



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0306155

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**THE APPLICATION OF SN OPERATING, LLC TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HAUSSER LEASE, WELL NOS. 2H AND 3H, BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY TEXAS**

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**HEARD BY:** Karl Caldwell – Technical Examiner  
Kristi M. Reeve – Administrative Law Judge

**HEARING DATE:** November 10, 2017  
**RECORD CLOSED:** December 12, 2017  
**CONFERENCE DATE:** January 23, 2018

**APPEARANCES:** **REPRESENTING:**  
**APPLICANT:** SN Operating, LLC

Tim George  
Alida Guzzetta

### EXAMINERS' REPORT AND RECOMMENDATION

#### STATEMENT OF THE CASE

SN Operating, LLC ("SN") seeks an exception to Statewide Rule 32 to renew Flaring Permit 20532 for the Hausser Lease, Well Nos. 2H and 3H (Lease ID No. 17183), which was approved by the Final Order in Oil and Gas Docket No. 01-0296823. SN requests that the prior exception to Statewide Rule 32 be renewed to grant authority to flare a maximum of 100 Mcfd of casinghead gas from August 8, 2017 through January 31, 2019. The application is unopposed, and the Technical Examiner and Administrative Law Judge (collectively "Examiners") recommend approval of an exception to Statewide Rule 32 for the Hausser Lease Well Nos. 2H and 3H 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 has an existing exception to Statewide Rule 32 for Well Nos. 2H and 3H on the Hausser Lease. SN was granted an exception to Statewide Rule 32 for the Hausser Lease Well Nos. 2H and 3H to flare a combined 300 Mcfd of gas for a period of two-years (April 8, 2015 to April 8, 2017) in Final Order No. 01-0296823 dated August 25, 2015. Currently, the combined production from these two wells is less than 100 Mcfd and is expected to fall below 50 Mcfd in January 2019.

SN considered several alternative scenarios for pipeline connections to these wells, and to other drilled and potentially-to-be-drilled wells on the subject lease. The nearest pipeline is approximately 3 miles away, and the estimated cost of the pipeline connection ranges from approximately \$865,000 to \$1.2 million, depending on the scenario. The gas produced by Well Nos. 2H and 3H must be treated to be sold, and the treatment costs are approximately 80 to 85% of the sales price of the gas. When factoring in the pipeline cost, the treating costs, the monthly lease costs, along with applicable taxes, the discounted net present value (PV10) is uneconomic for all of the possible connection scenarios.

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. SN was granted an exception to Statewide Rule 32 for the Hausser Lease Well Nos. 2H and 3H to flare a combined 300 Mcfd of gas for a period of two-years (April 8, 2015 to April 8, 2017) in Final Order No. 01-0296823 dated August 25, 2015.
2. On August 4, 2017, the Commission received a request for hearing for a Statewide Rule 32 exception renewal for the Hausser Lease Well Nos. 2H and 3H.
3. The nearest pipeline to the Hausser Lease Well Nos. 2H and 3H is located approximately 3 miles away.
  - a. Currently, the combined production from Well Nos. 2H and 3H is less than 100 Mcfd and is expected to fall below 50 Mcfd in January 2019.
  - b. The estimated cost of the pipeline connection is at least \$865,000, with additional costs for gas treatment.

- c. With monthly lease costs and applicable taxes, the discounted net present value (PV10) is approximately -\$830,000 to produce and market the gas and natural gas liquids on the Hausser Lease Well Nos. 2H and 3H.
  - d. The cost to connect to the Hausser Lease Well Nos. 2H and 3H to the nearest pipeline is uneconomic.
4. 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 January 23, 2018.

#### **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. 2H and 3H to flare a combined maximum of 100 Mcfd of casinghead gas from August 8, 2017 through January 31, 2019.

Respectfully submitted,



Karl Caldwell  
Technical Examiner



Kristi M. Reeve  
Administrative Law Judge