



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 03-0296821

**THE APPLICATION OF SN OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE
RULE 32 FOR THE SALUD UNIT, WELL NO. 1H, CYPRESS LANDING (EAGLE FORD)
FIELD, FAYETTE COUNTY, TEXAS**

HEARD BY: Richard Eyster, P.G. - Technical Examiner
Marshall F. Enquist - Hearings Examiner

DATE OF HEARING: July 14, 2015

CONFERENCE DATE: August 25, 2015

APPEARANCES:

REPRESENTING:

APPLICANT: Dale Miller

SN Operating, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

SN Operating, LLC ("SN") requests an permanent exception to 16 Texas Administrative Code §3.32 to flare casing-head gas from its Salud Unit, Well No. 1H (API No. 42-149-33374) at a rate of 400 thousand cubic feet of gas per day ("MCFGD"). The examiners decline to recommend a permanent exception but will recommend an exception for a two-year term. SN indicated at hearing that it does not consider a two-year exception to be adverse.

By letter dated May 15, 2015, SN submitted a letter to the Commission requesting a hearing on the captioned docket. The application is unopposed and the Examiners recommend approval of a two year exception as requested by SN.

DISCUSSION OF THE EVIDENCE

Title 16, §3.32 of the Texas Administrative Code ("TAC") governs the utilization for legal purposes of natural gas produced under the jurisdiction of the Railroad Commission. SN requests to flare casing-head gas encountered at its subject well, as provided by 16 TAC §3.32(h).

16 TAC §3.32(h) provides that an exception to flare casing-head gas in volumes greater than 50 MCFGD may be granted administratively for a period up to 180 days. Furthermore, flaring exceptions beyond the 180 days shall be granted only in a final order signed by the Commission. Statewide Rule 32 contains no notice of application requirements. Operators in the subject field were given notice of the subject application.

The Cypress Landing (Eagle Ford) Field was discovered on October 20, 2012. The July 2015 Oil Proration Schedule indicates that Argent Energy, Cypress E&P Corporation, Elliot Oil & Gas Operating CO. and SN are the operators in the field, and that each mentioned operator owns one well apiece within the field with the exception of SN Operating who owns three wells.

The subject well was completed at a depth of 11,701 ft, in the Cypress Landing (Eagle Ford) Field on November 05, 2014. On November 19, 2014, a twenty-four hour potential test was performed on the subject well that resulted in the following: 185 barrels of oil per day (BOPD); 374 MCFPD, 1536 barrels of water per day (BWPD), and a gas-to-oil ratio of 2021 standard cubic feet of natural gas per stock tank barrel. From November 06, 2014 through July 08, 2015, the subject well cumulatively produced 21,595 BO, 54,846 MCFG, and 66,578 BW. In that time, the well's daily production values ranged from 159 BOPD to 50 BOPD and 161 MCFPD to 60 MCFPD.

At the hearing, SN indicated that the closest available gas pipelines to the subject well are 3.5 miles to the northwest (Energy Transfer Company) and 6.3 miles to the east (DCP Austin Gathering, LLC)¹. The Oil and Gas Division administratively approved SN's application to flare casing-head gas from the subject well in the following sequence:

	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Time Period</u>	<u>Volume</u>
1.	1/29/11	04/29/15	90 days	275 MCFG
2.	4/30/15	07/29/14	90 days	400 MCFG

Throughout the above mentioned 180-day administrative approval period, SN contends that the necessity to extend flaring authority from the subject well was due to SN's then-evaluation of whether or not connecting the well to one of the nearby gas pipelines would be economically viable.

By letter dated May 18, 2015, SN submitted a request for hearing on the captioned docket, pursuant to 16 TAC §3.32(h). SN requests to extend the flaring authority granted to the subject well for an additional two years beyond July 29, 2015 at a volume of 400 MCFPD. SN submitted an economic evaluation that compares the cost of connecting the well to the nearest gas pipeline against the revenue obtained from only the well's casing-head gas production¹. SN estimates that the cost to connect the well to the closest gas pipeline is roughly \$1.1 million dollars, and that the net revenue

¹ Exhibit 14

from the remaining recoverable net gas reserves is \$105,706. Ultimately, SN believes it would incur a revenue loss of -\$1,003,094 million dollars by building a pipeline from the subject well to the nearest available gas pipeline. SN asserts that if its sought relief is denied, then the subject well will be shut-in.

FINDINGS OF FACT

1. SN Operating, LLC ("SN") seeks an exception beyond 180 days to flare casing-head gas in volumes exceeding fifty thousand cubic feet per day ("MCFGPD") from the Salud Unit, Well No. 1H (API No. 42-149-33374) in the Cypress Landing (Eagle Ford) Field in Fayette County.
2. SN obtained administrative authority from the Oil and Gas Division to flare up to 400 MCFGPD of casing-head gas derived from the subject field through the Salud Unit, Well No. 1H from January 29, through July 29, 2015.
3. SN's 180-day administrative authority to flare casing-head gas from the Salud Unit, Well No. 1H in the Cypress Landing (Eagle Ford) Field expired on July 29 2015.
4. SN requested a hearing to consider flaring casing-head gas derived from the subject fields at the Salud Unit, Well No. 1H in the Cypress Landing (Eagle Ford) Field on May18, 2015.
5. SN requests to flare 400 MCFGPD of casing-head gas derived from in the Salud Unit, Well No. 1H in the Cypress Landing (Eagle Ford) Field from July 29, 2015 through July 29, 2017.
6. SN request to flare 400 MCFGPD from the Salud Unit, Well No. 1H in the Cypress Landing (Eagle Ford) Field for two years is based on economic reasons.

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. The requested authority to flare up to 400 thousand cubic feet per day of casing-head gas derived from the Cypress Landing (Eagle Ford) at the Salud Unit, Well No. 1H satisfies the requirements of Title 16, Texas Administrative Code §3.32.

EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the examiners recommend that the Commission grant an exception flare casing-head gas from the Salud North Unit, Well No. 1H at a rate of up to 400 thousand cubic feet of gas per day (MCFGPD) from July 29, 2015 through July 29, 2017.

Respectfully submitted,



Richard Eyster, P.G.
Technical Examiner



Marshall F. Enquist
Legal Examiner