



## RAILROAD COMMISSION OF TEXAS

### HEARINGS DIVISION

**OIL AND GAS DOCKET NO. 10-0294927**

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**THE APPLICATION OF CONTINENTAL TREND RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE HOLT STATE LEASE, WELL NO. 183H, HARTLEY WEST (CANYON) FIELD, HARTLEY COUNTY, TEXAS**

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**HEARD BY:** Richard Eyster, P.G.— Technical Examiner  
Cecile Hanna — Legal Examiner

**HEARING DATE:** March 19, 2015

**CONFERENCE DATE:** June 09, 2015

**APPEARANCES:**

**REPRESENTING:**

**APPLICANT:**

Olga Kobzar  
Matt Powe

Continental Trend Resources, Inc.

**EXAMINERS' REPORT AND RECOMMENDATION**

**STATEMENT OF THE CASE**

Continental Trend Resources Inc. (Continental) requests an exception to Statewide Rule 32 to flare gas from its Holt State Lease, Well No. 183H, Hartley West (Canyon) Field, Hartley County, Texas. The application by Continental indicated the well location is in Oldham County. However, during the March 19, 2015 hearing, Exhibit 1, a site map, and Exhibit 3, a W-2 Form submitted by the applicant indicate the 183H well (subject well) is located approximately six (6) miles west of Channing in Hartley County, not Oldham County, as stated in the application.

On March 26, 2015, the Examiners sent a letter to Continental asking for clarification on the location of the 183H well. Continental responded by letter on April 06, 2015, stating that the 183H well is located in Hartley County and that Continental supported the issuance of a "10 Day letter" notifying the only other operator (Fortay Inc.) in the field that a hearing was held and that the notice of hearing incorrectly listed Oldham County instead of Hartley County. The Examiners sent a "10 day" letter to Fortay on April 06, 2015 informing them of the error and stating that if they would like to file a protest in opposition to the application they should submit a letter to the Examiners within ten (10) business days. As of April 23, 2015 no protest letter from Fortay has been received.

All persons entitled to notice received notice of the hearing. The matter is not protested. The Examiners recommend approval of the exception to Statewide Rule 32 to flare a maximum of 1000 MCFG/D from the lease, from December 28, 2014, through December 27, 2016, as requested by Continental.

### **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 subject application, Continental is requesting to flare gas produced on the Holt State lease, as provided in Statewide Rule 32(h).

The Holt State 183H was completed on June 27, 2014, in Hartley County at a total depth of 9,300 feet. During the 24 hour initial potential test, the well produced 426 bbl oil per day, 932 MCFG per day and 587 bbl water per day. The gas-oil ratio was 2,187 cf/bbl. Daily production has since declined to approximately 127 bbl oil per day and 365 MCFG/D with gas spikes up to 1000 MCFG/D. The well is currently producing on a gas lift system.

Gas produced from the subject well contains a fairly high concentration of nitrogen, averaging 4.7 percent. At nitrogen concentrations greater than 3 percent the gas does not meet the quality standards for pipeline transportation. Prior to pipeline sales, the gas would require treatment to remove the nitrogen. Further, pipeline connections are not readily available for the gas. Two pipeline options were identified at the hearing. West Texas Gas operates a 3.5 inch pipeline about 7.75 miles north of the lease, and El Paso Natural Gas operates a 24 inch pipeline about 25 miles to the east of the lease. Continental estimates that the cost to treat the gas and construct a pipeline connection to be \$2.6 to \$3.2 million, which exceeds the expected future revenue from both oil and gas streams.

Continental received an administrative flare permit (No. 17962) for the subject well effective June 28, 2014, through December 27, 2014 at a maximum volume of 1000 MCFG/D. An operator is considered temporarily compliant with Statewide Rule 32 until final Commission action on the hearing application if it has requested a hearing prior to the expiration of the administratively granted flare permit.

On December 04, 2014, Continental requested an exception to flare hearing to continue their flaring authority for a period of two years, from December 28, 2014, through December 27, 2016. Although the well is averaging 365 MCFG/D, Continental is seeking authority to flare a maximum volume of 1000 MCFG/D due to occasional gas spikes up to 1000 MCFG/D. Continental stated that it does not expect an economical pipeline connection will be completed in the next two years and Continental will not be able to produce the oil from this well unless a SWR 32 exception is issued. The Examiners recommend approval of the exception to Statewide Rule 32 to flare a maximum of 1000 MCFG/D from the 183H well from December 28, 2014, through December 27, 2016, as requested by Continental.

### FINDINGS OF FACT

1. Proper notice of this hearing was given to all parties entitled to notice. There were no protests to the application.
2. The 183H well is located approximately six miles west of the town of Channing, Hartley County, Texas. (Continental letter April 06, 2015; Hearing Exhibits 1 & 3.
3. The application by Continental indicated the subject well's location is in Oldham County.
4. On April 06, 2015, the Examiners sent a "10 day" letter to the only other operator in the field, Fortay Inc., informing them of the error and providing Fortay an opportunity to protest the application within 10 days.
5. As of April 23, 2015 no protest has been submitted.
6. Continental received an administrative flare permit (No. 17962) for the subject well effective June 28, 2014, through December 27, 2014, at a maximum volume of 1000 MCF/D.
7. Continental requested an exception to flare hearing on December 04, 2014 to continue their flaring authority for a period of two years, from December 28, 2014, through December 27, 2016.
8. The Holt State 183H was completed on June 27, 2014, at a total depth of 9,300 feet.
  - a. The 24 hour initial potential test produced 426 bbl oil, 932 MCF gas, and 587 bbl water. The gas-oil ratio was 2,187 cf/bbl.
  - b. Daily production has since declined to approximately 127 bbl oil and 365 MCF gas per day with occasional gas spikes up to 1000 MCF/D. The well is currently producing on a gas lift system.

9. Gas produced from the Holt State 183H contains 4.7 percent nitrogen.
10. At nitrogen concentrations greater than 3.0 percent, the gas does not meet the quality standards for pipeline transportation.
11. Pipeline connections are not readily available for the gas. Two pipeline options were identified at the hearing. West Texas Gas operates a 3.5 inch pipeline about 7.75 miles north of the lease, and El Paso Natural Gas operates a 24 inch pipeline approximately 25 miles to the east of the lease.
12. Continental estimates that the cost to treat the gas and construct a pipeline connection to be \$2.6 to \$3.2 million, which exceeds the expected future revenue from both oil and gas streams from this well.
13. An exception to Statewide Rule 32 to flare a maximum of 1000 MCFG/D will allow Continental to continue to develop the well's oil resources while it evaluates options for disposition of the produced gas.

**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. The requested exception to flare a maximum of 1000 MCFG/D from the Holt State Lease, Well No.183H, Hartley West (Canyon) Field, Hartley County, Texas for a period of two years meets the requirements of Statewide Rule 32.16 Tex. Admin. Code § 3.32(h).

**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 lease, as requested by Continental.

Respectfully submitted,



Richard Eyster, P.G.  
Technical Examiner



Cecile Hanna  
Hearings Examiner