

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

OIL AND GAS DOCKET NO. OG-19-00001398

APPLICATION OF SILVER CREEK PERMIAN OP CO, LLC (781921) FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE ANNIE OAKLEY LEASE, WELL NO. 1H AND BELLE STARR LEASE, WELL NO. 2H, LEVELLAND FIELD, COCHRAN COUNTY, TEXAS, DISTRICT 8A

FINAL ORDER

The Railroad Commission of Texas (“Commission”) finds that after notice in the above-docketed case was provided to all parties entitled to notice, a hearing was heard on December 5, 2019, by a Commission Technical Examiner and Administrative Law Judge. This proceeding was duly submitted to the Commission at a conference held in its offices in Austin, Texas. After considering this matter, the Commission adopts the following findings of fact and conclusions of law.

Findings of Fact

1. Silver Creek Permian OP CO, LLC (“Silver Creek” or “Applicant”) seek a two-year exception to 16 Tex. Admin. Code § 3.32 (“SWR 32” or “Statewide Rule 32”) for authority to flare 350 thousand cubic feet per day (“Mcf/d”), limited to 10,500 thousand cubic feet per month (“Mcfm”) of casinghead gas at the Annie Oakley No. 1H Flare Point (“Annie Oakley Flare Point”) from the Annie Oakley No. 1H lease (“Annie Oakley 1H Lease”) in the Levelland Field, Cochran County, Texas. Additionally, Silver Creek requests a two-year exception to SWR 32 for authority to flare 150 Mcf/d, limited to 3,500 Mcfm for casinghead gas at the Belle Starr No. 2H Lease Flare Point (“Belle Starr Flare Point”) in the Levelland Field, Cochran County, Texas. The request is tabulated in Attachment A.
2. Silver Creek submitted a request for hearing on the Statewide Rule 32 exception request on October 10, 2019.
3. Silver Creek was previously granted administrative exception Statewide Rule 32 to flare a maximum casinghead gas volume of 375 Mcf/d for the calendar days of the month at the Annie Oakley Flare Point. Silver Creek was also granted administrative exception to SWR 32 to flare a maximum casinghead gas volume of 175 Mcf/d for the calendar days of the month at the Belle Starr Flare Point. Both administrative exceptions expire on December 30, 2019.
4. On November 4, 2019 the Hearings Division of the Commission sent a Notice of Hearing (“Notice”) to Applicant and all offsetting operators in the field setting a hearing date of December 5, 2019. Consequently, the parties received more than

10 days' notice. The Notice contains (1) a statement of the time, place, and nature of the hearing; (2) a statement of the legal authority and jurisdiction under which the hearing is to be held; (3) a reference to the particular sections of the statutes and rules involved; and (4) a short and plain statement of the matters asserted. The hearing was held on December 5, 2019 as noticed. Applicant appeared and participated at the hearing. No one appeared in protest.

5. The subject leases are currently selling casinghead gas via gas sales pipeline operated by Targa Midstream Services LP ("Targa").
6. Silver Creek is requesting flaring authority at the Annie Oakley Flare Point and at the Belle Starr Flare Point to prevent pipeline back pressure from wasting reservoir drive energy and thereby reducing ultimate recoveries of these wells. Additionally, selling the gas has resulted in a net financial loss.
7. Silver Creek provided evidence from its nearby Geronimo No. 3H that the producing gas-oil ratio ("GOR") would increase from 3,000 standard cubic feet per stock tank barrel ("Scf/Stb") to approximately 4,500 Scf/Stb when selling gas via pipeline. The pipeline adds 50 psi of backpressure to the wellhead.
8. Silver Creek provided the following evidence in the form of meter statements from its nearby Wyatt Earp #1H well:
 - August 2019: 4,434.71 Mcf sold at a loss of \$4,947.79 (-\$1.12/Mcf)
 - September 2019: 4,810.12 Mcf sold at a loss of \$4,674.96 (-\$0.97/Mcf)
 - October 2019: 836.46 Mcf sold at a loss of \$813.84 (-\$0.97/Mcf)
9. Over the last six months, Silver Creek provided production plots from the Annie Oakley to demonstrate the highest daily volume of flared gas was approximately 450 Mcfd with an average daily volume of approximately 350 Mcfd. Silver Creek provided production plots from the Belle Starr showing a peak daily production approximately 250 Mcfd and an average production of approximately 150 Mcfd.
10. Silver Creek provided the following evidence of a loss of recoverable reserves attributed to selling gas at the Annie Oakley No. 1H:
 - a) If the well is produced while flaring the gas the well has remaining recovery of 26,930 barrels of oil and a net present value discounted at 10% of \$151,320.
 - b) If the well sells gas the well has a remaining recovery of 13,790 barrels of oil and a net present value discounted at 10% of \$108,010.

