's are not limited from flaring as approved by the Commission with this policy, they are just not allowed to do so royalty-free outside the bounds of Board sanction.

DIRECTOR'S RECOMMENDATION:

The Director recommends approval of the expanded natural gas flaring policy as drafted.

BOARD ACTION: _____