



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET No. 8A-0310391

APPLICATION OF STEWARD ENERGY II, LLC (819609) FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE SMASHED NICKEL (70373) LEASE, PLATANG (SAN ANDRES) FIELD, YOAKUM COUNTY, TEXAS

HEARD BY: Karl Caldwell – Technical Examiner
Lynn Latombe – Administrative Law Judge

HEARING DATE: June 8, 2018
CONFERENCE DATE: August 21, 2018

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 Statewide Rule 32 exception renewal for the Smashed Nickel (70373) Lease, Platang (San Andres) Field, in Yoakum County, Texas. There are no offset operators to the flare point other than the Applicant. The application is unopposed and the Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of the application.

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. The Commission received a hearing request for a Statewide Rule 32 exception renewal for the Smashed Nickel Lease on March 22, 2018 to consider a two-year extension. Steward

was granted Permit No. 33307, effective January 15, 2018 to April 15, 2018 to flare a maximum of 440 Mcfd of casinghead gas for the Smashed Nickel Lease.

There are no offset operators to the flare point other than the Applicant. The Platang (San Andres) Field produces by dewatering the San Andres Formation with hydraulically fracture stimulated horizontal completions. These completions produce at very high-water cuts, and peak oil and gas rates typically occur weeks, or even months, after first production. Both the timing of peak rates and the peak rate values are difficult to predict from this play. This is an oil reservoir with associated casinghead gas.

The casinghead gas from this lease 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 to 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. Presently, as much gas as possible goes to Targa, but their capacity constraint results in a need to flare a portion of the casinghead gas each month. Steward has signed a contract with Stakeholder Midstream, LLC to install additional gas gathering capacity and a gas plant to sell the gas that is presently being flared. The Stakeholder gas gathering system and gas plant are expected to be in operation by the 4th quarter of 2018. Once operational, the additional capacity should eliminate the need to flare on a routine basis, but there may be flaring due to occasional system upsets, or plants or lines are down.

Currently, the Smashed Nickel flare stack serves only the Smashed Nickel No. 3H. A second Smashed Nickel well, and a Fandango Lease well are planned for the near future. The Fandango Lease well will surface commingle at the Smashed Nickel tank battery and use the Smashed Nickel flare stack. Steward seeks authorization to flare 2,000 Mcfd from the Smashed Nickel Lease flare point from April 16, 2018 through April 15, 2020.

For the application, Steward agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), the Final Orders 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 at least ten days prior to the date of hearing. The application is unopposed.
2. The Commission received a hearing request for a Statewide Rule 32 exception renewal for the Smashed Nickel Lease on March 22, 2018 to consider a two-year extension of the current flare permit.
3. Steward was granted Permit No. 33307, effective January 15, 2018 to April 15, 2018 to flare a maximum of 440 Mcfd of casinghead gas for the Smashed Nickel Lease.

4. Steward Energy II, LLC (Steward) seeks a Statewide Rule 32 exception renewal for the Smashed Nickel (70373) Lease, Platang (San Andres) Field, in Yoakum County.
 - a. There are no offset operators to the flare point other than the Applicant.
 - b. The Platang (San Andres) Field produces by dewatering the San Andres Formation with hydraulically fracture stimulated horizontal completions. These completions produce at very high-water cuts and peak oil and gas rates typically occur weeks, or even months, after first production. Both the timing of peak rates and the peak rate values are difficult to predict from this play.
 - c. This is an oil reservoir with associated casinghead gas. The casinghead gas from this lease 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.
 - d. Due to 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. Presently, as much gas as possible goes to Targa, but their capacity constraint results in a need to flare a portion of the casinghead gas each month.
 - e. Steward has signed a contract with Stakeholder Midstream, LLC to install additional gas gathering capacity and a gas plant to sell the gas that is presently being flared. The Stakeholder gas gathering system and gas plant are expected to be in operation by the 4th quarter of 2018. Once operational, the additional capacity should eliminate the need to flare on a routine basis, but there may be flaring due to occasional system upsets, or plants or lines are down.
 - f. Currently, the Smashed Nickel flare stack serves only the Smashed Nickel No. 3H. A second Smashed Nickel well, and a Fandango Lease well are planned for the near future. The Fandango Lease well will surface commingle at the Smashed Nickel tank battery and use the Smashed Nickel flare stack.
 - g. Steward seeks authorization to flare 2,000 Mcfd from the Smashed Nickel Lease flare point from April 16, 2018 through April 15, 2020.
5. For the application, Steward agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), these Final Orders shall be

final and effective on the date a Master Order relating to these Final Orders is signed.

CONCLUSIONS OF LAW

1. 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 is final and effective when a Master Order relating to this Final Order is signed.

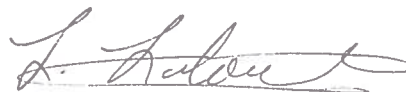
EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the Commission grant a Statewide Rule 32 exception renewal for the Flare Permit No. 33307 (Smashed Nickel Lease flare point) to flare a maximum of 2,000 Mcfd from April 16, 2018 through April 15, 2020.

Respectfully submitted,



Karl Caldwell
Technical Examiner



Lynn Latombe
Administrative Law Judge