



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0285734

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THE APPLICATION OF ROSETTA RESOURCES OPERATING, LP FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HANGING H STATE 70 TANK BATTERY WOLFBONE (TREND AREA) FIELD, REEVES COUNTY, TEXAS

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HEARD BY: Richard D. Atkins, P.E. - Technical Examiner  
Michael Crnich - Legal Examiner

ER&R PREPARED BY: Karl Caldwell - Technical Examiner

DATE OF HEARING: January 10, 2014

APPEARANCES: REPRESENTING:

**APPLICANT:**

David Gross  
Melissa Flack  
Jason Munson  
Matthew Lawrence

Rosetta Resources Operating, LP

**EXAMINERS' REPORT AND RECOMMENDATION**

**STATEMENT OF THE CASE**

Rosetta Resources Operating, LP ("Rosetta") requests an exception to Statewide Rule 32 to flare casinghead gas from the Hanging H State 70 Tank Battery, Wolfbone (Trend Area) Field, Reeves County, Texas. Notice was provided to all parties with mineral rights within a one mile radius of the above referenced lease. Three notices were returned as non-deliverable due to incorrect mailing addresses. The hearing notice was published in the Pecos Enterprise, a Reeves County general circulation newspaper, for four (4) consecutive weeks: January 3, 10, 17, and 24, of 2014. In addition, the correct mailing addresses were determined for two of the three returned notices and were sent a copy of the Notice of Hearing Letter on February 10, 2014, with a ten (10) day notification of any objection. No protests were received.

The application is unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare casinghead gas from the subject tank battery from the date the Commission granted flare permit order expired through December 31, 2015, for the Hanging H State 70 Tank Battery.

### DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Specifically, Statewide Rule 32(h) provides that an exception to flare natural gas in volumes greater than 50 MCFGPD per well may be granted administratively for a period up to 180 days. Beyond that, Statewide Rule 32(h) provides that exceptions shall be granted only in a final order signed by the Commission. In the context of the subject application, Rosetta is requesting an exception to flare casinghead gas produced from the subject tank battery, as provided by Statewide Rule 32(h).

This area of the Wolfbone (Trend Area) Field lacks existing gas pipeline infrastructure. Rosetta purchased the Hanging H State 70 lease from Comstock Oil & Gas LP ("Comstock"), and the change of operator form was approved on May 24, 2013, with an effective date of June 1, 2013. There is a lean gas line nearby, but the Rosetta marketing department does not believe that Rosetta would be able to put rich gas into the line. There is a gas gathering line approximately 2 miles from the Hanging H State 70 #1 well that is operated by BHP Billiton, but Rosetta is currently under a contractual obligation to use Hoover Energy Texas LLC ("Hoover") until 2022. This contractual obligation to Hoover is due to the agreement that was made between Comstock and Hoover, obligating all gas from Comstock's leases to Hoover's midstream. Terms of this agreement transferred over to Rosetta as per the terms of the sale between Comstock and Rosetta. The nearest gas pipeline that Hoover could connect to was surveyed and determined to be 21,914 ft from the Hanging H State 70 -1 well location. Hoover provided a cost estimate for the construction of both a gas and a water line of \$1.49 million from which Rosetta estimated the gas line only cost estimate to be \$1.17 million.

Comstock received administrative Permit No. 13091 to flare up to 200 MCFPD of casinghead gas from the Hanging H State 70 Tank Battery. The permit was effective December 9, 2012, and expired on June 8, 2013, after one extension, which totaled the maximum 180 days allowed by an administrative permit. Rosetta requested and received administrative Permit No. 14049 to flare up to 200 MCFPD of casinghead gas from the Hanging H State 70 Tank Battery after the change of operator was approved and prior to Comstock's permit to flare expired. The permit was effective from June 9, 2013, and expired on December 7, 2013, after one extension, which totaled the maximum 180 days allowed by an administrative permit. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of a Commission granted flare permit order.

Rosetta requested a hearing for the subject tank battery before the Commission granted flare permit order expired.

In support of its application, Rosetta submitted a decline curve as well as an economic projection documenting cumulative oil and gas production to date and an estimation of the remaining oil and gas reserves. From December 2012 through December 2013 the subject lease produced 17.6 MBO and 38.1 MMCFG. Rosetta is estimating that the remaining reserves are 50 MBO and 109 MMCFG. Rosetta used a discount rate of 12% and a price of \$81.60 per barrel of oil and \$3.62 per MCF of gas. The remaining oil production is valued at \$4.6 million, while the casinghead gas production is only valued at \$ 448,200. In addition, the estimated cost to construction the 21, 914 ft gas pipeline is \$ 1.17 million, which proves the construction of the gas pipeline uneconomical.

Rosetta is projecting that they will be below the maximum 50 MCFGD threshold to flare casinghead gas from the subject lease and therefore in compliance with Statewide Rule 32 by the end of 2015. Therefore, Rosetta is requesting to flare a maximum of 125 MCFPD of casinghead gas from the Hanging H State 70 Tank Battery from the time the administrative permit expires through December 31, 2015.

#### **FINDINGS OF FACT**

1. Proper notice of this hearing was given at least ten (10) days prior to the date of the hearing. In addition, a legal notice was published in a local area newspaper for four (4) consecutive weeks, starting on January 3, 2014 and ending on January 24, 2014. Lastly, ten (10) day letters were sent to corrected mailing addresses for all but one of the returned notices and no protests to the application were received.
2. This area of the Wolfbone (Trend Area) Field lacks existing gas pipeline infrastructure for casinghead gas production. The estimated cost to construct the gas pipeline exceeds the estimated revenue that would be generated from the sale of the remaining gas to be recovered, proving it an uneconomical endeavor.
3.
  - a) Comstock received administrative Permit No. 13091 to flare up to 200 MCFPD of casinghead gas from the Hanging H State 70 Tank Battery. The permit was effective December 9, 2012, and expired on June 8, 2013, after one extension, which totaled the maximum 180 days allowed by an administrative permit.
  - b) Rosetta requested and received administrative Permit No. 14049 to flare up to 200 MCFPD of casinghead gas from the Hanging H State 70 Tank Battery after the change of operator was approved and prior to Comstock's permit to flare expired. The permit was effective from June 9, 2013 and expired on December 7, 2013 after one extension, which totaled the

maximum 180 days allowed by an administrative permit.

4. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of a Commission granted flare permit order.
5. Rosetta has requested a hearing for the subject tank battery before the Commission granted flare permit order expired.
6. An exception to Statewide Rule 32 from the date the Commission granted flare permit order expires through December 31, 2015 for the subject tank battery to flare casinghead gas is appropriate.
7. For the subject lease, Rosetta requests to flare a maximum of 125 MCFPD of casinghead gas.

**CONCLUSIONS OF LAW**

1. Proper notice was issued as required by all applicable statutes and regulatory codes.
2. All things have occurred and been accomplished to give the Commission jurisdiction in this matter.
3. Approval of the requested authority pursuant to Statewide Rule 32 will prevent waste, will not harm correlative rights and will promote development of the field.

**EXAMINERS' RECOMMENDATION**

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission approve an exception to Statewide Rule 32 from the date the Commission granted flare permit order expires through December 31, 2015, for the Hanging H State 70 Tank Battery, as requested by Rosetta Resources Operating, LP.

Respectfully submitted,



Karl Caldwell  
Technical Examiner



Michael Crnich  
Legal Examiner