



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0300345

THE APPLICATION OF SN OPERATING, LLC FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE WELLS D1H, D2H, D3H, AND D4H, HAUSSER LEASE, BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0300346

THE APPLICATION OF SN OPERATING, LLC FOR AN EXCEPTION TO 16 TAC §3.32 FOR THE BANRICH 1H SHACKLEFORD 1H PAD, BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: August 23, 2016
RECORD CLOSED: September 29, 2016
CONFERENCE DATE: November 15, 2016

APPEARANCES:

APPLICANT:

Tim George
Ed Birdwell
Jennifer Ofsowitz
Alida Guzzetta

REPRESENTING:

SN Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

SN Operating, LLC ("SN") requests an extension/renewal of its current exception to Statewide Rule 32 for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H and for the Banrich 1H Shackleford 1H Pad, Briscoe Ranch (Eagle Ford) Field, Frio County, Texas. Notice was provided to operators of wells on tracts surrounding each lease in

the subject dockets and no protests were received. The applications are unopposed, and the Technical Examiner and the Administrative Law Judge (collectively, "Examiners") recommend approval of an extension/renewal of an exception to Statewide 32 for each application. SN is requesting permanent exceptions to Statewide Rule 32 for each application, but does not consider a two-year exception to be adverse. The Examiners recommend granting an exception to Statewide Rule 32 for a period of two years for each application.

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(j) *Opportunity for hearing* states that an operator may request a hearing on any application for an exception or exception renewal required by this section. For the subject applications, SN has previously been granted an exception to Statewide Rule 32 to flare gas. On April 22, 2016, the Commission received a hearing request from SN for an exception renewal to Statewide Rule 32 for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H (Permit No. 24416), and for the Banrich 1H Shackleford 1H Pad (Permit No. 24415).

Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H (Permit No. 24416)

There are four wells on the Hausser Lease (Well Nos. D1H, D2H, D3H, and D4H) that are authorized to flare gas under a single flare permit, Permit No. 24416. The most recent extension of Permit No. 24416 authorized SN to flare a maximum combined volume of 1,200 MCF per day (an average of 300 MCF per well per day) from March 25, 2016, to April 23, 2016. SN is requesting a permanent extension of its current flaring permit, but does not consider a two-year exception to be adverse. SN is requesting to flare half of the previous daily flare volume, a total of 600 MCF combined for the 4 wells (a maximum daily average of 150 MCF per well).

The nearest available pipeline to the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H to tie into is an Access MLP Operating pipeline. This pipeline is located approximately 8,539 feet away. Based on the low volumes of gas produced and the distance to the nearest available pipeline, SN would encounter a net loss if SN were to construct a pipeline to tie into the nearest pipeline, due to the current gas production rates and future forecasted production.

Within the past few weeks SN has completed several other wells on the Hausser Lease that have started to produce. Although the new wells have only been producing for a short period of time, SN based its economic analysis using forecasted production. SN estimates that the new wells will initially produce at a rate of 158 MCF per day and decline. In the first two weeks of actual production, gas production has ranged from 60 to 143 MCF per day. SN conducted an economic study to connect the additional wells on the Hausser lease to the nearest pipeline and it still would not be economically

feasible at this time to construct a pipeline to tie into the Access MLP pipeline due to the distance and low gas production rates of the wells on the lease.

Banrich 1H Shackleford 1H Pad (Permit No. 24415)

The Shackleford Lease and the Banrich Lease are two separate leases, yet are on the same pad, share the same surface location, and share a common flare point (Flare Permit No. 24415). The most recent extension of Permit No. 24415 authorized SN to flare a maximum combined volume of 300 MCF per day (an average of 150 MCF per well per day), from March 25, 2016, to April 23, 2016. SN is requesting a permanent extension of its current flaring permit, but does not consider a two-year exception to be adverse. SN is requesting to flare 200 MCF per day, total combined volume for the 2 wells (a maximum daily average of 100 MCF per well).

