



RAILROAD COMMISSION OF TEXAS HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0303605

THE APPLICATION OF SN OPERATING, LLC TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HAUSSER C PAD LEASE, BRISCOE RANCH (EAGLEFORD) FIELD, FRIO COUNTY, TEXAS

OIL AND GAS DOCKET NO. 01-0303609

THE APPLICATION OF SN OPERATING, LLC TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HAUSSER A&B PAD LEASE, BRISCOE RANCH (EAGLEFORD) FIELD, FRIO COUNTY, TEXAS

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

HEARING DATE: May 11, 2017
CONFERENCE DATE: August 15, 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 Hausser A&B Pad (Lease ID No. 17183) Well Nos. A1H, A2H, B1H, B3H, and B4H to flare a maximum of 1,800 Mcfd of casinghead gas from February 12, 2017 through February 11, 2019. SN also requests an exception to Statewide Rule 32 for the Hausser C Pad (Lease ID No. 17183) Well Nos. C1H, C2H, C3H, C4H to flare a maximum of 1,800 Mcfd of casinghead gas from February 12, 2017 through February 11, 2019. The applications are unopposed and the Technical Examiner and Administrative Law Judge

(collectively, "Examiners") recommend approval of a two-year exception to Statewide Rule 32 for the Hausser A&B Pad and the Hausser C Pad as requested by SN.

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. SN received administrative Permit No. 27640 for the Hausser A&B Pad to flare a maximum of 1,800 Mcfd of casinghead gas, effective August 15, 2016 and expiring on February 12, 2017. On February 8, 2017, the Commission received a request for hearing for a Statewide Rule 32 exception renewal for the Hausser A&B Pad. SN received administrative Permit No. 27639 for the Hausser C Pad to flare a maximum of 1,800 Mcfd of casinghead gas, effective August 15, 2016 and expiring on February 12, 2017, a period of 180 days. The Commission received a request for hearing from SN for an extension of its exception to Statewide Rule 32 to flare gas for the Hausser C Pad on February 8, 2017.

SN initially tested the wells on the Hausser A&B Pad and evaluated the pipeline economics to connect to the nearest pipeline. The nearest pipeline is a Williams pipeline, located approximately 0.92 miles away. The gas and natural gas liquid revenues for the life of the Hausser Lease (A&B Pad) are estimated to be \$646,506. The cost of the pipeline is estimated to be \$699,065, with additional costs for gas treatment. When factoring in monthly lease costs along with applicable taxes, the discounted net present value (PV10) is approximately - \$559,378 to produce and market the gas and natural gas liquids, rendering the project uneconomic.

SN tested the wells on the the Hausser C Pad and evaluated the pipeline economics to connect to the nearest pipeline. The nearest pipeline is a Williams pipeline, located approximately 1.23 miles away. The Hausser C Pad and Hausser D Pad share the same facility. The gas and natural gas liquid revenues for the life of the Hausser C & D Pads are estimated to be \$2,058,151. The cost of the pipeline is estimated to be \$779,160, with additional costs for gas treatment. When factoring in monthly lease costs along with applicable taxes, the discounted net present value (PV10) is approximately - \$401,712 to produce and market the gas and natural gas liquids, rendering the project uneconomic.

The Hausser D Pad wells have an existing exception to Statewide Rule 32. SN was granted an exception to Statewide Rule 32 for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H in Final Order No. 01-0300345 to flare a combined 600 Mcfd of gas for a period of two-years (April 24, 2016 to April 23, 2018).

The net gas and natural gas liquid revenues for the life of the Hausser A&B and C&D Pads together are estimated to be \$2,704,657. When factoring in the above stated pipeline cost, the monthly lease costs, along with applicable taxes, the discounted net

present value (PV10) is approximately -\$262,030 to produce and market the gas and natural gas liquids, rendering the project uneconomic.

SN agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be effective on the date a Master Order relating to this Final Order is signed.

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 administrative Permit No. 27640 for the Hausser A&B Pad to flare a maximum of 1,800 Mcfd of casinghead gas, effective August 15, 2016 and expiring on February 12, 2017.
3. SN received administrative Permit No. 27639 for the Hausser C Pad to flare a maximum of 1,800 Mcfd of casinghead gas, effective August 15, 2016 and expiring on February 12, 2017, a period of 180 days.
4. On February 8, 2017, the Commission received a request for hearing for a Statewide Rule 32 exception renewal for the Hausser A&B Pad and the Hausser C Pad.
5. The nearest pipeline to the Hausser A&B Pad is a Williams pipeline, located approximately 0.92 miles away.
 - a. The gas and natural gas liquid revenues for the life of the Hausser A&B Pad are estimated to be \$646,506.
 - b. The cost of the pipeline is estimated to be \$699,065, with additional costs for gas treatment.
 - c. With monthly lease costs and applicable taxes, the discounted net present value (PV10) is approximately -\$559,378 to produce and market the gas and natural gas liquids on the Hausser A&B Pad.
 - d. The cost to connect to the Hausser A&B Pad to the nearest pipeline is uneconomic.
6. The nearest pipeline to the the Hausser C Pad is a Williams pipeline, located approximately 1.23 miles away.
 - a. The Hausser C Pad and Hausser D Pad share the same facility.

- b. The gas and natural gas liquid revenues for the life of the Hausser C & D Pads are estimated to be \$2,058,151.
 - c. The cost of the pipeline is estimated to be \$779,160, with additional costs for gas treatment.
 - d. With monthly lease costs and applicable taxes, the discounted net present value (PV10) is approximately - \$401,712 to produce and market the gas and natural gas liquids produced on the Hausser C Pad.
 - e. Hausser D Pad wells have an existing exception to Statewide Rule 32. SN was granted an exception to Statewide Rule 32 for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H in Final Order No. 01-0300345 to flare a combined 600 Mcfd of gas for a period of two-years (April 24, 2016 to April 23, 2018).
 - f. The cost to connect to the The Hausser C Pad to the nearest pipeline is uneconomic.
7. SN agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be effective on the date a Master Order relating to this Final Order is signed

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 August 15, 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 Hausser A&B Pad to flare a maximum of 1,800 Mcfd of casinghead gas for a period of two years, and an exception to Statewide Rule 32 for the Hausser C Pad to flare a maximum of 1,800 Mcfd of casinghead gas for a period of two years.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Clayton Hoover
Administrative Law Judge