



City of League City, TX

300 West Walker
League City TX 77573

Text File

File Number: 17-0455

Agenda Date: 7/25/2017

Version: 1

Status: Agenda Ready

In Control: Land Management

File Type: Agenda Item

Title

Consider and take action on a request by Lynn Watkins of Venture 2, LLC. for variances to Chapter 42, Article III, of the Code of Ordinances of the City of League City, entitled "Oil and Gas Well Drilling" related to a proposed drilling permit application for a site generally located south of the Magnolia Creek Golf Course, southwest of the Brittany Lakes Subdivision, east of Bay Area Boulevard, and west of Landing Boulevard (Director of Planning and Development)

Council postponed 7-0-0 with 1 absent on June 27, 2017.

Council postponed 7-1-0 on July 11, 2017.

..Background:

The applicant is requesting several variances to the City's Oil and Gas Well Drilling ordinance to facilitate an exploratory drilling operation. Action on these requests will *not* authorize the approval of a drilling permit, and approval or denial of the variance requests will not create any precedence in future requests.

Timeline:

December 1, 2010 - Due to an overwhelming response from the citizens, League City conducts Town Hall Meeting to discuss the City initiated revision to Chapter 42, Article III of the League City Code of Ordinances entitled Oil and Gas Wells.

August 2, 2011 - City Council adopts revisions to the Oil and Gas ordinance in which three separate articles are created to address drilling, drilling production, plugging and abandonment, and pipelines.

May 18, 2015 - Governor signs HB 40 into law.

February 15, 2016 - Applicant submits to City initial application for a proposed drilling permit. As part of the submitted documentation, the applicant requests variances to several of the City's ordinance requirements.

March 22, 2016 - At the request of the applicant, item to consider variances moved from the March 22, 2016 City Council agenda to that of April 12, 2016.

April 12, 2016 - City Council approves or conditionally approves twenty-three (23) requested variances (see attached summary from April 12, 2016).

June 15, 2016 - City submits Mr. Watkins' application documents to Lloyd's Register ("Lloyd's"), the City's contracted third-party expert on oil and gas exploration, for review.

July 29, 2016 - Lloyd's review comments conveyed to applicant; application deemed incomplete by City as several City ordinance requirements not addressed in application.

December 21, 2016 - At Mr. Watkins' request, staff and applicant meet to discuss status of application. Applicant requests City staff administratively approve application "as is", based on the applicant's opinion that the City's ordinance is "over-reaching." Application remains incomplete.

May 16, 2017 - Applicant requests several recently submitted documents be conveyed to Lloyd's for review; documents are in support of current application and based on the deficiencies noted by Lloyd's in July 2016.

May 28, 2017 - Lloyd's 2nd review comments conveyed to applicant; application remains incomplete as several City ordinance requirements not addressed in application.

June 9, 2017 - Applicant requests City Council consideration/reconsideration of deficiencies in application (see attached letter).

June 26, 2017 - City Council postpones consideration of item; requests additional information from applicant and staff.

July 11, 2017 - City Council postpones consideration of item.

July 12, 2017 - Applicant submits revised letter of request (attached).

Summary:

On April 12, 2016, the City Council approved or conditionally approved twenty-three (23) requested variances related to the proposed drilling project. Since that time, the application for a drilling permit has remained incomplete due to several deficiencies in the documentation submitted to the City. The applicant, Lynn Watkins of Venture 2, LLC., is requesting the City Council reconsider two (2) variance requests from April 12, 2016, and consider two (2) new variance requests to the City's Oil and Gas (Drilling) Ordinance.

According to the letter from the applicant (see attached), the requests are based on the applicant's interpretation of HB 40 and its impact on the pending drilling permit application. In accordance with Section 42-173 of the City Code that provides for the consideration of variances for drilling permits, it is incumbent upon the applicant to demonstrate to the City Council that the provision(s) of the drilling regulations would cause an unnecessary hardship if strictly adhered to without destroying the spirit of the ordinances or compromising safety.

REQUESTS FOR RECONSIDERATION (2)

Section 42-132. Water Supply Source, and Section 42.91. Alternative Water Supply

Requirement: Requires all drilling and workover operations to receive their water from the municipal water system, and submit plans for alternative water supply in the event City water supply is unavailable.

2016 Applicant Request: Applicant proposes to utilize City water if facilities are located within 500 feet. Otherwise, the applicant may procure water from a private or other public water purveyor that is available.

2016 Approved Variance: The applicant shall provide a letter from the water provider indicating that they can provide the amount of water necessary for the applicant.

Lloyd's 2017 Review: Draft agreement with Gulf Coast Water Authority (GCWA) is provided for use of their canal approximately 300' north of the drill site, but such agreement is not executed.

Applicant 2017 Request: **"Approval of draft agreement as compliant with requirement. Executed agreement will be provided once permit is approved but before drilling commences."**

Staff Recommendation: **Conditional approval of variance: Further revise 2016 approved variance to include that submittal to the City of executed agreement shall be no later than the time of permit issuance.** Such a scenario would push the requirement for the executed agreement being submitted to the City from the permit application process to the point at which the City would issue the permit, pursuant to all other application requirements being met. Other items required at the time of permit issuance include, but are

not limited to, submittal to the City of insurance, a bond or letter of credit, and the permit fee.