The current gas production from both the Banrich 1H and the Shackleford 1H is less than 100 MCF per day. The nearest pipeline that SN could tie these wells into is a Williams line, located approximately 26,929 feet away. At this time, it is not economically feasible to construct a line to tie into this pipeline, based on the low gas production of the two wells and the distance to the pipeline. Flaring of gas is necessary to allow these wells to produce oil.

FINDINGS OF FACT

1. Notice of hearing was provided to operators of wells on tracts surrounding each lease in the subject dockets and no protests were received.
2. For the subject applications, SN has been previously granted an exception to Statewide Rule 32 to flare gas.
3. On April 22, 2016, the Commission received a hearing request from SN to renew the exception to Statewide Rule 32 for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H (Permit No. 24416), and for the Banrich 1H Shackleford 1H Pad (Permit No. 24415).
4. There are four wells on the Hausser Lease (Well Nos. D1H, D2H, D3H, and D4H) authorized to flare gas under a single flare permit, Permit No. 24416.
 - a. The most recent extension of Permit No. 24416 authorized SN to flare a maximum combined volume of 1,200 MCF per day (an average of 300 MCF per well per day), from March 25, 2016, to April 23, 2016.
 - b. SN is requesting a permanent extension of its current flaring permit, but does not consider a two-year exception to be adverse.

- c. SN is requesting to flare half of the previous daily flare volume, a total of 600 MCF combined for the 4 wells, a maximum daily average of 150 MCF per well.
 - d. The nearest available pipeline to tie into is an Access MLP Operating pipeline, located approximately 8,539 feet away.
 - e. Based on the low volumes of gas produced, and the distance to the nearest available pipeline, SN would encounter a net loss if SN were to construct a pipeline to tie into the nearest pipeline due to the current gas production rates and future forecasted production.
 - f. SN has completed several other wells on the Hausser Lease that have started to produce.
 - i. SN estimates that the new wells will initially produce at a rate of 158 MCF per day and decline.
 - ii. In the first two weeks of production, the volume of gas produced has ranged from 60 to 143 MCF per day.
 - iii. SN conducted an economic study to connect the additional wells on the Hausser lease to the nearest pipeline and it still would not be economically feasible at this time to construct a pipeline to tie into the Access MLP pipeline due to the distance and low gas production rates of the wells on the lease.
5. The Shackelford Lease and the Banrich Lease are two separate leases that are on the same pad, share the same surface location, and share a common flare point (Flare Permit No. 24415).
- a. The most recent extension of Permit No. 24415 authorized SN to flare a maximum combined volume of 300 MCF per day (an average of 150 MCF per well per day), from March 25, 2016, to April 23, 2016.
 - b. SN is requesting a permanent extension of its current flaring permit, but does not consider a two-year extension to be adverse.
 - c. SN is requesting to flare a total combined volume of 200 MCF per day for the flare point.
 - d. The current gas production from both the Banrich 1H and the Shackelford 1H is less than 100 MCF per day.

- e. The nearest pipeline that SN could tie these wells into to sell the gas is a Williams line, located approximately 26,929 feet away.
- f. At this time, it is not economic to construct a line to tie into the Williams pipeline, based on the low gas production of the two wells and the distance (26,929 feet) to the pipeline.
- g. Flaring of gas is necessary to allow these wells to produce oil.

CONCLUSIONS OF LAW

1. 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. Title 16, Texas Administrative Code § 3.32(h)(4) allows for an exception for more than 180 days and for volumes greater than 50 Mcf per day.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant an exception to Statewide Rule 32 for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H (Permit No. 24416) to flare a total combined volume of 600 MCF per day for the 4 wells, (a maximum daily average of 150 MCF per well), and an exception for the Barrich 1H Shackleford 1H Pad (Permit No. 24415), to flare a total combined volume of 200 MCF per day for the 2 wells, (a maximum daily average of 100 MCF per well). Each exception will commence the date the previous permit expires and expire two years from the commencement date.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Jennifer Cook
Administrative Law Judge