

THE APPLICATION OF CLAYTON WILLIAMS ENERGY, INC. FOR A PERMANENT EXCEPTION TO STATEWIDE RULE 32 FOR THE CHK STATE 188-13 LEASE, WELL NO. 1 IN THE WOLFBONE (TREND AREA) FIELD, REEVES COUNTY, TEXAS

HEARD BY: Andres J. Trevino, P.E. - Technical Examiner
Marshall F. Enquist - Legal Examiner

HEARING DATE: April 4, 2012

APPEARANCES:

REPRESENTING:

APPLICANT:

Doug Dashiell
Matt Swierc

Clayton Williams Energy, Inc.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Clayton Williams Energy, Inc. ("Williams") requests a permanent exception to Statewide Rule 32 to flare gas from the CHK State 188-13 Lease, Well No. 1 (API No. 42-389-32828), in the Wolfbone (Trend Area) Field, Reeves County, Texas.

All operators in the subject field were notified of the hearing, there were no objections filed, and no protestant appeared at the hearing.

The application is unopposed and the examiners recommend approval of the exception to Statewide Rule 32 to flare gas for the subject well, as requested by Williams.

DISCUSSION OF THE EVIDENCE

Statewide Rule 32 governs the utilization of gas well gas and casinghead gas produced by oil and gas wells under the jurisdiction of the Railroad Commission. In the context of the subject application, Williams is requesting to flare gas produced by the subject well, as provided in Statewide Rule 32(h).

The CHK State 188-13 Lease, Well No. 1 in this application was completed in the Wolfbone (Trend Area) Field in July 2011, located in Reeves County, Texas. The well had an initial potential test of 27 BO, 101 MCF of gas and 288 BWP. The initial H₂S concentration was 15,000 ppm. The well currently produces a lower volume of casinghead

gas of 67 MCFGPD of gas with 3,000 ppm H₂S content. The well is located approximately 16 miles southwest of the town of Pecos, Texas, in an area that lacks existing oil and gas infrastructure for high H₂S content gas production.

Williams testified that, at the time of completion, there was no sour gas pipeline infrastructure available to the well in this request. There are five other wells that have casinghead gas with less than 300 ppm H₂S content gas that will be treated and connected to the existing sweet gas gathering system. Williams stated the cost to build and operate an amine plant to treat the sour gas or to construct a 10 mile sour gas pipeline to a pipeline that can accept the sour gas will far exceed the revenue derived from the gas. Decline curve analysis show the CHK State 188-13 Lease, Well No. 1 will produce an EUR of 121.7 MMCF of gas. Cost to construct 10 miles of 3" pipeline will be \$1.05 million. Net revenue from the sales of gas less lease and compression expenses will generate a loss of \$788,105 over a 17 year period. Installing (\$150,000) and renting (\$10,000 per month) an amine plant to treat the sour gas will generate a net loss of \$1.67 million over a 17 year period.

Williams received administrative Permit No. 10646 to flare 200 MCFPD of casinghead gas from its CHK State 188-13 Lease, Well No. 1, that went into effect September 28, 2011 and expired on March 10, 2012, after two extensions totaling the maximum 180 days.

Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days. As previously mentioned, Williams applied for and received an administrative permit to flare casinghead gas from the subject wells for a total of 180 days. Williams testified that because it is uneconomic to rent an amine plant to treat the sour gas or construct a 10 mile sour gas pipeline to a facility to treat the sour gas, it is requesting a permanent exception to Statewide Rule 32 to flare a volume of less than 100 MCFGPD for the CHK State 188-13 Lease, Well No. 1.

FINDINGS OF FACT

1. Proper notice of this hearing was given to all operators in the Wolfbone (Trend Area) Field at least ten days prior to the date of hearing. There were no protests to the application.
2. The CHK State 188-13 Lease, Well No. 1 in this application is completed in the Wolfbone (Trend Area) Field, located in Reeves County, Texas.
 - a. The CHK State 188-13 Lease, Well No. 1 currently produces 67 MCFPD of casinghead gas containing 3,000 ppm H₂S.

- b. The well is are located approximately 16 miles southwest of the town of Pecos, Texas, in an area that lacks existing sour oil and gas infrastructure for new production. Only sweet gas infrastructure exists in the area.
 - c. At the time of completion, the nearest sour gas pipeline was 10 miles away.
 - d. The estimated ultimate recovery of casinghead gas is 121.7 MMCF based of a decline curve analysis.
 3. The cost to construct a 10 mile sour gas pipeline or rent an amine plant to treat the sour gas will exceed the value of casinghead gas produced.
 - a. Economic analysis shows the cost to construct 10 miles of 3" pipeline will be \$1.05 million. Net revenue from the sales of gas less lease and compression expenses will generate a loss of \$788,105 over a 17 year period.
 - b. Economic analysis shows installing (\$150,000) and renting (\$10,000 per month) an amine plant to treat the sour gas will generate a net loss of \$1.67 million over a 17 year period.
 4. Williams received administrative Permit No. 10646 to flare 200 MCFPD of casinghead gas from its CHK State 188-13 Lease, Well No. 1, that went into effect September 28, 2011 and expired on March 10, 2012, after three extensions totaling the maximum 180 days.
 5. Statewide Rule 32(h)(2) stipulates that the Commission may administratively grant an exception to Statewide Rule 32 for a period no greater than 180 days.
 6. A permanent exception to Statewide Rule 32 to flare 100 MCFGPD for the CHK State 188-13 Lease, Well No. 1, is appropriate.

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. Approval of the requested permanent exception to Statewide Rule 32 to flare gas for the subject wells will prevent waste, will not harm correlative rights, and will promote development of the field.

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 subject wells, as requested by Clayton Williams Energy, Inc.

Respectfully submitted,

Andres J. Trevino, P.E.
Technical Examiner

Marshall F. Enquist
Legal Examiner