RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 01-0301649

THE APPLICATION OF SANCHEZ OIL & GAS CORPORATION. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE PETRO PARDS LEASE, WELL NOS. 3H, 5H, AND 6H, BRISCOE RANCH (EAGLE FORD) FIELD, ZAVALA COUNTY, TEXAS

HEARD BY:

Brian Fancher, P.G. – Technical Examiner
Marshall Enquist – Administrative Law Judge

HEARING DATE: December 2, 2016
SUBMISSION DATE: May 4, 2017
CONFERENCE DATE: May 23, 2017

APPEARANCES:	**REPRESENTING:**
APPLICANT:	
W. Timothy George, Attorney	Sanchez Oil & Gas Corporation & SN Operating, LLC
Jennifer Auschowitz	Sanchez Oil & Gas Corporation

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to 16 Tex. Admin. Code §3.32, Sanchez Oil & Gas Corporation (Sanchez) seeks an exception to flare up to 150,000 cubic feet of casinghead gas per day (150 MCFD) produced from the Bricoe Ranch (Eagle Ford) Field (Field) that is handled at its Petro Pards Lease (Lease), Well Nos. 3H (3H), 5H (5H), and 6H (6H) (collectively, Subject Wells) for a period of eighteen months, effective September 9, 2016 (Subject Application). The application is unprotested. The Administrative Law Judge and Technical Examiner (Examiners) recommend that it be approved.

The Notice of Hearing (NOA) made for the Subject Application on October 12, 2016, included SN Operating, LLC (SN) as the applicant. Counsel on behalf of Sanchez and SN, however, submitted a copy of his correspondence to the Commission dated December 2, 2016, which includes a cover letter and a approved Form P-4 for the Lease, demonstrating that Sanchez became operator of the Lease, effective November 1, 2016.[1] Additional notice was sent to Exco Operating Company, LP (Exco), the only offsetting operator to the Lease that was included on the original NOA.[2] No protest was received by the Examiners from Exco. The application is unprotested. The Administrative Law Judge and Technical Examiner (Examiners) recommend that it be approved.

DISCUSSION OF THE EVIDENCE

Applicable Rule

16 Tex. Admin. Code §3.32 (SWR 32) governs flaring of natural gas produced under the jurisdiction of the Railroad Commission. Titled "Exceptions," SWR 32(h) states:

> Requests for exceptions for more than 180-days and for volumes greater than 50 mcf of hydrocarbon gas per day shall be granted only in a final order signed by the commission.

Application Background

Jennifer Auschowitz, a lead production engineer at Sanchez, testified on behalf of Sanchez.

Notice of hearing for the subject application was sent by U.S. mail directed to all operators in the Field that offset the Lease, as well as the Oil & Gas Division, on October 12, 2016.[3]

Effective March 11, 2016, SN was administratively granted authority to flare 2,100 MCF per day of casinghead gas from the Subject Wells for 90 days (Flare Permit No. 26016). That authority expired on June 9, 2016. SN was subsequently granted an additional 90 day period to flare up to 700 MCF per day of casinghead gas from the Subject Wells, effective June 10, 2016 through September 8, 2016. By letter dated September 1, 2016, SN submitted a written request to the Commission for a hearing to flare casinghead gas from the Subject Wells beyond that 180-day period.

The 3H is located on a separate well pad than the 5H and 6H. The 5H and 6H share the same well pad, and all production from the 5H and 6H is routed to the 3H pad. Therefore, a single flare point serves the Subject Wells.[4]

Sanchez submitted production graphs and decline curve analyses for the Subject Wells that range in time from the beginning of each wells' production through an estimated recovery plot that ends in Feburay 2017.[5] The 3H has been shut-in since August 2016, due to down-hole mechanical issues. Sanchez estimated, however, that if the 3H were producing at the time of the

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[1] *See* correspondence from Mr. George dated December 2, 2016.
[2] Auido recording at 2:10.
[3] *See* Notice of Hearing and Service List dated October 12, 2016 for the Subject Application.
[4] Sanchez Exh. Nos. 2, 3, and 4.
[5] Sanchez Exh. No. 5.

hearing, then it would produce approximately 16.3 MCF of casinghead gas per day, based on the forecasted decline curve for the 3H. Using a similar forecasted production rate for the 5H and 6H, Sanchez asserts that they would produce approximately 55.7 and 56.9 MCF of casinghead gas per day, respectively, by February 2017. Those decline curves show that the actual casinghead gas production from the 5H and 6H between September and December 2016 ranges between 60 and 90 MCF of casinghead gas per day, on average.

The nearest gas market pipeline to the Subject Wells is operated by Williams, and it is located approximately 520 feet from the 3H's well pad.[6] Sanchez submitted a copy of a Williams Project Execution Plan that lays out Williams' proposed scope of work, design, and materials forecast in building a transport pipeline that connects the Subject Wells to its nearby pipeline so that all casinghead gas from those wells may be sold market(Construction Proposal).[7] Through the Construction Proposal, Williams estimated the value to build that transport pipeline to be approximately $205,286.