Section 42-143.(h)(i) Well control equipment and procedures.

Requirement: Provides for a set of approximately 15 criteria for the Drilling Contractor to perform prior to and during drilling operations such as allowable sources of equipment, documentation of pressure control equipment, performance of equipment and procedures testing along with minimum requirements for blowout prevention equipment.

2016 Applicant Request: Applicant requests a variance from subparagraphs h and i. The applicant indicates the requirement of blowout prevention including shear rams and pipe rams and a four (4) ram stack are not industry standard for land-based drilling operations and are not commercially reasonable. The applicant requests that the drilling operation be allowed to follow accepted industry standards for blowout protection associated with land-based drilling.

2016 Approved Variance: Well control equipment, including blowout prevention equipment, flowlines and valves, shall be required for all drilling and workover activity. The applicant may provide the city with a written opinion, signed and stamped by a Texas licensed professional engineer with experience in land-based oil and gas drilling operations, that the BOP configurations proposed to be used by the applicant (1) will comply with API Standard 53: "Recommended Practices for Blowout Prevention Equipment Systems for Drilling Wells", considering the anticipated depth and working pressures of the well for which a permit is being sought, and (2) that the selected expert renders an opinion that the proposed configuration provides an equal measure of safety barriers as the BOP requirements in the current city ordinance and represents the best available technology."

Lloyd's 2017 Review: "No additional documentation regarding well control equipment and components was provided"

Applicant 2017 Request: **"Approval of plan submitted as compliant with existing Texas Railroad Commission rules. Applicant affirms that the BOP configurations proposed to be used by the applicant will comply with API Standard 53: "Recommended Practices for Blowout Prevention Equipment Systems for Drilling Wells", considering the anticipated depth and working pressures for which a permit is being sought as governed by the Texas Railroad Commission. Applicant further submits that the proposed configurations are in compliance with Texas Railroad Commission Rule 13(a)(6) concerning minimum required well control equipment, therefore, this variance would not reduce safety standards below what is required by the state regulatory agency for oil and gas operations. However, requiring additional equipment in excess of the state rules and generally accepted industry practice would cause and unnecessary hardship from both an operational availability (i.e. equipment sourcing and availability) and financial standpoint (i.e. significant increased**

equipment costs).”

Staff Recommendation: **Compliance with current City ordinance or the 2016 approved variance.** No associated plan related to BOP configuration submitted; applicant request is effectively a waiver of requirement.

NEW REQUESTS (2)

Sections 42-99. Environmental Management - risk management assessment

Requirement: Submit risk management assessment to identify, assess, and prioritize risks including coordination and economical application of resources to minimize, monitor, and control the probability and/or impacts of unfortunate events.

Lloyd’s 2017 Review: “The Emergency Response - Risk Management Plan did not cover economical application of resources. Also, there was no prioritization of risks.”

Applicant Request: “Approval of plan submitted as meeting requirements under existing state rules as enforced by the Texas Railroad Commission and Texas Commission on Environmental Quality. Drilling contractor has submitted plan that is regularly utilized for drilling land-based well in Texas and other states. The ordinance attempts to impose a higher standard than existing state law for oil and gas operation, which would result in an unnecessary hardship and inability to access the mineral estate.”

Staff Recommendation: **Compliance with current City ordinance.**

Sections 42-103. Safety Management

Requirement: Both operator and driller shall submit a Safety and Environmental Management System (SEMS) plan.

Lloyd’s Review: “(Lloyd’s) found that 4 (Safety and Environmental, Assurance of Quality and Mechanical Integrity of Critical Equipment, Audit of Safety and Environmental Management System Elements, and Record and Documentation) of the 12 SEMS elements were still lacking depth as there was not enough supporting documentation and evidence...These 4 SEMS elements, in addition to the League City Drilling Ordinance, should be followed-up to ensure a complete (SEMS) is in place prior to commencing operations.”

Applicant Request: “Approval of plan submitted as meeting requirements under existing state rules as enforced by the Texas Railroad Commission and Texas Commission on Environmental Quality. Drilling contractor has submitted plan that is regularly utilized for drilling land-based well in Texas and other states. The ordinance attempts to impose a higher standard than existing state law for oil and gas operation, which would result in an unnecessary hardship and inability to access the mineral estate.”

Staff Recommendation: **Conditional approval of variance:** Submittal to the City of the complete SEMS plan shall be no later than the time of permit issuance. Such a scenario would push the requirement for the SEMS plan submitted to the City from the permit application process to the point at which the

City would issue the permit, pursuant to all other application requirements being met. Other items required at the time of permit issuance include, but are not limited to, submittal to the City of insurance, a bond or letter of credit, and the permit fee. This scenario was previously proposed to the applicant at the administrative level.

Attachments:

1. Data Sheet
2. Applicant request dated June 9, 2017
3. Summary of variances approved on April 12, 2016
4. Recent correspondence between applicant/representatives and City
5. Oil & Gas Ordinance
6. Applicant variance requests dated July 12, 2017
7. Applicant response letter dated July 12, 2017

CONTRACT ORIGINATION:

Director of Planning and Department

Applicant/Owner: Lynn Watkins of Venture 2, LLC.

FUNDING

{X } NOT APPLICABLE

{ } Funds are available from Account # _____

{ } Requires Budget Amendment to transfer from Account # _____ to Account # _____