



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

**OIL AND GAS DOCKET No. 01-0309271**

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**THE APPLICATION OF LONESTAR OPERATING, LLC FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PIRATE M UNIT, WELL No. 1H, AND THE PIRATE N UNIT, WELL No. 1H, EAGLEVILLE (EAGLE FORD-1) FIELD, WILSON COUNTY, TEXAS**

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**HEARD BY:** Karl Caldwell – Technical Examiner  
Clayton Hoover – Administrative Law Judge

**HEARING DATE:** March 21, 2018  
**CONFERENCE DATE:** May 22, 2018

**APPEARANCES:** Paul Tough  
John McBeath, P.E.

**REPRESENTING:** Lonestar Operating, LLC

### **EXAMINERS' REPORT AND RECOMMENDATION**

#### **STATEMENT OF THE CASE**

Lonestar Operating, LLC ("Lonestar") seeks an exception to Statewide Rule 32 for the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H, completed in the Eagleville (Eagle Ford-1) Field, in Wilson County, Texas. Lonestar requests an exception to Statewide Rule 32 to flare a maximum of 200 Mcfd of casinghead gas for each lease, effective February 5, 2018 through February 4, 2020. Notice of the application was provided to offset operators. 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 Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H.

#### **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(h) provides that an exception to flare natural gas in volumes greater than 50 Mcfd

may be granted administratively for a period up to 180 days. 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. Beyond that, Statewide Rule 32(h) provides that exceptions shall be granted only in a final order signed by the Commission.

Lonestar received Permit No. 29362 for the Pirate M Unit, Well No. 1H, (Lease ID No. 01-18638), effective February 27, 2017, and expiring June 28, 2017, to flare a maximum of 200 Mcfd of casinghead gas. Lonestar received Permit No. 29363 for the Pirate N Unit, Well No. 1H, (Lease ID No. 01-18622), effective February 27, 2017, and expiring June 28, 2017, to flare a maximum of 200 Mcfd of casinghead gas. On February 5, 2018, the Commission received a hearing request from Lonestar to consider an exception to Statewide Rule 32 for the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H.

The nearest gas gathering line to the Pirate M and Pirate N Units is a DCP Midstream, LP (DCP) pipeline, located approximately 0.8 miles (4209.9 feet) from the surface location of the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H. Based on the Form T-4 information filed with the Commission for this DCP gathering line (Permit No. 06214), this line does not transport sour (H<sub>2</sub>S) gas. A gas analysis was conducted on casinghead gas from the Pirate M Unit, Well No. 1H and the Pirate N Unit, Well No. 1H, in addition to a combined gas stream from both wells. The gas analysis report shows the H<sub>2</sub>S concentration in the gas from the Pirate M Unit, Well No. 1H and the Pirate N Unit, Well No. 1H is 6,000 ppm for each well on an individual well stream basis, and 8,000 ppm on a combined well stream basis. Since the nearest gas gathering line is a sweet line, the gas produced from the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H would require treating.

Lonestar's engineering witness conducted an economic analysis using the historical combined production for the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H in addition to extrapolating future production. Using both historical and estimated future gas production and prices, the future gas revenue is approximately \$1,370,330. The cost to run a line from surface location of the subject wells to the DCP line is estimated to cost \$850,000. Additional costs to get the gas to sales include compressors to move gas over through the line, estimated to be \$465,000 per year over the life of the wells (\$30,000 per month for the treating skid, \$8,800 per month for chemicals to treat the gas and compressor rental). The economic analysis indicates a loss of over \$3,000,000 to connect the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H to the DCP line. Based on the analysis, it is uneconomic to connect the subject wells to the nearest gas gathering line at this time.

Lonestar agreed, that, pursuant to the provisions of Texas Government Code §2001.144(a)(4)(A), this Final Order 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 to offset operators at least ten days prior to the date of hearing. There were no protests to the application.
2. Lonestar was granted an administrative exception (Flare Permit No. 29362) to Statewide Rule 32, for the Pirate M Unit, Well No. 1H, (Lease ID No. 01-18638), effective February 27, 2017, and expiring June 28, 2017, to flare a maximum of 200 Mcfd of casinghead gas.
3. Lonestar was granted an administrative exception (Flare Permit No. 29363) to Statewide Rule 32, for the Pirate N Unit, Well No. 1H, (Lease ID No. 01-18622), effective February 27, 2017, and expiring June 28, 2017, to flare a maximum of 200 Mcfd of casinghead gas.
4. On February 5, 2018 the Commission received a hearing request from Lonestar to consider an exception to Statewide Rule 32 for the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H.
5. The nearest gas gathering line to the Pirate M and Pirate N Units is a DCP Midstream, LP (DCP) pipeline, located approximately 0.8 miles (4209.9 feet) miles from the surface location of the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H.
  - a. the Form T-4 information filed with the Commission for this DCP gathering line (Permit No. 06214), indicates that this line does not transport sour gas.
  - b. A gas analysis was conducted on the gas from the Pirate M Unit, Well No. 1H and the Pirate N Unit, Well No. 1H, in addition to a combined gas stream from both wells. The gas analysis report shows the H<sub>2</sub>S concentration in the gas from the Pirate M Unit, Well No. 1H and the Pirate N Unit, Well No. 1H to be 6,000 ppm for each well on an individual well stream basis, and 8,000 ppm on a combined well stream basis.
  - c. Since the nearest gas gathering line is a sweet line, the gas produced from the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H would require treating.
6. Lonestar's engineering witness has performed an economic analysis to treat the gas and connect the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H to the nearest gas gathering line.

- a. Using both historical and estimated future production gas production and prices, estimated with the future gas volumes and future gas prices, the future gas revenue is about \$1,370,330.
  - b. The cost to run a line from surface location of the subject wells to the DCP line is estimated to cost \$850,000.
  - c. Additional costs to get the gas to sales include treating costs. Lonestar, estimates the additional costs to be \$465,000 per year over the life of the wells.
  - d. The economic analysis indicates a loss of over \$3,000,000 to connect the Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H to the DCP line
  - e. Under current conditions, it is uneconomic to treat and transport this casinghead gas to market.
7. Lonestar 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. 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, 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 Pirate M Unit, Well No. 1H, and the Pirate N Unit, Well No. 1H32 to flare a maximum of 200

Mcf of casinghead gas for each lease, effective February 5, 2018 through February 4, 2020.

Respectfully submitted,



Karl Caldwell  
Technical Examiner



Clayton Hoover  
Administrative Law Judge