

# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**OIL AND GAS DOCKET NO. 01-0308935**

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**APPLICATION OF SN OPERATING, LLC TO CONSIDER AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HAUSSER LEASE, WELL NOS. D1H, D2H, D3H, D4H E2H, F3H, AND F4H, BRISCOE RANCH (EAGLE FORD) FIELD, FRIO COUNTY, TEXAS**

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

**HEARING DATE:** April 13, 2018

**CONFERENCE DATE:** June 5, 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 24416, which was approved by Commission Final Order for two years effective April 24, 2016 to April 23, 2018, for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H. SN also seeks an exception to Rule 32 to extend Flaring Permit 31777, which was administratively approved for 90 days effective November 5, 2017 to February 3, 2018, for the Hausser Lease, Well Nos. E2H, F3H, and F4H.

SN requests that an exception to Rule 32 be granted authorizing it to flare a maximum of 400 thousand cubic feet per day ("MCFD") of casinghead gas from February 4, 2018 until February 4, 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 Hausser Lease, Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H, 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. D1H, D2H, D3H, and D4H on the Hausser Lease previously received administratively-approved flaring authority that expired April 23, 2016. SN was granted an administrative exception to Rule 32, effective 60 days from October 25, 2015 to December 24, 2015, in RRC Flare Permit No. 24416. SN was also granted an administrative exception to Rule 32, effective 90 days from December 25, 2015 to March 24, 2016, in RRC Flare Permit No. 24416. SN was also granted an administrative exception to Rule 32, effective 30 days from March 25, 2016 to April 23, 2016, in RRC Flare Permit No. 24416.

Pursuant to the Commission Final Order in Oil & Gas Docket No. 01-0300345, SN was granted an exception to Rule 32 to flare a maximum of 600 MCFD of casinghead gas from April 24, 2016 through April 23, 2018.

Well Nos. E2H, F3H, and F4H on the Hausser Lease previously received administratively-approved flaring authority that expired February 3, 2018. SN was granted an administrative exception to Rule 32, effective 90 days from November 5, 2017 through February 3, 2018.

On January 25, 2018, SN filed with the Commission a request for a hearing on the merits to extend RRC Flare Permit Nos. 24416 and 31777.

Currently, the combined production from these wells is not expected to fall below 50 MCFD before February 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 2 miles away, and the estimated cost of the pipeline connection is approximately \$720,160.

The gas produced by Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H 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, the discounted net present value is uneconomic in all the possible connection scenarios.

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 60 days from October 25, 2015 to December 24, 2015, in RRC Flare Permit No. 24416, for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H.
3. SN was granted an administrative exception to Rule 32, effective 90 days from December 25, 2015 to March 24, 2016, in RRC Flare Permit No. 24416, for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H.
4. SN was granted an administrative exception to Rule 32, effective 30 days from March 25, 2016 to April 23, 2016, in RRC Flare Permit No. 24416, for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H.
5. SN was granted an administrative exception to Rule 32, effective 90 days from November 5, 2017 to February 3, 2018, in RRC Flare Permit No. 31777, for the Hausser Lease, Well Nos. E2H, F3H, and F4H.
6. SN was granted an exception to Rule 32 to flare a maximum of 600 MCFD of casinghead gas from April 24, 2016 through April 23, 2018, pursuant to the Commission Final Order in Oil & Gas Docket No. 01-0300345, for the Hausser Lease, Well Nos. D1H, D2H, D3H, and D4H.
7. On January 25, 2018, the Commission received a request for hearing for a Statewide Rule 32 exception extension for the Hausser Lease, Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H.
8. The nearest pipeline to the Hausser Lease, Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H, is located approximately 2 miles away.
  - a. Currently, the combined production from Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H is not expected to fall below 50 MCFD before February 2020.
  - b. The estimated cost of the pipeline connection is at least \$720,160, with additional costs for gas treatment.
  - c. With monthly lease costs and applicable taxes, the discounted net present value (PV10) is approximately -\$986,201 to produce and market the gas and natural gas liquids on the Hausser Lease, Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H.
  - d. The cost to connect to the Hausser Lease, Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H, to the nearest pipeline is uneconomic.
9. SN agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), the Final Order in this case shall be final and 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, the Final Order in this case is final and effective when a Master Order relating to the 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 Hausser Lease, Well Nos. D1H, D2H, D3H, D4H, E2H, F3H, and F4H, to flare a combined maximum of 400 MCFD of casinghead gas effective February 4, 2018 until February 4, 2020.

Respectfully submitted,



Robert Musick, P.G.  
Technical Examiner



Jennifer N. Cook  
Administrative Law Judge