



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0302529

THE APPLICATION OF LONESTAR OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE CYCLONE (18831) LEASE, WELL NOS. 9H AND 10H, EAGLEVILLE (EAGLE FORD-1) FIELD, GONZALES COUNTY, TEXAS

HEARD BY:

Brian Fancher, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: February 9, 2017
SUBMISSION DATE: May 8, 2017
CONFERENCE DATE: June 6, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

Paul Tough, Attorney
Robert Salmon, Attorney
John McBeath, P.E.

Lonestar Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to 16 Tex. Admin. Code §3.32, Lonestar Operating, LLC (Lonestar) seeks an exception to flare up to 500,000 cubic feet of casinghead gas per day (500 MCFD), per well, produced from the Eagleville (Eagle Ford-1) Field (Field) through its Cyclone Lease (Lease), Well Nos. 9H (9H) and 10H (10H) (collectively, Subject Wells) for a period of two years, effective November 11, 2016 (Subject Application). The application is unopposed. The Administrative Law Judge and Technical Examiner (Examiners) recommend that it be approved.

DISCUSSION OF THE EVIDENCE

Applicable Rule

16 Tex. Admin. Code §3.32 (SWR 32) governs flaring of natural gas produced under the jurisdiction of the Railroad Commission. Titled "Exceptions," SWR 32(h) states:

Requests for exceptions for more than 180-days and for volumes greater than 50 mcf of hydrocarbon gas per day shall be granted only in a final order signed by the commission.

Application Background

Notice of hearing for the subject application was sent by U.S. mail directed to all operators in the Field that offset the Lease, as well as the Oil & Gas Division, on December 21, 2016.¹

Lonestar completed the Subject Wells on May 12, 2016.² Lonestar performed initial potential tests on the Subject Wells for a period of 24-hours that resulted in the following:

	<u>BOPD</u>	<u>MCFD</u>	<u>GOR</u>	<u>BOWD</u> ³
9H:	543	239	440	525
10H:	576	239	414	678

The Commission's Oil and Gas Division administratively granted Lonestar multiple exceptions to flare casinghead gas from the Lease, totaling 180 days, as follows (Flare Permit No. 27041):⁴

	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Maximum MCFD</u>
1.	05/13/16	06/12/16	500
2.	06/13/16	07/12/16	300
3.	07/13/16	08/12/16	200
4.	08/13/16	11/11/16	200

On November 7, 2016, Lonestar submitted its written request for a hearing on the Subject Application.⁵

The Subject Wells are horizontal wells. Their surface locations share a common wellsite pad. They are not connected to a gas market pipeline at this time. Lonestar submitted a copy of a surface map that generally depicts the Subject Wells' locations, other surrounding well locations, gas pipelines that traverse the area near the Subject Wells, and the approximate distances of the Subject Wells' surface locations to those gas pipelines. The nearest gas pipeline available to the Subject Wells is approximately 2,116 feet away, and it is operated by Energy Transfer Co. (ETC). Mr. McBeath testified that the majority of wells surrounding the Subject Wells are completed in the Austin Chalk Formation. The Subject Wells, as well as two other wells on that map, are completed in the Eagle Ford Formation.

¹ Lonestar Exh. No. 1.

² Lonestar Exh. No. 2.

³ BOPD, MCFD, GOR, and BOWD are short for barrels of oil per day, cubic feet of natural gas multiplied by 1,000, gas to oil ratio, and barrels of water per day, respectively.

⁴ Lonestar Exh. No. 6, Pg. 1.

⁵ Lonestar Exh. No. 7.

Lonestar submitted copies of documents demonstrating the analytical compositions of the Subject Wells around November 19, 2016.⁶ The primary purpose of that exhibit is to show that the Subject Wells produced approximately 3,000 parts per million (ppm) hydrogen-sulfide (sour gas) gas as part of each well's full wellstream.

The previously mentioned ETC pipeline is designated as a gas utility pipeline that is constructed in a manner to accept sour gas volumes that include up to 80 ppm hydrogen-sulfide.⁷ Mr. Mcbeath testified that the sour gas produced by the Subject Wells must be treated with a chemical (*e.g.* scavenger) to more or less remove hydrogen-sulfide from the casinghead gas. The amount of scavenger necessary to adequately remove hydrogen-sulfide is dependent upon the volume of hydrogen-sulfide in the casinghead gas. He stated the cost of scavenger is roughly \$9.00 per gallon, and that it takes roughly ½-gallon per MCF to adequately treat the Subject Wells. At that rate, it costs approximately \$3.80 for every MCF produced by the Subject Wells to lower the volume of hydrogen-sulfide they produce so that ETC's pipeline will accept their casinghead gas.⁸ He stated that the commodity price for natural gas at this time is less than \$3.80. Therefore, it is not economic to treat the casinghead gas produced by the Subject Wells due to the cost of removing hydrogen-sulfide from their wellstream so that the nearest gas market pipeline will accept that casinghead gas.

