

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0309131

APPLICATION OF SN OPERATING, LLC TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PETRO PARDS LEASE, WELL NOS. 3H, 5H, AND 6H, BRISCOE RANCH (EAGLE FORD) FIELD, ZAVALA COUNTY, TEXAS

HEARD BY: Robert Musick, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: April 13, 2018

CONFERENCE DATE: May 22, 2018

APPEARANCES: **REPRESENTING:**

APPLICANT:

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 26016, which was approved by Commission Final Order No. 01-0301649 for 18 months effective September 9, 2016 to March 9, 2018, for the Petro Pards Lease, Well Nos. 3H, 5H, and 6H.

SN requests that an exception to Rule 32 be granted authorizing it to flare a maximum of 150 thousand cubic feet per day ("MCFD") of casinghead gas associated with one flare point from March 10, 2018 through March 10, 2020.

The application is unopposed, and the Technical Examiner and Administrative Law Judge (collectively "Examiners") recommend approval of the exception to Statewide Rule 32 for the Petro Pards Lease, Well Nos. 3H, 5H, and 6H, 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 ("RRC"). 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.

Well Nos. 3H, 5H, and 6H on the Petro Pards Lease previously received administratively-approved flaring authority that expired September 8, 2016. SN was granted an administrative exception to Rule 32, effective 90 days from March 11, 2016 to June 9, 2016, in RRC Flare Permit No. 26016. SN was also granted an administrative exception to Rule 32, effective 90 days from June 10, 2016 to September 8, 2016, in RRC Flare Permit No. 26016. Pursuant to the Commission Final Order in Oil & Gas Docket No. 01-0301649, SN was granted an exception to Rule 32 to flare a maximum of 150 MCFD of casinghead gas from September 9, 2016 through March 9, 2018.

On January 30, 2018, SN filed with the Commission a request for a hearing on the merits to extend RRC Flare Permit No. 26016.

Currently, the combined production from these wells is approximately 150 MCFD and is not expected to fall below 50 MCFD before March 2020.

SN considered several alternative scenarios for pipeline connection to these wells and to other drilled wells on adjacent leases. The nearest pipeline is approximately 550 feet away, and the estimated cost of the pipeline connection is approximately \$296,110. The gas produced by Well Nos. 3H, 5H, and 6H must be treated to be sold, and the treatment costs are nearly as much as the sales price of the gas. When factoring in the above stated pipeline cost, the treating costs, the monthly lease costs, along with applicable taxes, connecting to a sales line is currently uneconomic.

SN agreed on the record, 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 was granted an administrative exception to Rule 32, effective 90 days from March 11, 2016 to June 9, 2016, in RRC Flare Permit No. 26016.
3. SN was granted an administrative exception to Rule 32, effective 90 days from June 10, 2016 to September 8, 2016, in RRC Flare Permit No. 26016.
4. SN was granted an exception to Rule 32 to flare a maximum of 150 MCFD of casinghead gas from September 9, 2016 through March 9, 2018, pursuant to the Commission Final Order in Oil & Gas Docket No. 01-0301649
5. On January 30, 2018, the Commission received a request for hearing for a Statewide Rule 32 exception extension for the Petro Pards Lease, Well Nos. 3H, 5H, and 6H.
6. The nearest pipeline to the Petro Pards Lease, Well Nos. 3H, 5H, and 6H, is located approximately 550 feet away.

- a. Currently, the combined production from Well Nos. 3H, 5H, and 6H is approximately 150 MCFD and is not expected to fall below 50 MCFD before March 2020.
 - b. The estimated cost of the pipeline connection is at least \$296,110, with additional costs for gas treatment.
 - c. With monthly lease costs and applicable taxes, the discounted net present value is approximately -\$260,307 to produce and market the gas and natural gas liquids on the Petro Pards Lease, Well Nos. 3H, 5H, and 6H.
 - d. The cost to connect to the Petro Pards Lease, Well Nos. 3H, 5H, and 6H, 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. The Commission has jurisdiction in this case. See, e.g., TEX. NAT. RES. CODE § 81.051.
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 Petro Pards Lease, Well Nos. 3H, 5H, and 6H, to flare a combined maximum of 150 MCFD of casinghead gas effective March 10, 2018 until March 10, 2020.

Respectfully submitted,



Robert Musick, P.G.
Technical Examiner



Jennifer N. Cook
Administrative Law Judge