RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0308430

THE APPLICATION OF SN OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE VALYN CLARA A1H-A3H/B1H-B3H LEASE, BRISCOE RANCH (EAGLE FORD) FIELD, ZAVALA COUNTY, TEXAS

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

HEARING DATE: March 9, 2018
CONFERENCE DATE: April 24, 2018

APPEARANCES:	**REPRESENTING:**
Tim George Ryan Lammert Alida Guzzetta	SN Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

SN Operating, LLC ("SN") seeks an exception to Statewide Rule 32 to extend Flaring Permit 30318, which was administratively approved for 180 days effective June 20, 2017 to December 18, 2017, for the Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H. SN requests that an exception to Rule 32 be granted authorizing it to flare a maximum of 400 Mcfd of casinghead gas from December 19, 2017 to December 19, 2019. Notice of the application was provided to offset operators. The application is unprotested, and the Technical Examiner and Administrative Law Judge (collectively "Examiners") recommend approval of the exception to Statewide Rule 32 for the Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H 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(h) provides that an exception to flare natural gas in volumes greater than 50 Mcfd may be granted administratively for a period up to 180 days. 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. Beyond that, Statewide Rule 32(h) provides that exceptions shall be granted only in a final order signed by the Commission.

SN received Permit No. 30318 for the Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H, effective June 20, 2017, and expiring December 18, 2017, to flare a maximum of 1,800 Mcfd of casinghead gas. On December 15, 2017 the Commission received a hearing request from SN on the merits to extend RRC Flare Permit No. 30318.

There are two pads, the A pad and the B pad, on the Valyn Clara Lease. All 3 of the wells on the B pad (Valyn Clara Lease, Well Nos. B1H, B2H, and B3H) flow to the A pad, as all surface facilities for the 6 subject wells are located on the A pad. The flare point on the Valyn Clara A pad serves all 6 wells in this application. Currently, these 6 wells produce a combined daily casinghead gas rate of slightly less than 400 Mcfd. The combined production from these 6 wells is not expected to fall below 50 Mcfd in the next two-year period. SN is requesting authority to flare a maximum of 400 Mcfd of casinghead gas for a period of two years (December 19, 2017 to December 19, 2019).

The nearest potential pipeline connection is a Williams connection point, located approximately 6 miles away, and SN has performed an economic analysis to this connection point. In the economic analysis, SN has forecasted production from wells currently producing on the nearby Hausser Lease in addition to the 6 wells on the A and B pads on the Valyn Clara Lease, as the potential pipeline route would cross the Hausser Lease, and SN would hook up the producing wells on the Hausser Lease to this same pipeline.

In its analysis, SN used $2.90 per Mcf for gas and $20 per bbl for NGLs. The casinghead gas produced from the subject wells contains H_2S that must be treated before going to sales. The cost to treat the gas is estimated at $2.17 per Mcf. Some of the casinghead gas is currently utilized for lease-use, and if sold, that volume of gas must be replaced by purchasing diesel. An additional monthly operating cost is considered in the analysis as all wells are currently on artificial lift. SN is using gas produced on-lease to power natural gas generators. If SN were to sell all casinghead gas produced, SN would have to install diesel generators as the lease does not have electricity. This would result in an additional $2,000 per well per month for the diesel costs. The estimated cost of the pipeline connection and installation charge is $1,285,000. Taking the cost of the pipeline connection into consideration, along with the cost to treat the gas for sales, and the cost of replacing the lease-use gas with diesel, it would not be economical to treat and transport this gas to market at this time. Any increase in the operating expenses for the subject wells would result in less oil being recovered from the lease.

SN agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order shall be final and 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 was granted an administrative exception (Flare Permit No. 30318) to Statewide Rule 32, for the Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H for a period of 180 days, effective from June 20, 2017 to December 18, 2017.

3. On December 15, 2017, the Commission received a request for hearing for a Statewide Rule 32 exception extension for the Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H.

4. The nearest pipeline to the Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H, is a Williams connection point, is located approximately 6 miles away.

5. SN has performed an economic analysis to the nearest pipeline connection point.

   a. SN forecasted production from wells currently producing on the nearby Hausser Lease in addition to the 6 wells on the A and B pads on the Valyn Clara Lease.

      i. The potential pipeline route would cross the Hausser Lease.

      ii. SN would hook up the producing wells on the Hausser Lease to this same pipeline.

   b. In its analysis, SN used $2.90 per Mcf for gas and $20 per bbl for NGLs.

   c. The casinghead gas produced from the subject wells contains H_2S that must be treated before going to sales. The cost to treat the gas is estimated at $2.17 per Mcf.

d. SN is using gas produced on-lease to power natural gas generators. If SN were to sell all casinghead gas produced, SN would have to install diesel generators as the lease does not have electricity, resulting in an additional $2,000 per well per month in diesel costs.

e. The estimated cost of the pipeline connection and installation charge is $1,285,000.

f. Currently, it is uneconomic to treat and transport this casinghead gas to market.

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.

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 Valyn Clara Lease, Well Nos. A1H, A2H, A3H, B1H, B2H, and B3H to flare a maximum of 400 Mcfd of casinghead gas from December 19, 2017 to December 19, 2019.

Respectfully submitted,

Karl Caldwell
Technical Examiner

Kristi M. Reeve
Administrative Law Judge