

CHRISTI CRADDICK, *CHAIRMAN*
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DANA AVANT LEWIS
INTERIM DIRECTOR

RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL & GAS DOCKET NO. 03-0313374

THE APPLICATION OF ARMOR LONESTAR, LLC (031580) FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE UMLANG-LEHMANN UNIT (26560) LEASE AND BALL UNIT (26340) LEASE, SOUTHERN BAY (EAGLE FORD) FIELD, LEE COUNTY, TEXAS

HEARD BY: Petar Buva – Technical Examiner
Kristi M. Reeve – Administrative Law Judge

HEARING DATE: September 17, 2018
CONFERENCE DATE: October 16, 2018

APPEARANCES: **REPRESENTING:**

APPLICANT: Armor Lonestar, LLC

James Clark

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Armor Lonestar, LLC ("Armor") requests Statewide Rule 32 exception renewals for the Umlang-Lehmann Unit (26560) Lease and Ball Unit (26340) Lease, Southern Bay (Eagle Ford) Field, Lee County, Texas. Notice of the application was provided to all offset operators in the field and no protests were received. The application is unprotested. The Technical Examiner and Administrative Law Judge (collectively, "Examiners") recommend approval of Statewide Rule 32 exception renewals for Well Nos. 1H, 2H, and 3H on the Umlang-Lehmann Unit Lease, and Well No. 1H on Ball Unit Lease as requested by Armor.

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.

Armor requested an exception to Statewide Rule 32 for its flare point located on the Umlang-Lehmann Unit (26560) Lease and Ball Unit (26340) Lease. Armor requested permission to flare a maximum of 500 thousand cubic feet ("MCF") of casinghead gas per day from the Umlang-Lehman Unit Lease for up to 2 years from August 7, 2018 to August 7, 2020. Armor requested permission to flare a maximum of 100 MCF of casinghead gas per day on the Ball Unit Lease for up to 2 years from August 10, 2018 to August 10, 2020.

Armor filed this hearing request on July 16, 2018. The prior administrative flaring Permit No. 34433 for the Umlang-Lehmann Unit Lease authorized flaring for Well Nos. 1H, 2H, and 3H from May 5, 2018 to August 6, 2018 to a maximum of 400 MCF per day. The prior administrative flaring, Permit No. 34434, for the Bell Unit Lease authorized flaring for Well No. 1H from May 12, 2018 to August 10, 2018 to a maximum of 150 MCF per day.

Armor evaluated pipeline economics for the Umlang-Lehman Unit Lease and Ball Unit Lease. To sell the gas from the Umlang-Lehmann Unit, a 2.62 mile pipeline would have to be installed at a capital cost of approximately \$1,218,000, while a 5.25 mile flowline from the Ball Unit would represent a capital cost of approximately \$2,144,000. The net present value of produced gas is estimated at \$-570,810, making it uneconomical to produce and transport this gas to market.

Armor 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. Notice of this hearing was given to offset operators in the subject field at least ten days prior to the date of hearing. There were no protests to the application.
2. On July 17, 2018, the Commission received a hearing request from Armor for an exception to Statewide Rule 32 for the Umlang-Lehmann Unit Lease flare point and Ball Unit Lease flare point.
3. For Umlang-Lehmann Unit Lease, Armor requested an exception to Statewide Rule 32 for a period of two years, from August 7, 2018 to August 7, 2020. For Ball Unit Lease, Armor requested an exception to Statewide Rule 32 for a period of two years, from August 10, 2018 to August 10, 2020
4. Armor was granted an exception to statewide Rule 32 for Umlang-Lehmann Unit Lease, Well Nos. 1H, 2H, and 3H under the flaring permit No. 34433 with an expiration date of August 6, 2018. An exception to statewide Rule 32 for

Ball Unit Lease, Well No. 1H was previously granted under the flaring permit No. 34434 with an expiration date of August 9, 2018.

5. Armor evaluated pipeline economics and established that it is not economical to produce and transport gas from Umlang-Lehmann Unit and Ball Unit Lease, as the estimated present value of gas is \$ -570,810.
6. Authority to flare will allow Armor to continue to produce the wells.
7. Armor agreed in writing or on the record, 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.

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 Section 3.32(h)(4) provides for an exception for more than 180 days and for volumes greater than 50 Mcf per day.
4. Pursuant to §2001.144(a)(4)(A), of the Texas Government Code, and by agreement of the parties in writing or on the record, the Final Order can be 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 an exception to Statewide Rule 32 to flare a up to 500 MCF of casinghead gas per day from the Umlang-Lehmann Unit (26560) Lease, from August 7, 2018 through August 7, 2020, and up to 100 MCF of casinghead gas per day from the Ball Unit (26340) Lease from August 10, 2018 through August 10, 2020, Southern Bay (Eagle Ford) Field, Lee County, Texas, as requested by Armor Lonestar, LLC.

Respectfully submitted,



Petar Buva
Technical Examiner



Kristi M. Reeve
Administrative Law Judge