



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 8A-0306154

THE APPLICATION OF STEWARD ENERGY II, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR VARIOUS LEASES/WELLS, PLATANG (SAN ANDRES) FIELD, YOAKUM COUNTY, TEXAS.

HEARD BY: Peggy Laird, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: October 16, 2017

CONFERENCE DATE: December 5, 2017

APPEARANCES:

REPRESENTING:

APPLICANT:

James M. Clark, P.E.

Steward Energy II, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Steward Energy II, LLC ("Steward") seeks a two-year exception to 16 Tex. Admin. Code §3.32 (Statewide Rule 32) for various leases and wells completed in the Platang (San Andres) Field, in Yoakum County, Texas. Notice of the hearing was provided to all offset operators in the subject field. There were no objections filed, and no protestants appeared at the hearing. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of the exception to Statewide Rule 32 to flare gas from the ten flare points as requested by Steward.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. Steward seeks relief in the captioned docket pursuant to Statewide Rule 32(f)(2)(D), as follows:

The commission or the commission's delegate may administratively grant or renew an exception to the requirements of limitations of this subsection subject to the requirements of subsection (h)... if the operator of a well or production facility presents information to show the necessity for the release...

Statewide Rule 32(h)(4) 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.

Because Steward requests an exception for more than 180 days and to flare more than 50 MCF of casinghead gas per day, the procedure to address Steward's request for an exception is through a hearing resulting in a final order signed by the Commission.

Steward has existing permits that were granted administratively for each of the flare points (Table 1). On August 7, 2017, the Commission received a hearing request for an exception to Statewide Rule 32 for six of the flare points. On September 5, 2017, the Commission received a hearing request for an exception to Statewide Rule 32 for an additional four of the flare points. Both hearing requests were received prior to the expiration dates of the existing permits. Steward now seeks a two-year exception to Statewide Rule 32 for each flare point listed in Table 1.

Steward seeks a two-year exception to Statewide Rule 32 to flare gas at a total of nine different flare points when gas cannot be sold. Steward also seeks a two-year exception to Statewide Rule 32 for the Browning State Lease, as it is uneconomic to deliver the gas to sales. The permit dates and maximum requested volumes for each flare point, shown in thousand cubic feet of casinghead per day ("MCFD"), are listed in Table 1.

The casinghead gas from the Smokin Train 520, What A Melon 519, Skinny Dennis 468, One Eyed John 522, Hair Splitter 454, Blazin Skies 453, Cousin Willard 450, Road Dirt 534 and Whiteport 537 Leases is under a dedicated contract for delivery into a gas gathering system operated by Targa Midstream Service, LLC and ultimately to Targa's gas plants for processing. Due the rapid development of this play and successful outcomes of the wells, the maximum line pressure of the Targa gathering system has been reached and cannot accept additional gas. Targa accepts as much gas as possible, but their capacity constraint results in the need to flare a portion of the casinghead gas each month.

Steward has signed a contract with Stakeholder Midstream, LLC ("Stakeholder") to install additional gas gathering capacity and a gas plant in order to sell the gas that is presently being flared from the nine flare points discussed above. The Stakeholder systems are expected to be in operation by the fourth quarter of 2018.

The Browning State Lease is in a different area of Yoakum County, as compared to the other wells. Steward demonstrated that the cost necessary to sell the gas from the Browning State Lease exceeds the revenue associated with the gas.

Table 1: Permits and Requested Volumes for the Flare Points

Flare Permit	Lease Name	RRC Lease No.	Well No.	Effective Date	Expiration Date	Maximum Flare Volume (MCFD)
29315	Smokin Train 520	70374	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	2,000
29270	What A Melon 519	70334	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	850
29272	Skinny Dennis 468	70377	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	1,400
29273	One Eyed John 522	70391	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	1,000
29274	Hair Splitter 454	70465	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	1,850
29275	Blazin Skies 453	70466	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	1,600
29987	Cousin Willard 450	70372	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	850
30778	Browning State	70444	1H	8/30/2017	8/30/2019	100
30776	Road Dirt 534	70346	3H, 4H	8/30/2017	8/30/2019	700
30777	Whiteport 537	70464	1H, 2H, 3H, 4H	8/30/2017	8/30/2019	1,500

FINDINGS OF FACT

1. Proper notice of this hearing was given to all offset operators to each of the flare points at least ten days prior to the date of the hearing. There were no protests to this application.
2. On August 7, 2017, the Commission received a hearing request for an exception to Statewide Rule 32 for six of the flare points. On September 5, 2017, the Commission received a hearing request for an exception to Statewide Rule 32 for an additional four flare points.
3. Steward has received administrative flare permits for up to 180 days for each of the flare points (Table 1).
4. Steward seeks a two-year exception to Statewide Rule 32 for each flare point listed in Table 1.
5. The gas from nine of the Leases is under a dedicated contract for delivery into a gas gathering system operated by Targa Midstream Service, LLC and ultimately to Targa's gas plants for processing.
6. The Targa gathering system has reached capacity resulting in the need to flare a portion of the casinghead gas each month.
7. Steward anticipates the new Stakeholder systems will be in operation by the fourth quarter of 2018.

8. Steward seeks a two-year exception to Statewide Rule 32 for the Browning State Lease, as it is uneconomic to deliver its gas to sales.
9. At the hearing, the applicant agreed on the record that the Final Order in this case is to be effective when the Master Order is signed.

CONCLUSIONS OF LAW

1. All things have occurred and been accomplished to give the Commission jurisdiction in this matter. Tex. Nat. Res. Code §81.051.
2. All notice requirements have been satisfied. 16 Tex. Admin. Code §1.42.
3. The requested authority to flare casinghead gas satisfies the requirements of Statewide Rule 32. 16 Tex. Admin. Code §3.32 (h).
4. Pursuant to 2001.144(a)(4)(A), of the Texas Government Code, and the consent of the applicant, this Final Order is effective when a Master Order relating to this Final Order is signed on December 5, 2017.

EXAMINERS' RECOMMENDATION

The Examiners recommend approval of the application of Steward Energy II, LLC for an exception to Statewide Rule 32 for each of the flare points listed in Table I, all being located in the Platang (San Andres) Field in Yoakum County, Texas.

Respectfully submitted,



Peggy Laird, P.G.
Technical Examiner



Jennifer Cook
Administrative Law Judge