- c) The selling of gas at negative revenues results in a waste of 13,140 barrels of recoverable oil due an earlier abandonment at a higher economic production limit.
11. Silver Creek provided the following evidence of a loss of recoverable reserves attributed to selling gas at the Belle Starr No. 2H:
 - a) If the well is produced while flaring the gas the well has remaining recovery of 263,320 barrels of oil and a net present value discounted at 10% of \$1,292,660.
 - b) If the well sells gas the well has a remaining recovery of 232,950 barrels of oil and a net present value discounted at 10% of \$1,188,250.
 - c) The selling of gas at negative revenues results in a waste of 3,370 barrels of recoverable oil due an earlier abandonment at a higher economic production limit.
12. The requested Statewide Rule 32 exception to flare various volumes of casinghead gas (depicted on Attachment A) at the Annie Oakley Flare Point and Belle Starr Flare Point are necessary for Silver Creek to produce the recoverable oil from the leases.
13. At the hearing, Silver Creek agreed on the record that this Final Order is to be final and effective when a Master Order relating to this Final Order is signed.

Conclusions of Law

1. Proper notice was issued to persons entitled to notice. *See, e.g.*, Tex. Gov't Code § 2001.051; 16 Tex. Admin. Code §§ 1.42, 1.45.
2. The Commission has jurisdiction in this case. *See, e.g.*, Tex. Nat. Res. Code § 81.051.
3. Statewide Rule 32 requires gas to be utilized for purposes and uses authorized by law unless authorized. 16 Tex. Admin. Code § 3.32(b).
4. Statewide Rule 32 provides exceptions allowing the flaring of gas if certain requirements are met and the flaring is necessary. *See, e.g.*, 16 Tex. Admin. Code § 3.32(f), (h).
5. Silver Creek has met the requirements in Statewide Rule 32 to flare a maximum of 350 thousand cubic feet per day ("Mcf/d"), limited to 10,500 thousand cubic feet

per month (“Mcfm”) of casinghead gas and the flaring of such gas is necessary from the Annie Oakley No. 1H. Silver Creek has also met the requirements in Statewide Rule 32 to flare a maximum of 150 Mcfd, limited to 3,500 Mcfm of casinghead gas and the flaring of such gas is necessary from the Belle Starr No. 2H.

6. Pursuant to the provisions of Texas Government Code § 2001.144(a)(4)(A), this Final Order can be final and effective on the date a Master Order relating to this Final Order is signed.

Ordering Provisions

It is **ORDERED** that Silver Creek Permian OP CO, LLC (781921) (“Silver Creek” or “Applicant”) is granted a two-year exception to Statewide Rule 32. Its request for authority to flare various daily maximum volumes of casinghead gas from the subject Leases, as identified in attached Attachment A is **APPROVED**.

This authority is granted, provided all production is reported on the appropriate Commission forms. Within 30 days of the effective date of this order, Applicant shall file the Statewide Rule 32 Exception Data Sheet and the required fee for a Statewide Rule 32 exception for each flare point. See 16 Tex. Admin. Code § 3.32(h)(1). This order, and the authority to flare granted herein, is **VOID** if the required fee is not paid by Applicant within 30 days of the effective date of this order.

Pursuant to § 2001.144(a)(4)(A) of the Texas Government Code and the agreement of the parties in writing or on the record, **the parties have waived the right to file a motion for rehearing and this Final Order is final and effective on the date the Master Order relating to this Final Order is signed.**

Signed on August 4, 2020

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
Hearings Division’s Unprotested Master
Order dated August 4, 2020)**

ATTACHMENT A – FLARE EXCEPTION AUTHORITY

Exception No.	Commingle Permit No.	Flare Point Name	Exception Start Date	Exception End Date	Maximum Flare Volume (MCF/Day) (MCF/Month)	Comments
41282	NA	Annie Oakley #1H	12/31/2019	12/30/2021	350 Mcfd 10,500 Mcfm	Casinghead Gas
41281	NA	Belle Starr #2H	12/31/2019	12/30/2021	150 Mcfd 3,500 Mcfm	Casinghead Gas

Note: Mcfd = Thousand Cubic Feet Per Day

Mcfm = Thousand Cubic Feet Per Day

Annie Oakley No.1H Wellhead Location (flare point is within 100 ft of this surface location):

Latitude: 33.614374°

Longitude: -102.921003°

Belle Starr No.2H Wellhead Location (flare point is within 100 ft of this surface location):

Latitude: 33.619099°

Longitude: -102.953817°