HEARINGS DIVISION

OIL AND GAS DOCKET NO. 10-0300924

THE APPLICATION OF CONTINENTAL TREND RESOURCES, INC. FOR AN EXCEPTION TO STATEWIDE RULE 32 FOR THE LS RANCH NORTH 1642H LEASE, HARTLEY WEST (CANYON) FIELD, OLDHAM COUNTY, TEXAS

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Jennifer Cook – Administrative Law Judge

HEARING DATE: September 22, 2016
SUBMISSION DATE: January 19, 2017
CONFERENCE DATE: February 14, 2017

APPEARANCES: **REPRESENTING:**

APPLICANT:

Olga Kobzar — Continental Trend Resources, Inc.
Kerry Pollard

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

Pursuant to 16 Tex. Admin. Code §3.32, Continental Trend Resources, Inc. (Continental) seeks an exception to flare up to 100,000 cubic feet of casinghead gas per day (100 MCFD) produced from the Hartley West (Canyon) Field (Field) that is handled at its LS Ranch North 1642H Lease (Lease) for a period of one year, effective July 3, 2016 (Subject Application). 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

Kerry Pollard, consulting petroleum engineer, testified on behalf of Continental. He is registered as a Professional Engineer in Texas through the Texas Board of Professional Engineers.

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 August 5, 2016.[1]

On October 14, 2014, the Commission entered a Final Order authorizing Continental to flare up to 7,130 MCF per month (*i.e.* 238 MCFD on average) of casinghead gas at the Lease for two years, effective July 3, 2014.[2] That Final Order expired on July 2, 2016. By letter dated June 10, 2016, Continental timely submitted its request hearing request for the Subject Application.[3]

Continental submitted a copy of a surface map commonly used to identify fundamental aspects of oil and gas development features located at or near the surface (*e.g.* surface locations for multiple wells, survey boundary lines, and pipeline infrastructure). Continental included a 20-mile radius study area on that map that primarily focuses on eight wells operated by Continental within that area. The Lease contains a single well, Continental's LS Ranch North Lease, Well No. 4975 H (API No. 42-359-30382) (Well).[4] The Well is identified as the southern-most well in that area. The nearest Continental well to the Well is roughly six miles northwest, as depicted on that map. The remaining six wells are clustered near one another and are located roughly 13 to 18 miles northwest from the Well. Mr. Pollard testified that the cost to drill those wells is approximately $10 million per well. He stated that Continental has attempted to develop the Field in that area, but has been largely unsuccessful due to those wells' overall performance.

Continental provided evidence that gas produced from the Field through the Well contains nitrogen that vary from about 3 to 9.5 percent. At nitrogen conentrations beyond 3 percent, the casinghead gas quality does not meet the minimum standards for acceptance by the nearest gas sales pipeline. As a result, that casinghead gas would require some form of treatment to remove or lower its nitrogen content prior to its delivery to market. Continental identified two existing gas market pipelines nearest the Well. Those pipelines are operated by Linn and El Paso, respectively. The Linn pipeline is roughly 10 miles from the Well. The El Paso pipeline is roughly 14 miles from the Well. Continental estimated that the cost to treat the casinghead gas produced from the Well and to construct a transport pipeline to connect the Well to market to be

[1] *See* Notice of Hearing and Service List dated August 5, 2016 for the Subject Application.
[2] Continental Exh. No. 3. Oil and Gas Final Order 10-0289800 – Exception to Statewide Rule 32 for the LS Ranch North 1642H Lease, Hartley West (Canyon) Field, Oldham County, Texas.
[3] Continental Exh. No. 12.
[4] Continental Exh. No. 4.

excessive of $6 million. That cost is expected to be greater than the anticipated revenue from the Well.

<u>Continental's Argument</u>

Continental argued that its requested relief in the Subject Application is necessary due to the lack of an existing pipeline.[5] The Well began producing as a strong well early on in its life. During the course of its production, however, it has continued to produce a relatively high volume of nitrogen that requires treatment prior to the casinghead gas being sold to market. Continental has not pursued development of the Field with additional wells immediately around the Well, in part, due to recent commodity prices. Continental argued a similar position in O&G Docket No. 10-0289800, as previously mentioned. Again, that case was prior to the Subject Application. Continental anticipates that the Well's casinghead gas production will fall below 50 MCFD within the next year. Therefore, Continental expects any future need to flare casinghead gas from the Well will not require a Final Order because it will be granted such authority by rule.[6]

FINDINGS OF FACT

1. Continental Trend Resources, Inc. (Continental) seeks an exception to flare up to 100,000 cubic feet of casinghead gas per day (100 MCFD) produced from the Hartley West (Canyon) Field (Field) that is handled at its LS Ranch North 1642H Lease (Lease) for a period of one year, effective July 3, 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 August 5, 2016.

3. Continental was the only party that attended the hearing held for the Subject Application.

4. The Lease contains one well in the Field, Continental's LS Ranch North, Well No. 1642H (API No. 42-359-30382) (Well).

5. On October 14, 2014, the Commission entered Final Order 10-0289800, which authorized Continental to flare up to 7,130 MCF per month (*i.e.* 238 MCFD on average) of casinghead gas from the Well for two years, effective July 3, 2014.

6. Casinghead gas produced from the Field through the Well contains nitrogen in concentrations that range from 9 to 13.5 percent.

7. Continental evidenced that casinghead gas that contain nitrogen in concentrations beyond three percent will not meet the quality standard for acceptance by a gas market pipeline.

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[5] Audio recording at 2:20.
[6] *See* 16 Tex. Admin. Code §3.32(h).

8. Continental provided evidence that the cost to treat the casinghead gas produced by the Well, as well as construct a pipeline to transport casinghead gas produced by the Well to market, exceeds the anticipated revenue from the Well.

9. 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 July 3, 2016, satisfies the requirements of Title 16 TAC §3.32.

EXAMINERS' RECOMMENDATION

The Examiners recommend that the Commission grant Continental Trend Resources, Inc. an exception to flare casing-head gas as specified in Finding of Fact No. 1 above from the Field, effective July 3, 2016.

Respectfully submitted,

Brian Fancher, P.G.
Technical Examiner

Jennifer Cook
Administrative Law Judge