Sanchez submitted a summary of the commercial terms provided by Williams for the previously mentioned gas transport pipeline project.[8] That summary includes numerous sections, such as price input, estimated revienues, netback pricing, and fees summaries. Based on that exhibit, Williams proposed to charge a total $1.54 for each MCF that entered its pipeline from the Subject Wells. It also shows that Sanchez would recover approximately 180 barrels of natural gas liquids (NGLs) for each 1,000,000 cubic feet of natural gas produced by the Subject Wells. The shrink factor for that 180 barrels is estimated at 37%. In other words, Sanchez would recover only about 63% of that 180 barrels of NGLs due to "shrink".

Sanchez submitted documents that provide color as to its economic modeling to connect the Subject Wells to Williams' nearby gas market pipeline. Due to the previously mentioned shrink factor, Sanchez estimates the actual charge for every MCF that enters Williams' gas market pipeline to be about $2.44 due to the 37% shrink factor. Sanchez estimates the total capitol investment to build a transport pipeline from the Subject Wells to Williams' nearby gas market pipeline to be $230,345.[9] Bringing it all together, Sanchez estimates that the payout for that investment would take roughly 39 years.[10] After a 10% discount, the net present value of the Subject Wells is negative (-)$86,293. Sanchez argued, therefore, that the cost to build a pipeline to transport all casinghead gas produced from the Subject Wells to market exceeds the value of that gas. Thus, it is not economic to build a pipeline to connect them to market.

It is noteworthy that Sanchez demonstrated the Subject Wells' daily casinghead gas production is antipicated to be below 50 MCF of gas per day in the near future. Statewide Rule 32(h)(3) provides that the 180-day limitation shall not apply for volumes of gas less than or equal to 50 MCF of hydrocarbon gas per day for each gas well, commission-designated lease, or commingled vent or flare point.[11] Therefore, the Examiners believe that Sanchez will be permitted by rule to flare all casinghead gas from the Subject Wells in the future once the criteria provided by Statewide Rule 32(h)(3) is met.

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[6] Sanchez Exh. No. 6
[7] Sanchez Exh. No. 7.
[8] Sanchez Exh. No. 8.
[9] Sanchez Exh. No. 9.
[10] Sanchez Exh. No. 10, Pg. 1.
[11] *See* 16 Tex. Admin. Code § 3.32(h)(3).

FINDINGS OF FACT

1. Sanchez Oil & Gas Corporation (Sanchez) seeks an exception to flare up to 150,000 cubic feet of casinghead gas per day (150 MCFD) produced from the Bricoe Ranch (Eagle Ford) Field (Field) that is handled at its Petro Pards Lease (Lease), Well Nos. 3H (3H), 5H (5H), and 6H (6H) (collectively, Subject Wells) for a period of eighteen months, effective September 9, 2016 (Subject Application).

2. Notice of hearing for the Subject Application was sent by U.S. mail directed to all operators in the Field that offset the Lease, as well as the Oil & Gas Division, on October 12, 2016.

3. Sanchez became operator of record for the Lease, effective November 1, 2016. Immediately prior to Sanchez, SN Operating, LLC (SN) was operator of record for the Lease.

4. Sanchez was the only party that attended the hearing held for the Subject Application.

5. The Lease contains three wells, the Subject Wells.

6. Effective March 11, 2016, SN Operating, LLC (SN) was administratively granted authority to flare 2,100 MCF per day of casinghead gas from the Subject Wells for 90 days (Flare Permit No. 26016).

7. SN was subsequently granted an additional 90 day period to flare up to 700 MCF per day of casinghead gas from the Subject Wells, effective June 10, 2016 through September 8, 2016.

8. By letter dated September 1, 2016, SN submitted a written request to the Commission for a hearing to flare casinghead gas from the Subject Wells beyond a 180-day period.

9. The nearest available gas market pipeline to the Subject Wells is located approximately 525 feet from the 3H's well pad.

10. Sanchez demonstrated that it is not economic to connect the Subject Wells to the nearby gas market pipeline located 525 feet from the 3H's well pad.

11. Approval of the subject application is in accordance with 16 Tex. Admin. Code §3.32(h).

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code §81.051.

2. Legally sufficient notice has been provided to all affected persons.

3. The requested authority to flare casing-head gas as specified in Finding of Fact No. 1 above, effective September 9, 2016, satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS' RECOMMENDATION

The Examiners recommend that the Commission grant Sanchez Oil & Gas Corp. an exception to flare casing-head gas as specified in Finding of Fact No. 1 above from the Field, effective September 9, 2016.

Respectfully submitted,

Brian Fancher, P.G.
Technical Examiner

Marshall Enquist
Administrative Law Judge