



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0302394

THE APPLICATION OF SN OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HARGIS LEASE, WELL NOS. 1H & 2H, BRISCOE RANCH (EAGLEFORD) FIELD, ZAVALA COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Clayton Hoover – Administrative Law Judge

HEARING DATE: February 23, 2017
CONFERENCE DATE: April 4, 2017

APPEARANCES: **REPRESENTING:**

APPLICANT: SN Operating, LLC

Tim George
Frank Muser, P.E.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

SN Operating, LLC ("SN") seeks an exception to Statewide Rule 32 for the Hargis Lease (Lease ID No. 18890), Well Nos. 1H & 2H, Zavala County, Texas to flare a maximum of 1,200 Mcf per day (Mcf) of casinghead gas. Notice was provided to offset operators and no protests were received. SN is requesting an exception to Statewide Rule 32 to flare casinghead gas for the maximum length of time possible. SN does not consider a two-year exception to be adverse. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of a two-year exception to Statewide Rule 32 to flare a maximum of 1,200 Mcf casinghead gas.

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

OIL AND GAS DOCKET NO. 01-0302394

exception to flare natural gas in volumes greater than 50 Mcfd 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. SN received administrative authority (Permit No. 26773) to flare a maximum of 1,200 Mcfd of casinghead gas from May 2, 2016 to October 30, 2016, a period of 180 days. SN filed a hearing request for an exception to Statewide Rule 32 on October 28, 2016, prior to the expiration of the administrative permit.

There is a single flare point for the two wells completed on the 1,618.55 acre Hargis Lease. The nearest pipeline is a West Texas Gas, Inc. line, approximately 2.66 miles away. An economic analysis indicates the gas and natural gas liquid revenues for the life of the Hargis Lease to be \$652,000. The cost to connect to the nearest pipeline is estimated to be \$496,000, with additional costs for gas treatment. The H₂S concentration of the gas is approximately 1,950 ppm. In considering monthly lease costs and applicable taxes, the discounted net present value is approximately - \$2,453,462 to produce and market the gas and natural gas liquids. Some of the gas produced is used on-lease. Thus, the cost to connect to the nearest pipeline given the current casinghead gas production is uneconomic.

FINDINGS OF FACT

1. Proper notice of this hearing was given to offset operators at least ten days prior to the date of hearing. There were no protests to the application.
2. SN received 180-day administrative authority (Permit No. 26773) to flare a maximum of 1,200 Mcfd of casinghead gas from May 2, 2016 to October 30, 2016.
3. SN is requesting an exception to Statewide Rule 32 to flare casinghead gas for the maximum length of time possible. SN does not consider a two-year exception to be adverse.
4. The nearest pipeline is a West Texas Gas, Inc. line, approximately 2.66 miles away.
5. The cost to connect to the nearest pipeline is estimated to be \$496,000, with additional costs for gas treatment.
6. The H₂S concentration of the gas is approximately 1,950 ppm.
7. Some of the gas produced is used on-lease.
8. Presently, the cost to connect to the nearest pipeline given the current casinghead gas production is uneconomic. The discounted net present value to produce and market the gas and natural gas liquids is a loss of approximately \$2,453,462.

OIL AND GAS DOCKET NO. 01-0302394

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. Title 16, Texas Administrative Code 3.32(h) provides for an exception to Statewide Rule 32.
4. Pursuant to §2001.144(a)(4)(A), of the Texas Government Code, and the agreement of the applicant, this Final Order is effective when a Master Order relating to this Final Order is signed on April 4, 2017.

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 Hargis Lease, Well Nos. 1H & 2H, to flare a maximum of 1,200 Mcfd of casinghead gas for a period of two years.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Clayton Hoover
Administrative Law Judge