Lonestar submitted an economic model summary to demonstrate the cost to build a pipeline that would connect the Subject Wells to ETC's pipeline, approximately 2,116 feet away.⁹ Lonestar estimated the value of gas produced from the Subject Wells is approximately \$792,243 over the life of those wells. However, the net costs to treat that casinghead gas, in order to remove enough hydrogen-sulfide from their wellstreams so that ETC's pipeline will accept it, would cost approximately \$947,803. Furthermore, the cost to build a gas transport pipeline from the Subject Wells to ETC's pipeline, along with necessary surface facilities (*e.g.* hydrogen-sulfide treatment equipment), coupled with the net revenue of gas from those wells, results in a value of negative (-)\$425,990 through October 2022. Therefore, Lonestar argued that it is not economic at this time to connect the Subject Wells to the nearest gas market pipeline.

In support of its position, Lonestar submitted a copy of the Examiners' Report and Recommendation made for Oil and Gas Docket Nos. 01-030029, 01-0300282, 01-0300284, 01-0300285, and 02-0300426 – Applications of EOG Resources, Inc. for Exceptions to Statewide Rule 32 for Various Facilities in the Eagleville (Eagle Ford-1) and Eagleville (Eagle Ford-2) Fields, Atascosa, Gonzales, Karnes, McMullen, and Wilson Counties, Texas.¹⁰ The facts in that case are substantially similar to the Subject Application. However, the facilities in the EOG case were connected to a sweet gas sales market pipeline at the time of the hearing. EOG sought relief from the Commission to flare sour-casinghead gas handled at those facilities because it was not economic to install adequate surface equipment at those locations to treat the sour gas prior to entry into the gas market pipeline.¹¹

⁶ Lonestar Exh. No. 5.

⁷ Lonestar Exh. No. 4, Pg. 3.

⁸ Testimony at 19:35 of audio recording.

⁹ Lonestar Exh. No. 8.

¹⁰ Lonestar Exh. No. 10.

¹¹ *Id.*

FINDINGS OF FACT

1. Lonestar Operating, LLC (Lonestar) seeks an exception to flare up to 500,000 cubic feet of casinghead gas per day (500 MCFD), per well, produced from the Eagleville (Eagle Ford-1) Field (Field) through its Cyclone Lease (Lease), Well Nos. 9H (9H) and 10H (10H) (collectively, Subject Wells) for a period of two years, effective November 11, 2016 (Subject Application).
2. Notice of hearing for the subject application was sent by U.S. mail directed to all operators in the Field that offset the Lease, as well as the Oil & Gas Division, on December 21, 2016.
3. Lonestar was the only party that attended the hearing held for the Subject Application.
4. The Lease contains two wells in the Field, the Subject Wells.
5. Lonestar completed the Subject Wells on May 12, 2016.
6. Lonestar performed initial potential tests on the Subject Wells for a period of 24-hours that resulted in the following:

	<u>BOPD</u>	<u>MCFD</u>	<u>GOR</u>	<u>BOWD</u> ¹²
9H:	543	239	440	525
10H:	576	239	414	678

7. The Commission's Oil and Gas Division administratively granted Lonestar multiple exceptions to flare casinghead gas from the Lease, totaling 180 days, as follows (Flare Permit No. 27041):¹³

<u>Effective Date</u>	<u>Expiration Date</u>	<u>Maximum MCFD</u>
05/13/16	06/12/16	500
06/13/16	07/12/16	300
07/13/16	08/12/16	200
08/13/16	11/11/16	200

8. On November 7, 2016, Lonestar submitted its written request for a hearing on the Subject Application.
9. The Subject Wells are horizontal wells. Their surface locations share a common wellsite pad.

¹² BOPD, MCFD, GOR, and BOWD are short for barrels of oil per day, cubic feet of natural gas multiplied by 1,000, gas to oil ratio, and barrels of water per day, respectively.

¹³ Lonestar Exh. No. 6, Pg. 1.

10. The Subject Wells produce approximately 3,000 parts per million (ppm) hydrogen-sulfide gas (sour gas) as part of each well's full wellstream.
11. The nearest gas pipeline available to the Subject Wells is approximately 2,116 feet away, and it is operated by Energy Transfer Co. (ETC).
12. The ETC pipeline is designated as a gas utility pipeline that is constructed in a manner to accept sour gas volumes that include up to 80 ppm hydrogen-sulfide.
13. It is not economic, at this time, to treat the casinghead gas produced by the Subject Wells due to the cost of removing hydrogen-sulfide from their wellstream so that the nearest gas market pipeline will accept that casinghead gas.
14. The value of gas produced from the Subject Wells is approximately \$792,243 over the combined life spans for the Subject Wells.
15. The net costs to treat that Subject Wells' casinghead gas, in order to remove enough sour gas from their wellstreams so that ETC's pipeline will accept that gas, would cost approximately \$947,803.
16. It is not economic to connect the Subject Wells to ETC's pipeline, at this time.
17. Approval of the subject application is in accordance with 16 Tex. Admin. Code §3.32(h).


CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code §81.051.
2. Legally sufficient notice has been provided to all affected persons.
3. The requested authority to flare casing-head gas as specified in Finding of Fact No. 1 above, effective November 11, 2016, satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS' RECOMMENDATION

The Examiners recommend that the Commission grant Lonestar Operating, LLC an exception to flare casing-head gas as specified in Finding of Fact No. 1 above from the Field for a period of two years, effective November 11, 2016.

Respectfully submitted,


Brian Fancher, P.G.
Technical Examiner


Jennifer Cook
Administrative Law Judge