



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 08-0298262

**THE APPLICATION OF CENTENNIAL RESOURCE PRODUCTION, LLC TO
CONSIDER AN EXCEPTION TO STATEWIDE RULE 32 FOR THE SKYFALL LEASE,
WELL NO. 1H, HOEFS T-K (WOLFCAMP) FIELD, REEVES COUNTY, TEXAS**

HEARD BY: Paul Dubois – Technical Examiner
Ryan Lammert – Administrative Law Judge

HEARING DATE: October 28, 2015

CONFERENCE DATE: December 8, 2015

APPEARANCES:

REPRESENTING:

Matthew Baab
Mark Mladenka

Centennial Resource Production, LLC

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Centennial Resource Production, LLC (Centennial) seeks an exception to Statewide Rule 32 (16 Tex. Admin. Code §3.32) for its Skyfall Lease Well No. 1H in the Hoefs T-K (Wolfcamp) Field, Reeves County, Texas. Centennial seeks authority to flare 350 thousand cubic feet (mcf) of casinghead gas per day for a period of two years. Over the last year the concentration of hydrogen sulfide gas in the wellstream has increased, limiting sales options and increasing infrastructure needs and costs. The application was not protested. The Examiners recommend Centennial be granted the requested authority.

DISCUSSION OF EVIDENCE

Centennial completed its Skyfall Lease Well No. 1H on August 17, 2014. The well produces from the Hoefs T-K (Wolfcamp) Field at a total vertical depth of about 9,853 feet. The initial potential test on August 27, 2014, produced 258 barrels of oil, 347 mcf casinghead gas, and 1,479 barrels of water. The well currently produces about 80 barrels of oil and 200 mcf gas per day. On first production no hydrogen sulfide was detected in the produced wellstream. An electric submersible pump was installed on September 19,

2014, and hydrogen sulfide was first detected on September 23, 2014.

The latent occurrence of hydrogen sulfide presented challenges to Centennial in marketing the produced gas. The existing Penntex gathering pipeline has a maximum hydrogen sulfide spec of 4 parts per million (ppm). No sour gas pipelines exist in the area. By December 2014 hydrogen sulfide levels in the wellstream were about 5,000 ppm. By the October 28, 2015 hearing the concentrations had increased to about 10,000 ppm.

Centennial has responded in several ways, including flaring the gas and shutting-in the well for periods of time. In May 2015 Centennial installed an Ultra Fab hydrogen sulfide processing unit to treat the gas. With this equipment Centennial has been able to reduce the hydrogen sulfide levels in the gas to about 15 to 16 ppm, which is still out of spec for the available pipeline.

Centennial received Commission authority (permit no. 20335) to flare 350 mcf gas per day from the well from December 15, 2014 through February 13, 2015, a period of sixty days. During this time, however, Centennial only flared gas for a total of seven days. The administrative authority was extended from February 14, 2015 through May 15, 2015, a second period of 60 days. However, during this time Centennial only flared gas on 13 days. The Commission's administrative staff subsequently extended the flaring authority until October 23, 2015, for a total of 312 days. However, Centennial only flared on 180 of these days, which is the maximum time allowed in the Rule for administrative permits. On September 18, 2015, Centennial requested a hearing to extend the flaring authority. Centennial's hearing request was made more than 21 days before the administrative authority expired.

Centennial requests continued authority to flare the treated sour gas for a period of two years at a maximum daily rate of 350 mcf. Centennial continues to explore other options for gas treatment, including installing a second Ultra Fab unit or Amine treating plant. However, these options are currently not economically viable for Centennial.

FINDINGS OF FACT

1. Notice of this hearing was given to all parties entitled to notice at least ten days prior to the date of hearing.
2. Centennial completed its Skyfall Lease Well No. 1H on August 17, 2014. The well produces from the Hoefs T-K (Wolfcamp) Field
 - a. The initial potential test on August 27, 2014, produced 258 barrels of oil, 347 mcf casinghead gas, and 1,479 barrels of water.
 - b. The well currently produces about 80 barrels of oil and 200 mcf gas

- per day.
- c. On first production no hydrogen sulfide was detected in the produced wellstream.
3. An electric submersible pump was installed on September 19, 2014, and hydrogen sulfide was first detected on September 23, 2014.
 - a. By December 2014 hydrogen sulfide levels in the wellstream were about 5,000 ppm.
 - b. By the October 28, 2015 hearing the concentrations had increased to about 10,000 ppm.
 4. The existing Penntex gathering pipeline has a maximum hydrogen sulfide spec of 4 parts per million (ppm). No sour gas pipelines exist in the area.
 5. Treating the sour gas with an Ultra Fab processing unit reduces the hydrogen sulfide levels in the gas to about 15 to 16 ppm, which is still out of spec for the available pipeline.
 6. Other options for further treatment, including installing a second Ultra Fab unit or Amine treating plant, are currently not economically viable for Centennial.
 7. Centennial received Commission authority (permit no. 20335) to flare 350 mcf gas per day from the well from December 15, 2014 through October 23, 2015, a period of 312 days. Centennial only flared gas from the well on 180 of these days.
 8. An exception to Statewide Rule 32 will enable Centennial to continue to produce oil from the well, preventing waste of oil and protecting its correlative rights.

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. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45
3. An exception to Statewide Rule 32 will enable Centennial to continue to produce oil from the well, preventing waste of oil and protecting its correlative rights.

RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend the Commission enter an order granting the application of Centennial Resource Production, LLC authority to flare up to 350 mcf casinghead gas per day from October 24, 2015 through October 23, 2017, for the Skyfall Lease Well No. 1H.

Respectfully submitted,



Paul Dubois
Technical Examiner



Ryan Lammert
Administrative Law Judge